

## PROSPECTUS



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

**Prospectus of floating rate notes  
in the anticipated aggregate nominal amount of CZK 4,098,000,000  
due 2028  
ISIN CZ0003529786**

This document constitutes the prospectus (the “**Prospectus**”) in respect of floating rate notes issued under Czech law in the anticipated aggregate nominal amount of CZK 4,098,000,000 (four billion ninety eight million Czech Koruna) due January 2028 (the “**Notes**” or the “**Issue**”), issued by NET4GAS, s.r.o., a limited liability company incorporated under the laws of the Czech Republic, with its registered office at Prague 4 – Nusle, Na Hřebenech II 1718/8, Postal Code: 140 21, Identification No.: 272 60 364, LEI: 529900ND5BL2CXRIPT15, registered with the Commercial Register kept by the Municipal Court in Prague, File No. C 108316 (the “**Issuer**”).

The Notes will bear floating interest payable semi-annually on 28 July and 28 January each year, commencing on 28 July 2021. The issue price of all the Notes issued on 28 January 2021 (the “**Issue Date**”) is equal to 100 per cent. of their nominal amount. The issue price of any Notes issued after the Issue Date will be determined by the Issuer taking into account the current market conditions. Where relevant, a corresponding accrued interest will be added to the amount of the issue price for any Notes issued after the Issue Date.

Unless previously redeemed or purchased by the Issuer and cancelled as described below, the Notes will be redeemed in accordance with the terms and conditions of the Notes (the “**Terms and Conditions**”) included in “*Terms and Conditions of the Notes*” at their outstanding principal amount on 28 January 2028 (the “**Maturity Date**”) (see Condition 6.1 (*Redemption at Maturity*)). The Issuer may, at its option, redeem all of the Notes at their nominal amount plus accrued and outstanding interest and subject to other conditions as provided in the Terms and Conditions, in the event of certain tax changes as described under Condition 6.3 (*Redemption for Taxation Reasons*). The Issuer may, at its option, redeem all of the Notes at their nominal amount plus accrued and outstanding interest on any date from and including, 28 October 2027 to, but excluding, their Maturity Date as described under Condition 6.6 (*Early Redemption at the Option of the Issuer*).

The Notes constitute direct, general, unconditional and unsubordinated obligations of the Issuer which rank and will continue to rank *pari passu* among themselves and at least *pari passu* with any present and future unsubordinated and unsecured debts of the Issuer or secured at least in the same or similar manner in accordance with the Terms and Conditions, with the exception of obligations treated preferentially under the applicable mandatory laws.

In all cases, payments under the Notes will be made in accordance with the laws applicable in the Czech Republic as of the moment such payment is made. Where it is required by the laws of the Czech Republic applicable as of the moment a payment of nominal or interest is made, applicable tax and other fees will be withheld or deducted. If any deduction or withholding is required at the time of such payment, the Issuer shall not be obligated to pay to the Noteholders (as defined in the Terms and Conditions) any additional amounts. Subject to certain conditions, the Issuer is a taxpayer of a tax withheld or deducted from the interest on the Notes. For further information, please see “*Taxation and Foreign Exchange Regulation in the Czech Republic*”.

This Prospectus constitutes a prospectus for the purposes of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the “**Prospectus Regulation**”).

The Prospectus, which includes the text of the Terms and Conditions, has been approved by the Czech National Bank (the “**CNB**”) as the competent authority under the Prospectus Regulation in its decision ref. no. 2021/007789/CNB/570, file no. S-Sp-2021/00005/CNB/572 dated 21 January 2021, which became final and effective on 22 January 2021. The CNB only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation and its approval should not be

considered as an endorsement of the shares in the issuer that are the subject of this Prospectus or the Issuer's profitability. Potential investors should make their own assessment as to the suitability of investing in the Notes.

**An investment in the Notes issued under this Prospectus involves certain risks. Prospective investors should read and consider the entire Prospectus and, in particular, "Risk Factors", prior to making an investment in the Notes.**

Application has been made for the Notes to be admitted to trading on the regulated market (in Czech: *Regulovaný trh*) of Burza cenných papírů Praha, a.s., with its registered office at Rybná 14/682, 110 05 Prague 1, Identification No.: 471 15 629, registered with the Commercial Register kept by the Municipal Court in Prague, File No. B 1773 (the "PSE" and the "Regulated Market"). The Notes are expected to be admitted to trading on the PSE on or around the Issue Date. The Regulated Market is a regulated market for the purposes of Directive 2014/65/EU of the European Parliament and the Council on markets in financial instruments (as amended, "MiFID II"). The ISIN of the Notes assigned by Centrální depozitář cenných papírů, a.s., with its registered office at Rybná 682/14, Old Town, 110 00 Prague 1, Identification No.: 250 81 489 (the "Central Depository") is CZ0003529786. The common code is 228774006.

If there is any significant new factor, material mistake or material inaccuracy relating to the information included in the Prospectus which may affect the assessment of the securities and which arises or is noted between the time when the Prospectus is approved and the admission of the Notes to trading on the Regulated Market, the Issuer will update the Prospectus in the form of a supplement. Any such supplement will be approved by the CNB.

**The Prospectus is valid for twelve months from the date on which its approval by the CNB became final and effective. The validity of the Prospectus will expire on 22 January 2022. The obligation to supplement the Prospectus in the event of significant new factors, material mistakes or material inaccuracies does not apply from when the Prospectus is no longer valid and applies only until the admission of the Notes to the Regulated Market.**

The distribution of this Prospectus and the offer, sale or purchase of the Notes may be restricted by law in certain jurisdictions. Neither the Prospectus nor the Notes have been allowed or approved by any public authority of any jurisdiction, with the exception of the CNB. The Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act") and are subject to United States tax law requirements. The Notes are being offered outside the United States ("U.S.") by the Joint Lead Managers (as defined in "Subscription and Sale") in accordance with Regulation S under the Securities Act ("Regulation S"), and may not be offered, sold or delivered within the U.S. or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The Issuer has been rated BBB (stable outlook) by Fitch Ratings Ireland Limited ("Fitch") and Baa2 (stable outlook) by Moody's Deutschland GmbH ("Moody's"). Each of Fitch and Moody's is established in the European Economic Area ("EEA") and registered under Regulation (EU) No 1060/2009 of 16 September 2009 on credit rating agencies (as amended, the "CRA Regulation"). As such, each of Fitch and Moody's is included in the list of credit rating agencies published by the European Securities and Markets Authority ("ESMA") on its website ([www.esma.europa.eu/supervision/credit-rating-agencies/risk](http://www.esma.europa.eu/supervision/credit-rating-agencies/risk)) in accordance with the CRA Regulation.

**A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.**

After the admission of the Notes to trading on the Regulated Market, potential investors must base their investment decisions not only on the Prospectus as amended by any supplements, but also on other information published by the Issuer after the date of the Prospectus or other publicly available information.

Amounts payable on the Notes will be calculated by reference to PRIBOR. As of the date of this Prospectus, Czech Financial Benchmark Facility s.r.o., the administrator of PRIBOR, is included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (*Register of administrators and benchmarks*) of Regulation (EU) 2016/1011.

*Coordinator*

**Česká spořitelna, a.s.**

*Joint Lead Managers*

**Česká spořitelna, a.s.**

**Československá obchodní  
banka, a. s.**

**Komerční banka, a.s.**

The date of this Prospectus is 20 January 2021

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## IMPORTANT NOTICES

The Issuer accepts responsibility for the information contained in this Prospectus and declares that, to the best of its knowledge, the information contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect its import.

The Issuer has obtained certain statistical and market information that is presented in this Prospectus, in particular in section “*Description of the Group*” on such topics as the European gas sector and market and, in some instances, the Issuer’s and BRAWA, a.s.’s (“**BRAWA**” and together with the Issuer, the “**Group**”) competitors and their projects from the following third-party sources, particularly from data published by the International Energy Agency and Nord Stream 2 AG. The Issuer has accurately reproduced such information and, as far as it is aware and is able to ascertain from information published by such third parties, no facts have been omitted that would render the reproduced information inaccurate or misleading. Nevertheless, prospective investors are advised to consider this data with caution. Market studies are often based on information or assumptions that may not be accurate or appropriate, and their methodology is inherently predictive and speculative. Prospective investors should note that the Issuer’s estimates are based on such third-party information. Neither the Issuer nor the Joint Lead Managers have independently verified the figures, market data or other information on which third parties have based their studies.

This Prospectus is to be read in conjunction with all documents which are deemed to be incorporated in it by reference (see “*Information Incorporated by Reference*”). This Prospectus shall be read and construed on the basis that those documents are incorporated and form part of this Prospectus.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer or the Joint Lead Managers.

Unless stated otherwise, all information provided in this Prospectus is valid as of the date of this Prospectus. Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer (financial or otherwise) since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that the information contained in it or any other information supplied in connection with the Issuer or the Notes is correct as of any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. Moreover, the information included in this Prospectus may be further modified or supplemented by supplements to this Prospectus.

Neither the Joint Lead Managers nor any of their affiliates have authorised the whole or any part of this Prospectus and none of them makes any representation or warranty or accepts any responsibility or liability as to the accuracy or completeness of the information contained or incorporated in this Prospectus. Neither the Joint Lead Managers nor any of their affiliates accept any responsibility or liability in relation to the information contained or incorporated by reference in this Prospectus or any other information provided by the Issuer in connection with the Issue. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer or to advise any investor in the Notes of any information coming to its attention.

Neither this Prospectus nor any other information supplied in connection with the Notes (a) is intended to provide the basis of any credit or other evaluation or (b) should be considered as a recommendation by the Issuer or the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the issue of any Notes constitutes an offer or invitation by or on behalf of the Issuer or the Joint Lead Managers to any person to subscribe for or to purchase any Notes. None of the Issuer or the Joint Lead Managers or any of their affiliates makes any representation to any investor in the Notes regarding the legality of any investment by such under applicable laws.

Any assumptions and projections concerning the future development of the Issuer, the Issuer’s financial or market positions and the scope of the Issuer’s business, should not be deemed as representations or binding promises of

the Issuer regarding any future events or outcomes, because such future events and outcomes are subject, entirely or in part, to circumstances and events beyond the Issuer's control. Potential investors should make their own analyses of any development trends or projections contained in this Prospectus, and if relevant, conduct further independent investigations, and base their investment decisions on the results of such investigations and analyses.

This Prospectus does not constitute an offer to sell or a solicitation of an offer to buy any Notes in any jurisdiction to or from any person to or from whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer, sale or delivery of Notes may be restricted by law in certain jurisdictions. The Issuer and the Joint Lead Managers do not represent that this Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which is intended to permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offering or sale of Notes in the U.S. and the EEA (including the Czech Republic) and the United Kingdom (the "UK"). In particular, the Notes have not been and will not be registered under the Securities Act. For a description of certain restrictions on offers, sales and deliveries of the Notes and on distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*".

**MiFID II product governance / the target market is retail investors, professional clients and eligible counterparties** – Solely for the purposes of the manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that (i) the target market for the Notes is eligible counterparties, professional clients and clients, who are not professional clients, as defined in MiFID II, and (ii) all channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a Notes distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels, subject to the distributor's suitability and appropriateness obligations under MiFID II, as applicable.

This Prospectus contains various forward-looking statements that relate to, among other things, events and trends that are subject to risks and uncertainties that could cause the actual business activities, results and financial position of the Issuer and the Group to differ materially from the information presented herein. When used in this Prospectus, the words "estimate", "project", "intend", "anticipate", "believe", "expect", "should" and similar expressions, as they relate to the Issuer, the Group and its management, are intended to identify such forward-looking statements. Investors are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Prospectus. The Issuer does not undertake any obligations publicly to release the result of any revisions to these forward-looking statements to reflect the events or circumstances after the date of this Prospectus or to reflect the occurrence of unanticipated events.

When relying on forward-looking statements, investors should carefully consider the foregoing risks and uncertainties and other events, especially in light of the political, economic, social and legal environment in which the Group operates. Factors that might affect such forward-looking statements include, among other things, overall business and government regulatory conditions, changes in tariff and tax requirements (including tax rate changes, new tax laws and revised tax law interpretations), interest rate fluctuations and other capital market conditions, including foreign currency exchange rate fluctuations, economic and political conditions in the Czech Republic and other markets, and the timing, impact and other uncertainties of future actions. See "*Risk Factors*". The Issuer does not make any representation, warranty or prediction that the factors anticipated by such forward-looking statements will be present, and such forward-looking statements represent, in each case, only one of many possible scenarios and should not be viewed as the most likely or standard scenario.

Information contained in "*Taxation and Foreign Exchange Control in the Czech Republic*" and "*Enforcement of Civil Liabilities Against the Issuer*" are of a general nature and they do not represent an exhaustive overview. The information in these chapters is based on the facts as of the date of this Prospectus and they have been obtained from publicly available sources that have not been processed or independently verified by the Issuer. The potential

investors should rely only on their own analysis of factors mentioned in these chapters and on their own tax, legal and other advisors. Potential foreign purchasers of the Notes are advised to consult their legal and other advisors on the provisions of the relevant laws, in particular the foreign exchange and tax regulations of the Czech Republic, the countries of their residence and other potentially relevant countries, and any relevant international agreements and the impact of such regulations and agreements on specific investment decisions.

### **SUITABILITY OF INVESTMENT**

The Notes may not be a suitable investment for all investors. Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor in the Notes may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement. Each potential investor in the Notes may also wish to consider whether it has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio and whether it has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency. In addition, each potential investor in the Notes may also wish to consider whether it understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets and whether it is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks. Each potential investor should consult its legal advisers to determine whether and to what extent (1) Notes are legal investments for it, (2) Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

The Group's financial information set forth in this Prospectus, unless otherwise indicated, presents the Issuer's unaudited interim consolidated financial information as of and for the nine months ended 30 September 2020 (with comparatives as of and for the nine months ended 30 September 2019) (the "**Interim Financial Information**") and the Issuer's audited consolidated financial information derived from the audited consolidated financial statements as of and for the years ended 31 December 2019 and 2018 (the "**Annual Financial Statements**"). The Annual Financial Statements have been incorporated by reference into this Prospectus. See "*Documents Incorporated by Reference*".

The Annual Financial Statements have been prepared in accordance with the International Financial Reporting Standards ("**IFRS**") as adopted by the EU and have been audited by Deloitte Audit s.r.o., independent auditors (the "**Auditors**"). The Interim Financial Information has been prepared based on recognition and measurement principles according to IFRS 'Interim Financial Reporting'. The Czech crown is the presentation currency for the Interim Financial Information and the Annual Financial Statements. The Interim Financial Information and the Annual Financial Statements and financial information included elsewhere in this Prospectus have, unless otherwise noted, been presented in Czech crown.

### Non-IFRS Information

Included in this Prospectus are certain alternative performance measures that are not measures defined by IFRS, namely, CAPEX, EBITDA, Financial Indebtedness and Free Cash Flow (together as the "**Non-IFRS Measures**"). The Non-IFRS Measures alone do not provide a sufficient basis to compare the Group's performance with that of other companies and should not be considered in isolation or as a substitute for operating income or any other measure as an indicator of operating performance, an alternative to cash generated from operating activities, or a measure of financial indebtedness.

In addition, the Non-IFRS Measures should not be used instead of, or considered as an alternative to, the Group's financial results as reported in the Interim Financial Information and the Annual Financial Statements. The Group presents the Non-IFRS Measures because it believes they are helpful to investors and financial analysts in highlighting trends in its overall business. A reconciliation of the Non-IFRS Measures is presented below.

### CAPEX

CAPEX represents the Group's capital expenditures related to purchase of property, plant and equipment plus purchase of intangible assets ("**CAPEX**").

### EBITDA

EBITDA represents the Group's operating profit plus depreciation and amortisation (the "**EBITDA**").

The following table provides a reconciliation of EBITDA to operating profit of the Group for the nine months ended 30 September 2020 and 2019 and the years ended 31 December 2019 and 2018:

	Nine months ended 30 September <sup>(1)</sup>		Year ended 31 December	
	2020	2019	2019	2018
			<i>(in CZK million)</i>	
Operating profit for the period.....	5,225	4,087	5,030	4,534
Depreciation and amortisation.....	1,761	1,419	2,002	1,891
<b>EBITDA</b> .....	6,986	5,506	7,032	6,425

#### Notes:

- (1) The Group's financial information for the nine months ended 30 September has been derived from the Issuer's unaudited interim consolidated financial information as of and for the nine months ended 30 September 2020 (with comparatives as of and for the nine months ended 30 September 2019) as presented in "*Selected Financial Information*".

EBITDA is a non-IFRS financial measure used by the management of the Group to report the funds generated from continuing operations.

## Financial Indebtedness

Financial indebtedness represents indebtedness of the Group under utilised term loans, outstanding bonds and financials hedges (the “**Financial Indebtedness**”).

The following table provides a reconciliation of the Financial Indebtedness to the closest IFRS items of the Group as of 30 September 2020 and as of 31 December 2019 and 2018:

	As of	As of	
	30 September <sup>(1)</sup>	31 December	
	2020	2019	2018
		<i>(in CZK million)</i>	
Non-current liabilities, Borrowings .....	27,885	26,966	27,106
Non-current liabilities, Derivative fin. instruments .....	1,406	1,714	1,258
Current liabilities, Borrowings .....	654	276	291
Current liabilities, Derivative financial instruments .....	998	242	231
<b>Financial Indebtedness</b> .....	<b>30,943</b>	<b>29,198</b>	<b>28,886</b>

Notes:

- (1) The Group’s financial information for the nine months ended 30 September has been derived from the Issuer’s unaudited interim consolidated financial information as of and for the nine months ended 30 September 2020 as presented in “*Selected Financial Information*”.

Financial Indebtedness is a non-IFRS financial measure used by the management of the Group to report the sum of the financial indebtedness of the Group consisting of liabilities from borrowings and derivative financial instruments.

## Free Cash Flow

Free Cash Flow represents the Group’s operating cash flow minus CAPEX (“**Free Cash Flow**”).

The following table provides a reconciliation of CAPEX and Free Cash Flow to the closest line items for the nine months ended 30 September 2020 and 2019 and the years ended 31 December 2019 and 2018:

	Nine months ended		Year ended	
	30 September <sup>(1)</sup>		31 December	
	2020	2019	2019	2018
			<i>(in CZK million)</i>	
Net cash flow from operating activities.....	5,247	3,764	5,797	4,540
<b>CAPEX</b> .....	<b>(5,295)</b>	<b>(2,569)</b>	<b>(6,832)</b>	<b>(1,406)</b>
<i>of which</i> Purchase of intangible assets.....	(11)	(20)	(56)	(27)
<i>of which</i> Purchase of property, plant and equipment .....	(5,284)	(2,549)	(6,776)	(1,379)
<b>Free Cash Flow</b> .....	<b>(48)</b>	<b>1,195</b>	<b>(1,035)</b>	<b>3,134</b>

Notes:

- (1) The Group’s financial information for the nine months ended 30 September has been derived from the Issuer’s unaudited interim consolidated financial information as of and for the nine months ended 30 September 2020 (with comparatives as of and for the nine months ended 30 September 2019) as presented in “*Selected Financial Information*”.

Free Cash Flow is a non-IFRS financial measure used by the management of the Group to illustrate the ability of the Group to employ its operating cash flows towards expenditures and working capital requirements.

## Use of Certain Terms

The terms CAPEX, EBITDA, Financial Indebtedness and Free Cash Flow do not represent the terms of the same or similar names as may be defined by any documentation for any financial liabilities of the Group.

## Websites

Information contained on any website referred to herein, unless explicitly incorporated into this Prospectus by reference (see “*Documents Incorporated by Reference*”), does not form part of this Prospectus and has not been scrutinised or approved by the CNB.



## **Foreign Language Terms**

This Prospectus is drawn up in the English language. Certain legislative references and technical terms in the English version have been cited in their original Czech language in order that the correct technical meaning may be ascribed to them under applicable law.

In this Prospectus, all references to:

**U.S. Dollars** and **USD** refer to United States dollars, the currency of the United States of America;

**Czech Koruna** and **CZK** refer to Czech Koruna, the currency of the Czech Republic; and

**EUR, euro** and **€** refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended.

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

## **Certain Defined Terms and Conventions**

Capitalised terms which are used but not defined in any particular section of this Prospectus will have the meaning attributed to them in “*Terms and Conditions of the Notes*” or any other section of this Prospectus. The definitions for the capitalised terms used in this Prospectus can be found using the Index of the defined terms on pages 89-90 of this Prospectus.

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## RISK FACTORS

*Any investment in the Notes is subject to a number of risks. Prior to investing in the Notes, prospective investors should carefully consider risk factors associated with any investment in the Notes, the Group's business and the industry in which it operates, together with all other information contained in this Prospectus including, in particular, the risk factors described below.*

*Investors should note that the risks described below are not the only risks the Group may face. These are the risks that the Group currently considers to be material. There may be additional risks that the Group currently considers to be immaterial or of which it is currently unaware and any of these risks could have similar effects to those set forth below.*

*In this Prospectus, the most material risk factors have been presented at the beginning in each category. The order of presentation of the remaining risk factors in each category in this Prospectus is not intended to be an indication of the probability of their occurrence or of their potential effect on the Group's ability to fulfil its obligations under the Notes.*

### **Risks related to the Group's business and industry generally**

***The Group is exposed to risks related to long-term contracts with a small number of shippers.***

The Group's business is founded on two pillars – international transit of natural gas across the Czech Republic to customers outside of the Czech Republic (“**Gas Transit**”) and domestic transport of natural gas into the distribution grid, gas storage facilities and to large industrial customers in the Czech Republic (“**Gas Transport**”). In the nine months ended 30 September 2020, revenues from Gas Transit and Gas Transport represented 80 and 19 per cent., respectively, of the Group's total revenues. As of the date of this Prospectus, the majority of gas transmitted by the Group is contracted under two material contracts with Gazprom Export LLC (the “**Major Shipper**”), and two other long-term transit contracts (together, the “**Material Contracts**”). Out of the two Material Contracts with the Major Shipper, the Capacity4Gas Contract (as defined below) is due to expire on 1 October 2039 and the Gazelle Contract (as defined below) is due to expire on 1 January 2035. The Material Contracts represent long-term relationships with three shippers. The Group derives the majority of its Gas Transit revenues from the Material Contracts, with the contracts with the Major Shipper being of particular importance. For the nine months ended 30 September 2020 and 2019<sup>1</sup>, revenues from the Material Contracts accounted for 64 per cent. and 66 per cent., respectively, of the Group's total revenues. For the years ended 31 December 2019 and 2018, revenues from the Material Contracts accounted for 66 per cent. and 72 per cent., respectively, of the Group's total revenues. The Material Contracts are on relatively standard terms for the European gas transmission market and contain hardship and force majeure features either contractually or as a matter of Czech or Austrian law. Force majeure clauses allow the relevant shipper not to perform its obligations when it is prevented by force majeure. The most significant obligation on any shipper is to pay transit fees which is less likely to be avoidable through force majeure than an operational obligation. Hardship clauses require that in cases of exceptional changes of circumstance that were not foreseeable at the time the relevant contract was entered into and which would put a party into an unacceptable or significantly disadvantageous position, the contractual parties enter into discussions in order to attempt to find a solution to the situation.

Although the Group is confident that, as of the date of this Prospectus, the Material Contracts contain legally valid and enforceable provisions specifying its right to obtain payments on a ship-or-pay basis to the full extent, the Group is exposed to the risk that the relevant shippers, particularly the Major Shipper, will stop making payments under the applicable Material Contracts, whether as a result of a deterioration in their financial situation or in the general economic or political conditions, application of sanctions (for instance as currently discussed for Nord Stream 2) or otherwise, and that the Group would be unable to enforce the full payments under the contracts or the enforcement would take an unreasonably long time.

The Group is also subject to the risk that one or more of its counterparties will not renew their contracts after they expire, whether as a result of using other alternative gas transmission routes or for other reasons. Furthermore, even if such contracts are renewed, there can be no assurance that the Group will be able to achieve commercially acceptable terms or that the counterparties will book the same amount of capacity as under the existing contracts. In any case, the prices at which such contracts would be concluded would be subject to applicable regulations in effect at the relevant time.

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<sup>1</sup> Revenues for the nine months ended 30 September 2019 and the years ended 31 December 2019 and 2018 include also revenues from a contract for Gas Transit from Western Europe to Eastern Europe with a single shipper which expired in 2020.

In addition, general principles of contract law may enable a unilateral termination of a contract in certain exceptional circumstances (such as frustration of contract, impossibility of performance or the existence of other important cause). It is possible that circumstances may arise in connection with contracts concluded by the Group, including the Material Contracts that would enable the Group's counterparties to seek unilateral termination of such contracts.

The materialisation of any of the above risks could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group's business may be adversely affected by changes in regulated tariffs or price regulation or the introduction of new obligations to pay regulated tariffs.***

Most of the revenues of a gas transmission system operator, such as the Group, are dependent on transmission tariffs. The Group's revenues from Gas Transit are dependent on transmission tariffs applicable at the relevant entry and exit border points and are subject to price caps to be approved, since 2020 on a cost plus basis, by the Czech Energy Regulatory Office ("ERO").

The Group's revenues from Gas Transport are also subject to price regulation by ERO which takes the form of a revenue cap on a cost plus basis, with certain incentives. While the regulatory periods usually last for five years and the main principles of regulation remain unchanged within one regulatory period, adjustments to the tariffs are reviewed annually. Amongst other factors, an inadequate allowed rate of return or assumptions concerning required capital expenditure proving not to be sufficiently accurate could lead to the Group not being adequately compensated for its Transport service, which could adversely affect its financial performance.

In 2017, the European Commission adopted Regulation (EU) 2017/460 establishing a network code on harmonised transmission tariff structures for gas ("NC TAR") setting out the rules for harmonised gas transmission tariff structures fully applicable as of 31 May 2019. According to the NC TAR, Gas Transit tariffs are calculated on the basis of the average distance between entry and exit points weighted by the forecasted contracted capacity at entry and exit points, with the split of revenue between entry and exit points being set to a 50:50 ratio. However, within limits allowed by NC TAR, ERO eventually implemented a different entry/exit ratio in the Czech Republic of 20.35:79.65.

The Group's existing Material Contracts, except the Gazelle Contract (as defined below) and the East-West Contract (each as defined below), incorporate regulated long-term tariffs set out by ERO for their entire duration, subject only to an annual escalation formula. Therefore, the development of these tariffs is not, during the lifetime of the contract, influenced by new price rulings issued by ERO or the NC TAR. The Gazelle Contract (as defined below) and the East-West Contract (as defined below) incorporate a tariff agreed between the parties pursuant to the then applicable legal framework for the entire duration of the contract, subject only to a contractual escalation formula.

However, each new contract is subject to the then applicable tariffs. If the future tariffs set by ERO are lower than the current tariffs, this may lead to the Group receiving lower revenues from future new contracts. ERO may decide to limit or even block tariff increases or may change the conditions of access to such regulated tariffs, including changes to the price setting mechanisms. The Group cannot give any assurance that new tariffs would be set at a level which would allow it to preserve its short-, medium- or long-term profitability, while ensuring a fair return on the capital invested. In particular, tariffs set by ERO may be affected by a number of factors and there is no guarantee that the regulated tariffs will be sufficient to cover the Group's future eligible operating expenditures ("OPEX"), depreciation and fair profit and any costs of future infrastructure development projects in line with current expectations or future potential competition. Further, given that the Group is subject to both Czech and EU regulation, which is continuously evolving, there is no guarantee that the present or future tariffs set by ERO will not be challenged by EU authorities.

The materialisation of these risks as well as future changes in the tariff structure and price regulation applicable to the Group could therefore have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group's business is exposed to political, economic and social developments in the Czech Republic, the Central and Eastern Europe region and elsewhere.***

The Group's operations are located in the Czech Republic and the Group is therefore exposed to political, legal and economic risks associated with the Czech Republic and, due to the cross-border nature of its operations, also, for instance, Germany, Slovakia, Poland and Russia. Any future political and governmental instability or international political conflicts in countries, which are strategic for the Group to ensure effective operation of its network, could result in changes to such countries' export policies and introduction of potential restrictions on the export of the gas.

A significant reduction in gas exports from the gas-producing countries could have a material adverse effect on the demand for the Group's network capacity. The Group is exposed to the risk that Russia, other countries or neighbouring transmission system operators ("TSOs") could close their transmission grids, thereby cutting off the supply of gas to the Group's network. Since 2009, the Group has invested in projects to increase the security of supply in the Czech Republic and in the CEE region. However, the Group has no control over Russia, other countries or neighbouring TSOs and may face an adverse impact on its business if a long-term gas supply disruption could not be mitigated by gas suppliers using the Group's transmission system to meet the gas demand coverage in the region from other gas sources. In addition, political and governmental instability in the gas-producing and transit countries would create an uncertain operating environment for the Group and could hinder the Group's long-term planning. In certain circumstances, the Group may also be exposed to emergency legislation or implementation of international sanctions.

The economy of the Czech Republic is vulnerable to external shocks, such as the global economic and financial crisis which commenced in the second half of 2008. The Czech Republic's economy has been, and may in the future be, negatively affected by an outbreak of any contagious diseases with human-to-human, airborne or contact propagation effects, such as coronavirus ("COVID-19") that has escalated into a global pandemic. The Group cannot provide any assurance on the future spread of COVID-19 or other contagious diseases in the Czech Republic or what the impact on its business will be, due to, among other things, quarantines or other restrictive measures. In fact, due to the ongoing COVID-19 outbreak, the Czech Republic and many other countries in Europe and worldwide introduced quarantines and other restrictive measures intended to prevent the spread of COVID-19. These restrictive measures have resulted in serious interruptions in business, economic and day-to-day activities in the Czech Republic and many other countries around the world, affecting, among other things, manufacturing, trade, consumer confidence, levels of unemployment, the housing market, the commercial real estate sector, debt and equity markets, counterparty risk, inflation, the availability and cost of credit, transaction volumes in wholesale and retail markets, the liquidity of the global financial markets and market interest rates. These factors have resulted in a widespread deterioration in the economies of these countries. For instance, according to the data published by the Czech Statistical Office in September 2020, as a result of COVID-19, the GDP of the Czech Republic's fell in the second quarter by 8.7 per cent. quarter on quarter. Although up to the date of this Prospectus, the Group has not experienced any business interruption due to COVID-19, the medium to long term impact of the restrictive measures and the accompanying economic slowdown on the Group's business and the wider economy is difficult to assess. These factors may have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

Economic developments in Europe, including the Czech Republic, and, as a result, also the Group's business, could also be negatively affected by the departure of the UK from the European Union (the "EU") (so-called **Brexit**). On 20 January 2020, the UK and the EU signed an agreement on the withdrawal of the United Kingdom from the EU. The withdrawal agreement provided the UK with a transition period until 31 December 2020, during which the UK was bound by EU legislation and remained in the single market area, while the future terms of the UK's relationship with the EU were being negotiated. On 24 December 2020, the EU and the UK agreed on the Trade and Cooperation Agreement (the "**Trade and Cooperation Agreement**"), which sets out the principles of the relationship between the EU and the UK following the end of the transitional period. The European Commission has proposed to apply the Trade and Cooperation Agreement on a provisional basis for a limited time until 28 February 2021, by which time the Trade and Cooperation Agreement must be approved by the European Parliament. Given the recent agreement on the wording of the Trade and Cooperation Agreement and its provisional application, as of the date of this Prospectus, the exact terms of the Trade and Cooperation Agreement, its practical application and the overall relationship of the UK and the EU are not fully clear. Any delays with the approval of the Trade and Cooperation Agreement by the European Parliament, its potential problematic provisions or its potential uncertain interpretation could adversely affect European or worldwide economic or market conditions and could contribute to instability in global financial and foreign exchange markets, including volatility in the value of the Euro. As the Group is exposed to fluctuations in the value of currencies, including Euro, relative to the Czech Koruna, such volatility might also negatively affect the Group's business, financial condition and results of operations.

A significant decline in the economic growth of any of the Czech Republic's major trading partners, in particular Germany and other member states of the EU, could in the future have an adverse effect on the Czech Republic's balance of trade and adversely affect its economic growth. In addition, because international investors' reactions to the events occurring in one market may demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by international investors, the Czech Republic could be adversely affected by negative economic or financial developments in other European countries or countries with credit ratings similar to those of the Czech Republic. The economy of the Czech Republic, including GDP and employment levels, has been adversely affected by such contagion effects on a number of occasions, including following the global economic crisis which commenced in 2008, and similar developments may affect the Czech economy in the future. Any sustained slowdown in the growth of the Czech economy as well as any changes in economic, tax, regulatory,

administrative or other conditions or policies of the Czech government, as well as political, economic or social developments in the Czech Republic over which the Group has no control could, among other things, result in reduced demand for gas and could adversely affect the Group's commercial customers' creditworthiness and their ability to obtain financing for their operations, and have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group's results of operations may be adversely affected by the development of alternative gas transmission routes, import of LNG to Europe and expanded utilisation of other types of gases, such as biomethane or hydrogen.***

The Group faces competition risk from existing alternative transmission routes and faces risks associated with the development of further alternative gas transmission routes to the areas where the Group currently delivers gas. Some projects that have been announced or are currently under construction are designed to transport gas to or within Europe and may impact the Group's transmission business. These include, for example, the Trans Adriatic Pipeline ("TAP"), which is planned to import gas to Southern Italy from the Caspian region, and the extension of the TurkStream pipeline to Bulgaria, Serbia and Hungary. In addition, new interconnectors and removal of capacity bottlenecks between neighbouring markets in the CEE region, in particular between Poland and Slovakia, are expected to facilitate further market integration.

As of the date of this Prospectus, some of these projects, such as the TAP project and the interconnector between Poland and Slovakia, are in an advanced phase of construction. If these projects were to be completed and become operational, they could introduce new competition to the Group and adversely impact its ability to negotiate and conclude new and renew existing transmission contracts.

In addition, quick and easy access to decentralised renewable energy sources or alternative energy sources, such as fuel oil, hard coal, electricity or heat generated by central combined heat and power plants or local or community heat plants, an increase in the price of natural gas relative to the prices of such alternative energy sources, and the development of nuclear power engineering may decrease the demand for natural gas and its transmission and, as such, weaken the position of the Group, especially in the local energy markets. Further, the developments in the production of other types of gases, for example renewable gases such as biomethane or green hydrogen, an increase in the import of liquid natural gas ("LNG") to Europe, may materially adversely affect demand for the Group's gas transmission capabilities. Materialisation of the above risks could have an adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group's revenues and margins may be negatively impacted by higher natural gas prices and lower demand for natural gas.***

Demand for the Group's transmission capabilities is ultimately driven by demand for natural gas in Europe. The Group is exposed to the global risks associated with the demand for gas, which depend on a number of factors outside of its control, including gas prices, geopolitical developments, weather conditions, alternative energy sources, the development of renewable energy sources (and state subsidies for them), climate fluctuations and environmental laws. The Group cannot control the price of gas in international markets. The prices for gas have historically been volatile and there is no guarantee that prices will remain within projected levels. The subsidies of renewable sources of energy by the EU could also have an adverse effect on the use of natural gas. Higher natural gas prices in the long term may decrease the general demand for natural gas in Europe and, thereby, the volume of natural gas the Group is able to contract to transmit. Conversely, lower natural gas prices may increase the demand for natural gas in Europe, thereby, increasing the volume of natural gas the Group is able to contract to transmit. At the same time, a substantial decrease in the natural gas prices may negatively affect the financial situation of the relevant shippers, as a result of which they may not be able to make payments under the applicable contracts.

The Group's results fluctuate in accordance with the economic cycles and general economic conditions of the geographical regions in which it operates. Any economic slowdown in those regions would lead to a reduction in gas consumption and, consequently, would have a negative impact on the demand for gas transmission, decreasing in turn, bookings in the Group's contract portfolio. The Group's business is also affected by variations in general weather conditions and unusual weather patterns. The Group forecasts the demand for its gas transmission based on long-term historical average weather conditions. While the Group also considers possible variations in normal weather patterns and potential impacts on its operations, there can be no assurance that such planning can prevent negative impacts on its businesses.

The Group's decisions to expand its transmission capacity or develop new interconnections have been and will continue to be based on projected demand for natural gas transmission. Such projections are based on currently available data and historical information on market growth trends, energy policy and connection requests. Accordingly, if actual demand for natural gas transmission is not in line with the Group's projections, the Group

may not earn the projected return on its investments, and its financial condition or results of operations could be adversely affected and, accordingly, those of the Group could be adversely affected. All of these risks could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group is subject to the risk that ERO will revoke certain exemptions relating to the Gazelle Pipeline.***

The Group owns and operates a pipeline which connects the transmission systems of the Czech Republic and Germany at the border points Brandov and Waidhaus (the "**Gazelle Pipeline**"). In respect of the operation of the Gazelle Pipeline, ERO has granted certain exemptions to the Group from the obligation (i) to ensure third party access under the regulated tariffs (and is instead priced on negotiated tariffs) and (ii) of ownership unbundling. The exemptions are granted until 2035 but may be prematurely revoked by ERO in the event that the Group fails to comply with the conditions stipulated in the exemption decisions. A significant part of the exempted capacity of the Gazelle Pipeline is booked by the Major Shipper through the entire period of the exemption. In order to meet the requirements for granting the exemptions, the ownership to the Gazelle Pipeline was transferred to BRAWA, a wholly-owned subsidiary of the Issuer. A premature revocation of these exemptions could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group is exposed to the risk associated with sanctions and fines imposed with respect to, for example, certain pipeline projects.***

On 2 August 2017, the United States adopted the Countering America's Adversaries Through Sanctions Act (the "**Sanctions Act**") which addresses, among other things, potential sanctions with respect to Russian energy export pipelines. Such sanctions may be imposed by the U.S. President "in coordination with allies of the United States". On 31 October 2017, the U.S. Department of State issued guidance on the Sanctions Act which in principle excluded from sanctions those projects that were initiated before a cut-off date set as 2 August 2017. The Nord Stream 2 project, an expansion project of Nord Stream consisting of a new export gas pipeline running from Russia to Europe across the Baltic Sea ("**Nord Stream 2**"), was arguably initiated before 2 August 2017 and robust arguments for the same conclusion also exist in relation to the Capacity4Gas Project, whose objective is to connect the gas infrastructure operated by the Group to the EUGAL pipeline in Germany and to increase its capacity for the needs of gas transit in the Czech Republic (the "**Capacity4Gas Project**") and the respective contract with the Major Shipper the "**Capacity4Gas Contract**"). In addition, the Capacity4Gas Project is constructed entirely outside of the Russian Federation, it arguably does not constitute an energy export pipeline from Russia and, last but not least, the Issuer is a non-Russian entity. However, the Group cannot guarantee that a different interpretation of sanctionable activity under the Sanctions Act will not prevail, particularly with regard to the ambiguous wording of the Sanctions Act and the broad discretion given to the relevant United States authorities. The U.S. Department of State issued updated public guidance on the Sanctions Act on 15 July 2020. In this updated guidance, the reference date for projects to be possibly targeted by sanctions, i.e. 2 August 2017, included in the original version of the guidance, has been deleted.

In December 2019, the United States adopted the National Defense Authorization Act 2020, including a chapter designated as "Protecting Europe's Energy Security Act of 2019" ("**PEESA 2019**"), which aims to sanction companies participating in certain construction activities on Russian energy export lines. Such activities include, among other things, the laying of the Nord Stream 2 pipeline. As a result, the main contractor carrying out the construction activities of Nord Stream 2 discontinued its works on the pipe-laying. However, according to publicly available media reports, pipe-laying activities in German waters reportedly resumed in December 2020 and pipe-laying in Danish waters might resume after 15 January 2021, according to a notification by the Danish Maritime Authority.

Further, on 20 October 2020 the U.S. Department of State issued another guidance on the Sanctions Act, this time to the effect that also, for instance, providing services or facilities for upgrades or installation of equipment for vessels designed for deep-sea pipe-laying for the Nord Stream 2 and TurkStream pipeline projects, or funding for upgrades or installation of equipment for those vessels, may be classified as a sanctionable activity.

Finally, in December 2020, the United States adopted National Defense Authorization Act 2021, including a Section designated as "Clarification and Expansion of Sanctions Relating to Construction of Nord Stream 2 or Turkstream Pipeline Projects". The Section amends PEESA 2019 to the effect that, among other things, it expands sanctionable activity from actions related to provision of vessels to a broader scope of activity which now includes provision of insurance for the vessels necessary to complete the project, services for technology upgrades, installation of welding equipment, retrofitting, and services for testing/inspection necessary for completion or operation of the pipeline.

As of 19 January, the U. S. authorities imposed sanctions in respect of the Fortuna (one of the Russian vessels carrying out the pipe-laying).

In addition, in October 2020, the Polish anti-monopoly office imposed a PLN 29 billion (EUR 6.5 billion equivalent) fine on Gazprom for building Nord Stream 2 without its approval and fined five other companies involved in financing of Nord Stream 2.

The Group cannot rule out that, in the future, more specific sanctions will be imposed in relation to Nord Stream 2 or even projects downstream of Nord Stream 2. The materialisation of these risks may have a direct or indirect adverse effect on the Group's business, financial condition, results of operations, cash flow and prospects.

***The Group is exposed to risks associated with failures, breakdowns, unplanned outages, as well as natural disasters, epidemics, sabotage, terrorism or public opposition.***

The Group's gas transmission infrastructure and information systems controlling this infrastructure could be subject to disruptions, failure, breakdowns, accidents, unplanned outages, gas leaks, explosions, fire, capacity limitations, system loss, breaches of security or physical damage due to natural disasters (such as adverse weather conditions, storms, floods, fires, explosions, landslides, slope ruptures or earthquakes), human error, equipment malfunction, computer viruses, hacker attacks, fuel interruptions, criminal acts (such as terrorism or sabotage), legally permitted protests (such as demonstrations), unauthorised third-party excavation works, unscheduled technological breakdowns at customers' facilities or facilities operated by other third parties, processes resulting from unexpected material defects or fatigue, major system or network imbalances, performance below expected levels of capacity and efficiency and other catastrophic events that could cause gas leaks, explosions, fire or equipment damage and which, in turn, could cause human injury or death or damage to third parties or the environment. By operation of law, the Group is not liable towards the shippers for failure to provide gas transmission services in emergency situations. Any physical damage to the Group's facilities, in particular, to its network, may be costly to repair and any outages may cause the Group to lose revenues due to its inability to supply gas to its customers or to provide its transmission services in accordance with the contracts with its customers.

The Group's operations may also be negatively affected by an outbreak of any contagious disease with human-to-human airborne or contact propagation effects, such as COVID-19 that has escalated into a global pandemic. The Group can provide no assurance on the future spread of COVID-19 or other contagious diseases in areas in which it operates or what the impact on its business and operations will be, due to, among other things, quarantines or other restrictive measures introduced by such countries with the aim to prevent the spread of COVID-19. These restrictive measures have led to serious interruptions in business, economic and day-to-day activities in the Czech Republic and many other countries around the world and, as a result, have adversely affected the Group's construction activities as well as its suppliers' operations. For example, these restrictive measures temporarily prevented foreign specialist workers of the Group's contractors from working on the Capacity4Gas Project in the Czech Republic. Although this delayed certain works on the Capacity4Gas Project, it did not in the end result in a delay of overall completion which occurred on time in December 2020. Should this situation reoccur, however, there is a risk that it may delay completion of other projects in the future. The continuation of these measures or the introduction of any additional restrictive measures could further negatively affect the Group's employees and facilities as well as facilities operated by third parties and, as a result, disrupt the Group's operations and activities.

The Group operates highly complex and sophisticated information systems (such as servers, networks, applications and databases) (the "IT Systems") which are essential for the everyday operations of its commercial and industrial business. The reliability and continuity of the IT Systems is essential for efficient and reliable operation of the network. A malfunction or disruption of service of, or unauthorised access to, one of the highly complex and sophisticated information systems operated by the Group may have a material adverse effect on its business. Although the Group maintains internal processes and procedures to protect the system, there is no assurance that these processes and procedures will be efficient or that there will not be any unauthorised access to the Group's sensitive data by third parties and improper use of such data, which may lead to the loss of company secrets and may result in a breach of applicable data protection regulations. Under Regulation (EU) 2016/679, General Data Protection Regulation ("GDPR"), which implements a stricter data protection compliance regime and substantially increases fines for a breach of data protection regulation, data protection agencies have the right to impose orders and fines up to EUR 20 million, or up to 4 per cent. of the total worldwide annual revenue for the previous financial year (whichever is higher), if they find that the Group has not complied with applicable laws and adequately protected customer data.

The hazards described above can also cause significant personal injury or loss of life, severe damage to, and destruction of, property, plant and equipment, contamination of, or damage to, the environment and suspension of operations. The occurrence of any one of these events may result in increased insurance costs for the Group as well as in the Group being named as a defendant in lawsuits asserting claims for breach of contract or substantial



damages, environmental clean-up costs, personal injury and fines or penalties. A successful claim against the Group or material increase in insurance costs could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group may be required to make substantial capital expenditures and these may be subject to delays.***

As a TSO, the Group is obliged to continuously maintain and develop its network in order to ensure the capability of the network to satisfy demand for the transmission of gas and, in particular, to contribute to security of supply by having appropriate transmission capacity. Capital expenditures are mostly focused on construction of new technology, replacing and the modernisation of the existing technology and technical modifications to the configuration and settings of the Group's transmission system to enable the Group to flexibly respond to changes in the demand for and trends in natural gas transmission. Changes to environmental legislation may require new or additional capital expenditures which may be more costly or time consuming. The Group's infrastructure investments for expansion of its current business and the speed at which these investments are implemented are subject to planning and execution risk and may be affected by delays in receiving necessary authorisations and approvals, delays in the required land expropriation procedures or in construction and other factors outside its control. As the investment proposals and implementation of such investment proposals are subject to certain assumptions, the investment projects may not develop as planned, may not yield the expected return or may put the Group in a position of non-compliance with applicable legislation. In addition, such assumptions may prove to be incorrect. Furthermore, the Group may not be able to raise sufficient capital to finance such investment plans at rates that are economically viable.

In particular, as of the date of this Prospectus, the Group is planning the construction of an 85-kilometers-long pipeline between Tvrdonice and Bezměrov and the modernisation of the compression station in Břeclav (the "**MCE Project**"). The MCE Project aims to contribute to improving the security of gas supply for the central and northern Moravian region. The MCE Project is the first phase of a 157-km-long pipeline from Tvrdonice to Libhošť in the northern Moravian region and close to the Czech-Polish border (the "**Moravia Project**"). Finally, based on the results of the non-binding indication of demand for incremental capacity, which both the Group, the Polish TSO and the Austrian TSO received in 2019, the Group is also considering the construction of an interconnector between the Czech Republic and Poland and the Czech Republic and Austria. The latter would establish the first direct gas pipeline connection between the respective countries. As of the date of this Prospectus, the MCE Project has received the Group's investment decision and is currently in the permitting phase.

Any postponement or failure to complete the contemplated projects may have an adverse effect on the generation of the Group's expected revenues from these projects, may in certain limited circumstances result in claims for damages from shippers where the Group has already entered into a capacity contract in relation to such a project, and, as a result, have an adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group is subject to risks related to network development and expansion requirements.***

Under Act No. 458/2000 Coll., Energy Act (the "**Energy Act**"), the Group is obliged to prepare a forward-looking 10-year network development plan (the "**TYNDP**") on an annual basis. The TYNDP is prepared on the basis of the current and expected demand for gas and the supply of gas in the future and is required to contain efficient measures for ensuring appropriate capacity in the network, pursuant to applicable regulatory requirements, to ensure security of gas supply. If the Group fails to meet its statutory obligations in respect of the TYNDP, under the current interpretation it may be subject to fines imposed by ERO. For a breach of obligations owed by holders of licences ERO may impose fines of up to CZK 100 million or 10 per cent. of the Group's turnover, whichever is higher, which could have an adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group's gas infrastructure is subject to the risk of expropriation.***

The technical infrastructure and equipment which the Group owns or has the right to use is of paramount importance to the Czech Republic's national security. As such, no assurance can be given that the Group's infrastructure will not be subject to expropriation in the event of a crisis situation. Under Czech law, the ownership of property is one of the basic rights which is protected at a constitutional level. Therefore, ownership may be made subject to a limitation or expropriated only in extraordinary and limited circumstances. Under Czech law, including under Act No. 240/2000 Coll., on Crisis Management, as amended (the "**Crisis Management Act**"), and Act No. 184/2006 Coll. on Expropriation or Limitation of Ownership of Land or Building, expropriation or mandatory limitation of ownership, can, in principle, only be sought in the Czech Republic: (i) if it is in the public interest; (ii) if it is for a purpose stipulated in a specific regulation; (iii) if the purpose of the expropriation cannot be achieved otherwise, for example by an agreement between the parties; (iv) for compensation; and (v) only to the extent absolutely necessary. Given the strategic nature of the gas infrastructure to the state, it is possible that

additional special legislation may be enacted to enable actions such as expropriation or limitation of ownership of energy infrastructure and equipment. This could have an adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group is exposed to risks relating to its reliance on third-party service providers and subcontractors.***

While the Group is solely responsible for carrying out the gas transmission service, in several areas it also depends on third-party service providers and subcontractors to carry out certain operations, such as certain maintenance activities. Importantly, the Group's investment projects are largely carried out by subcontractors. In addition, some of the Group's activities use infrastructure owned and operated by third parties. In particular, the Group is exposed to risks related to the availability of interconnected gas grids owned by third parties in order to be in a position to offer a part of its transmission capacity. The Group cannot guarantee the performance and quality of the services carried out by third parties or their compliance with applicable regulation, nor can the Group guarantee that it will always have access to back-up service providers and subcontractors. In such a case, there is a risk that they may not be able to perform their obligations towards the Group as and when needed, which could, among other things, delay the completion of some of the Group's projects. For example, the ongoing pandemic of COVID-19 temporarily prevented foreign specialist workers of the Group's contractors from working on the Capacity4Gas Project in the Czech Republic. Although this delayed certain works on the Capacity4Gas Project, it did not in the end result in a delay of its overall completion which occurred on time in December 2020. Should this situation reoccur, however, there is a risk that it may delay completion of other projects in the future. Financial difficulties, including insolvency, of any such service provider or subcontractor, or a decrease in the quality of service, budget overruns or completion delays, are likely to have an adverse impact on the Group's business, financial condition, and results of operations.

***The Group is dependent on its chief executive officer, chief financial officer, chief operating officer, key managers, senior executives and other qualified personnel and may not be able to attract and retain them.***

The Group's ability to maintain its competitive position and to implement its business strategy is largely dependent on its ability to retain its chief executive officer, Mr. Andreas Rau, chief financial officer, Mr. Václav Hrach, chief operating officer, Mr. Radek Benčík, other key managers and senior executives as well as skilled personnel and to attract and retain additional qualified personnel who have experience in the Group's industries and in operating a company of the Group's size and complexity. There may be a limited number of persons with the requisite experience and skills to serve in the Group's senior management positions, and the Group may not be able to locate or employ or retain qualified executives on acceptable terms or at all. Any shortage of adequately skilled candidates may force the Group to increase wages to attract suitably skilled candidates, which could substantially increase the Group's costs. The loss of these individuals, or of any senior executives, in particular Mr. Andreas Rau as the chief executive officer, Mr. Václav Hrach as the chief financial officer and Mr. Radek Benčík as the chief operating officer, or any delay in replacing a departed member of management, may result in the loss of industry-specific knowledge as well as relationships with key customers, lenders, and industry personnel and delay key decisions. Any of these factors could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group depends on good relations with its workforce, and any significant disruption could adversely affect the Group's operations.***

The Group's employees are represented by a trade union and, as such, possess certain bargaining or other rights. These employment rights may require the Group to expend substantial time and expense in altering or amending employees' terms of employment or making staff reductions. If the Group's relations with its workforce or the employees' representatives deteriorate for any reason, including as a result of changes in its compensation or any other changes in the Group's policies or procedures that are perceived negatively by employees or their representatives or if the Group is unable to successfully conclude any future collective bargaining or other employee representation agreements with the employees' representatives the Group may experience a labour disturbance or work stoppage at the relevant facility or facilities, which could have a material adverse effect on any such facility's operations and on the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group's insurance coverage with respect to its assets and operations may be inadequate.***

The Group's pipelines are a decentralised system of assets and insuring them is not economical. Accordingly, the Group does not have an insurance against damage or for business interruption relating to the pipelines it owns. While the Group's other assets, such as other gas transmission assets, compression stations and the pipelines located within compression stations, are insured against damage and business interruption, the Group cannot provide any assurance that the insurance will be sufficient or provide effective coverage under all circumstances

and against all hazards or liabilities to which the Group may be exposed. Any material damage to its pipelines or third-party claims for which the Group is not insured fully or at all as well as increases of insurance costs and other adverse changes in insurance markets could materially and adversely affect the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group is exposed to currency fluctuation risk.***

The Group is exposed to fluctuations in the value of currencies, primarily Euro and U.S. Dollars relative to the Czech Koruna as the Group's key revenue streams are denominated in Euro and U.S. Dollars. For the nine months ended 30 September 2020, the Group generated 63 per cent. of its revenues in CZK, 30 per cent. in USD and 7 per cent. in EUR (as compared to 56 per cent. in CZK, 36 per cent. in USD and 8 per cent. in EUR in the nine months ended 30 September 2019). Risks associated with foreign exchange instability, foreign exchange controls, and currency fluctuations might also negatively affect the Group's business, financial condition and results of operations.

The Group pursues hedging against certain risks, primarily foreign currency fluctuations. The hedging is performed in a long-term horizon and short-term horizon. Foreign currency fluctuations risk on multicurrency revenues is hedged by long-term debt drawn in corresponding currencies structure. There might be inefficiency, among other things, if debts are repaid in different currencies. Such risks might have an adverse impact on the results of operations. Short-term horizon hedging is usually performed within current business plan, usually for one year. Beyond the hedging horizon, such risks might have an adverse impact on the results of operations. Further, the variety of instruments and strategies used to hedge exposures may not be effective. In some cases, the Group may not elect or have the ability to implement such hedges or, even if implemented, they may not achieve the desired effect and may result in losses. The occurrence of any of the above risks could adversely affect the Group's business, financial condition, results of operations, cash flows and prospects.

The following table shows sensitivities of profit (loss) and equity to possible changes in exchange rates as of 31 December 2019 and 2018 relative to the functional currency, with all other variables held constant:

	As of 31 December			
	2019		2018	
	Impact on profit (loss)	Impact on equity	Impact on profit (loss)	Impact on equity
		<i>(in CZK millions)</i>		
U.S. Dollar strengthening by 10 per cent. ...	2	(1,245)	47	(1,217)
U.S. Dollar weakening by 10 per cent. ....	(2)	1,254	(47)	1,217
Euro strengthening by 10 per cent. ....	(88)	54	209	(13)
Euro weakening by 10 per cent. ....	88	(54)	(209)	13

***The Group is exposed to interest rate risk.***

The Group utilises external financing that bears floating or fixed interest rates, including bank loans and bonds, which exposes the Group to interest rate risk.

From time to time, the Group uses interest rate swaps and other types of derivatives to reduce the amount of debt exposed to interest rate fluctuations. However, the Group may incur losses to the extent its exposure is unhedged or if any of the variety of instruments and strategies used to hedge exposures are not effective or cannot be implemented. The Group's actual hedging decisions will be determined in light of the facts and circumstances existing at the time of the hedge and may differ from time to time. Also, the risk management procedures the Group has in place may not always be followed or may not work as planned. The occurrence of any of the above risks could adversely affect the Group's business, financial condition, results of operations, cash flows and prospects.

The following table shows sensitivities of profit (loss) to possible changes in short term interest rates applied as of 31 December 2019 and 2018, with all other variables held constant:

	As of 31 December	
	2019	2018
	<i>(in CZK millions)</i>	
1M Czech Koruna PRIBOR increase by 25 bps. ....	(14)	(15)
1M Czech Koruna PRIBOR decrease by 25 bps. ....	14	15
1M EURIBOR increase by 25 bps. ....	2	7
1M EURIBOR decrease by 25 bps. ....	(2)	(7)

1M USD LIBOR increase by 25 bps .....	-	1
1M USD LIBOR decrease by 25 bps .....	-	(1)

## Risks related to governmental regulations and laws

*The Group's operations are subject to significant government regulation and laws and the Group is exposed to possible changes in law, including retroactive changes, or different interpretations of these laws and regulation.*

The Group operates in a highly-regulated industry and its business is subject to increasingly strict regulation under applicable laws with respect to matters such as price-setting for gas transmission and transport, permitting and licensing requirements, limitations on land use, employee health and safety, unbundling requirements or the EU's policies with respect to gas transmission infrastructure. Introduction of new laws and amendments to existing laws in the EU and the Czech Republic may affect the legal environment in which the Group operates its business in ways that cannot be predicted. In particular, as of the date of this Prospectus, a new act replacing the Energy Act is being prepared by the Czech Ministry of Industry and Trade. Such legislation or regulation may be imposed on the Group directly in its role as a TSO, or indirectly, such as in the case of environmental regulations relating to carbon emissions. In addition, because the Issuer is the TSO in the Czech Republic and, as such, holds a monopolistic position on the market, it is subject to extensive anti-trust regulation.

The regulatory framework applicable to the Group's activities has undergone significant changes following the adoption of Directive 2009/73/EC concerning common rules for the internal market in natural gas (the "**EU Third Gas Directive**") and Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks (the "**Gas Regulation**"). The EU Third Gas Directive has been implemented in the Czech Republic through the Energy Act.

Moreover, in 2019, the European Commission completed the legislation procedure for a package of provisions called Clean Energy for all Europeans, also formerly known as the Winter Package (the "**Clean Energy Package**"). The Clean Energy Package represents a set of legislative motions that includes several directives, regulations and decisions whose application may significantly influence the energy sector and also the Group. The Clean Energy Package aims to achieve three goals: to make energy efficiency a priority, to achieve the world leading position of EU countries in the sphere of energy from renewable sources, and to provide fair conditions for consumers. The Clean Energy Package increases the required share of renewable sources from 20 per cent. in 2020 to 32 per cent. in 2030 and sets the energy efficiency target to at least 32.5 per cent. in 2030. The energy efficiency target, renewable share target and the Clean Energy Package in general aim to achieve low-carbon economy and to decrease emissions. In late 2019, the European Commission presented a strategy called the European Green Deal, which, among other things, aims to increase the EU's greenhouse gas emission reductions target for 2030 to at least 55 per cent. compared to 1990 levels, while reaching net zero greenhouse gas emissions by 2050. In September 2020, the European Commission proposed to include the reduction target of at least 55 per cent. in the Regulation (EU) 2018/1999 (the "**European Climate Law**") which, as of the date of this Prospectus, is being considered under the ordinary legislative procedure of the EU. A successful achievement of these goals may result in a decrease in the Group's revenues or profitability as future need for transit of natural gas may significantly decrease due to the replacement of natural gas by de-centrally produced gases such as hydrogen or biomethane.

The Group consistently strives to comply with all applicable laws, regulations and official decisions, based on appropriate legal advice. However, in some circumstances, especially where a law or regulation is subject to different interpretations, the Group may inadvertently breach a legal obligation (despite adopting a reasonable and well-advised interpretation) and may be liable for substantial administrative fines. In particular, laws and their interpretation by the authorities and courts may change, potentially with retroactive effect. Such changes or fines may have an adverse impact on the Group. Furthermore, the Group's interpretation may not correspond with that of the relevant authorities at the time of potential subsequent review by them.

The Group's ability to comply with and the increased costs of compliance with future changes in law, and the potential for creation of greater costs could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects. Failure to comply with these regulations may result in the imposition of administrative, civil and criminal penalties, the imposition of clean-up and site restoration costs and liens, the issuance of injunctions to limit or cease operations, the suspension or revocation of licences, permits and other enforcement measures that could have the effect of limiting the Group's operations. The Group may also incur costs and liabilities resulting from claims for damages to property or injury to persons arising from the Group's operations. The Group must compensate employees for work-related injuries.

Any of the foregoing could adversely impact the Group's business, results of operations, financial condition, cash flows and prospects.

***The Group's business could be negatively affected by changes in the EU's and Member States' renewable energy and decarbonisation policies, an accelerated market shift towards renewable energy sources or a growing trend towards increased energy efficiency.***

Demand for gas in Europe is strongly influenced by the EU's policy, implemented in 2008 by the EU Climate and Energy Package, as subsequently amended by the Clean Energy Package, to increase the share of electricity generated by renewable energy sources and to decrease the use of fossil fuels, including natural gas. Furthermore, individual Member States have renewable energy policies, some of which are more progressive than the EU's policy. Continued or increased support for renewable energy sources in the EU may reduce demand for gas and, as a result, the volume of natural gas transported in the Czech Republic, and thereby reduce the Group's revenues. This could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

Directive 2012/27/EU on energy efficiency (the "EED"), which entered into force on 4 December 2012, targets a 20 per cent. increase in energy efficiency by 2020. To reach that goal, the EED requires that Member States set national energy efficiency targets and report any progress achieved towards these targets to the European Commission by 30 April of each year from 2013. It also imposes mandatory energy-savings schemes on utility companies and energy audits on large companies. As a result, such companies may be required to incur substantial capital expenditure. In 2018, the EED was amended by Directive (EU) 2018/2002 ("Directive 2018/2002"), which increases the EED efficiency target to at least 32.5 per cent. by the year 2030. Pursuant to the EED, as amended by Directive 2018/2002, Member States may opt to take other policy measures to achieve energy savings by the obligated parties among final customers as an alternative to setting up an energy efficiency obligation scheme. The annual amount of new energy savings achieved through this approach would be equivalent to the amount of new energy savings required by the energy efficiency obligation scheme option. Provided that equivalence is maintained, Member States may combine obligation schemes with alternative policy measures, including national energy efficiency programs. In case of the energy efficiency obligation scheme, the Member States must select the so-called obliged parties (such as distribution system operators and retail energy companies) who will need to achieve the energy savings among their final customers. To meet these targets once they are implemented into national law, the Group may be required to incur substantial capital expenditure. This, in turn, could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

***The Group may incur additional expenditures as a result of upcoming developments in European and national regulation of the gas sector.***

The Third Energy Package sets out areas in which European network codes for cross-border network and market integration are to be developed. In its Decision (EU) No 2015/715/EU, the European Commission amended Annex 1 to the Gas Regulation relating to congestion management procedures and transparency requirements and adopted NC TAR and network code relating to capacity allocation mechanisms. In addition, the Third Gas Directive has been further amended to allow the application of the rules on the transmission lines which lead outside the EU's territory. This amendment could indirectly affect the Group and its operations by affecting projects such as Nord Stream 2.

Generally, the European Commission may decide to request the development of additional network codes or the amendment of existing ones. Given that these European network codes are directly binding on the Group, once adopted and in force, their implementation might give rise to additional expenditure for the Group.

Another regulatory development at the EU level that may have an impact on the Group's business is the EU's hydrogen strategy and the energy system integration strategy. In July 2020, the European Commission published official communications called 'A hydrogen strategy for a climate-neutral Europe' and 'Powering a climate-neutral economy: An EU Strategy for Energy System Integration'. As of the date of this Prospectus, the EU's hydrogen strategy policy is focused primarily on the installation of renewable hydrogen electrolyzers, with the target of installing 40 GW of electrolyzers by 2030. However, the European Commission also states in its communication that the creation of a European hydrogen market will require the use of the existing gas grid - at least to a partial extent, such as by blending of hydrogen in the natural gas network. In this respect, the European Commission proposed to review the EU's policy of linking the energy infrastructure of the Member States (the Trans-European Networks for Energy) and the EU Third Gas Directive. Should such review indeed occur, there is a risk of new regulatory requirements that might impact the Group's business.

The EU's strategy for energy system integration aims to provide a framework for the transition to green energy. According to the European Commission, the current model where energy consumption in transportation, industrial production and housing is happening in 'silos' with separate value chains, rules, infrastructure, planning and operations and, as such, cannot deliver climate neutrality by 2050 in a cost efficient way. As a result, the European Commission has proposed to create new links between sectors and to exploit technological progress in order to

operate and plan the energy system holistically, linking different energy carriers, infrastructures, and consumption sectors together. There is no assurance that such new energy system and new regulatory requirements associated with it, if implemented, will not have a negative impact on the Group's business.

The materialisation of any of the above risks might have an adverse impact on the Group's business, financial condition, results of operations, cash flow and prospects.

***The Group's activities require various administrative authorisations that may be difficult to maintain or obtain or that may be made subject to increasingly stringent conditions.***

The Group's gas transmission activities require various administrative authorisations, licences, certificates, permissions and exemptions and dispensations (the "Authorisations") in the Czech Republic. In particular, the Issuer holds an exclusive gas transmission licence issued by ERO in the Czech Republic as a TSO which allows for it to engage in gas transmission. This licence has been granted for an indefinite period of time and is subject to revocation by ERO if the Issuer were to be declared insolvent. The Issuer also holds a certificate of independence issued by ERO for an indefinite time. The certificate attests that the Issuer fulfils the unbundling requirements of the Energy Act for operating the gas transmission network. In addition, the Issuer holds certain additional Authorisations necessary for activities that it conducts in the ordinary course of its business, such as installation, repair, maintenance, professional inspections and tests of gas and pressure facilities and technical testing, metering and analysing that are generally granted for an indefinite or definite time, as the case may be. The issuance of these Authorisations may be subject to conditions, requirements or restrictions which the Group is obliged to meet continually. Failure to meet such conditions, requirements or restrictions may give grounds for imposition of a penalty or remedial measures or a revocation of such Authorisation by the relevant authority.

While the Group intends to obtain any Authorisations which may from time to time be required for the continuation of its business and renew the Authorisations that have been granted to it for a definite time, the procedures for obtaining or renewing these Authorisations can be time consuming and complex and may require continual fulfilment of a number of requirements. Accordingly, the Group may incur significant cost to comply with the requirements associated with obtaining or renewing these Authorisations (including the associated external and internal costs of preparing the applications for such Authorisations or of the investment associated with installing equipment required before such Authorisations can be issued or renewed). In addition, any of the Authorisations may be amended, suspended or revoked or may not be renewed or additional conditions may be imposed on the Group. The termination, revocation, suspension or modification of, or a failure, for any reason, to renew, these Authorisations in a timely manner could have a material adverse effect on the Group as it would not be able to carry on its current activities. While the Group has not had problems obtaining the required Authorisations in the past, there can be no assurance that the Group may not have difficulties in the future, in particular, if Czech or EU regulation or the interpretation of such regulation changes, resulting in the introduction of new procedural or other requirements for receiving such Authorisations. Any significant compliance costs which are incurred or difficulties encountered in obtaining requisite authorisations or permits could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

***Breaches of, or changes in, any applicable environmental, health and safety laws and regulations may cause the Group to incur increased costs, liability or other damages.***

Gas transmission is a potentially dangerous activity and involves the use of products and by-products that may be hazardous to human health and the environment. The Group's activities are subject to a wide range of changing regulations and environmental requirements in the Czech Republic and the EU for the protection of the environment and public health which are increasingly numerous and restrictive and which may change over time. The Group has made and will continue to make significant capital and other expenditure to comply with applicable environmental and health and safety regulation.

Compliance with environmental regulations in the Czech Republic and abroad may materially increase the Group's costs of operations. Applicable EU legislation requires TSOs, such as the Group, to implement integrated prevention and environmental pollution control. The Group continuously incurs and will continue to incur costs related to reducing emissions and specific types of air pollution, and capital expenditure to ensure that its installations comply with applicable laws for the protection of the environment and human health and safety. In addition, any of the Group's operations may, in the future, become subject to stricter laws and regulations, and, accordingly, the Group may be required to increase its capital expenditure to ensure continued compliance or to guarantee efficient operation of its gas turbine-driven compressors as requested by ERO. Compliance with current and future environmental and health regulation may have a material financial impact on the Group. In particular, ongoing international negotiations which aim to limit greenhouse gas emissions may result in the introduction of new regulation and may have an adverse impact on the Group's business.

The Group may be exposed to significant liability if it fails to comply with applicable environmental and health and safety laws and regulations. There can be no assurance that the Group will not incur substantial costs and liabilities, including the cost of clean-up operations and claims for damages to property and persons resulting from environmental or health and safety incidents. Any such costs and liabilities could adversely affect the Group's business, financial condition, operations, results and reputation.

***The Group is subject to broad regulatory supervision powers.***

The Group and its business operations are subject to the regulatory decisions of ERO. ERO is an independent energy regulatory body established as the main supervisory authority in the energy sector. ERO is endowed with a broad range of powers, including the right to grant licences, set prices, adopt secondary legislation, review and certify the implementation of unbundling rules, review contractual relationships between vertically integrated companies, perform inspections, resolve disputes between licensed entities and monitor quality of energy services and the right to request the provision of documents and information from the companies which it regulates, all of which directly affect the Group's business. ERO has been vested with considerable discretion when it comes to exercising its powers, for instance with respect to exemptions or price setting. In particular, as part of its price setting powers, ERO may decide to lower tariffs, limit or even block tariff increases or may change the conditions of access to such regulated tariffs, including changes to the price setting mechanisms, which may affect the Group's profitability. This is further exacerbated by the fact that under current Czech legislation, it is not entirely clear what, if any, legal remedies are available to the Group if it disagrees with ERO's price decisions. It is out of the Group's control how ERO's scope of influence will develop and what impact it may have on the Group's operations. ERO's approach to regulation of the gas sector may change from time to time, which may adversely impact the Group. Further, as part of ERO's regulatory supervision powers, the Group may be subject to inspections carried out by ERO. Although, as of the date of this Prospectus, the Issuer is not aware of any material inspection findings, no assurance can be given that inspections will not arise in the future that will result in the imposition of fines by ERO and, consequently, will have a material adverse effect on the Issuer's business. For a breach of obligations owed by holders of licences ERO may impose fines of up to CZK 100 million or 10 per cent. of the Group's turnover, whichever is higher. Any of the foregoing could adversely impact the Group's business, financial condition, results of operations, cash flows and prospects.

**Risks relating to the Group's financial profile**

***The Group's substantial financial indebtedness could adversely affect its business and prevent it from fulfilling its obligations with respect to its indebtedness, and the Group and may not be able to successfully renew or refinance such indebtedness as it matures, or may only be able to renew or refinance its indebtedness on less favourable terms.***

The Group has a substantial amount of outstanding indebtedness. As of 30 September 2020, the Group had Financial Indebtedness of CZK 30,943 million, none of which was overdue. The level of the Group's indebtedness could have important consequences. For instance, it could make it difficult for the Group to satisfy its obligations with respect to its outstanding indebtedness, increase the Group's vulnerability and reduce its flexibility to respond to general adverse economic and industry conditions. Further, the level of the Group's outstanding indebtedness could require that a substantial portion of the Group's cash flow from operations is dedicated to the payment of principal of, and interest on, the outstanding indebtedness, thereby reducing the availability of such cash flow for, and limiting the ability to obtain additional financing to fund, working capital, capital expenditures, acquisitions, joint ventures or other general corporate purposes. Any of the foregoing could have a material adverse effect on the Group's ability to satisfy its debt obligations, including the Notes. In addition, the Group may incur substantial additional indebtedness in the future.

The Group's business is also subject to significant risks in relation to its ability to renew, extend or refinance loans and other obligations as they mature. As of 31 December 2019, the Group had financial liabilities with contractual maturities of less than three months in the total amount of CZK 177 million, between three months to one year in the total amount of CZK 582 million, between one and five years in the total amount of CZK 14,019 million and over five years in the total amount of CZK 15,591 million. The Group is reliant upon having financial strength and access to credit and bond markets to meet its financial requirements. If the Group's financial performance does not meet its existing contractual obligations or market expectations, it may not be able to refinance existing debt issuances or facilities on terms considered favourable. If the Group is no longer able to obtain the financing it needs as and when needed, or if it is able to do so only on onerous terms, its further development and competitiveness could be severely constrained. The Group's ability to raise additional capital could be further influenced by factors such as changing market interest rates, restrictive covenants in its debt instruments or negative changes in its credit rating. At the same time, any additional debt incurred in connection with future acquisitions, construction or development could have a significant negative impact on the Group's performance

indicators, and could result in higher interest expenses for the Group. If the Group does not generate sufficient cash flows or if it is unable to obtain sufficient funds from future financings or at acceptable interest rates, the Group may not be able to pay its debts as they fall due or to fund other liquidity needs.

The materialisation of any of these risks could have a material adverse effect on the Group's business, results of operations, financial condition, cash flows and prospects.

***The Group's ability to access credit and capital markets and its ability to raise additional financing is in part dependent on its credit ratings.***

The Group's ability to access the capital markets and other forms of financing or refinancing, and the costs connected with such activities, depends in part on the credit rating of the Issuer. As of the date of this Prospectus, the Issuer has been assigned a long-term corporate credit rating of BBB (stable outlook) by Fitch and Baa2 (stable outlook) by Moody's. Any adverse change in an applicable credit rating could adversely affect the trading price for the Notes. The Issuer's ability to maintain its current rating is dependent on a number of factors, some of which may be beyond its control. In the event that the Issuer's credit rating is lowered, the Group's ability to access credit and bond markets and other forms of financing or refinancing could be limited. This may have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes in the EEA unless such ratings are issued by a credit rating agency established in the EEA and registered under the CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by third country non-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant third country rating agency is certified in accordance with the CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website in accordance with the CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and the publication of the updated ESMA list.

Investors regulated in the UK are subject to similar restrictions under Regulation (EC) No.1060/2009 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**"). As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (a) endorsed by a UK registered credit rating agency; or (b) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended, and (b) transitional provisions that apply in certain circumstances. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

***The Group is subject to restrictive covenants that may limit its ability to finance its future operations and capital needs and to pursue business opportunities and activities.***

The terms of certain of the Group's financial indebtedness contain restrictive provisions which, among other things, limit the Group's ability to create security interests over its assets, dispose of its assets, merge with other companies, provide loans, make distributions and certain other payments, or engage in certain other transactions. These restrictions are subject to exceptions and qualifications. Such restrictive provisions could limit the Group's ability to finance its future operations and capital needs and its ability to pursue business opportunities and activities that may be in its interest, which may in turn adversely affect the business, financial condition, results of operations, cash flows and prospects of the Group.

**Risks related to the Notes generally**

***The Issuer is not prohibited from issuing further debt, which may rank pari passu with or senior to the Notes.***

The Terms and Conditions of the Notes place no restriction on the amount of debt that the Issuer may incur that ranks senior to or *pari passu* with the Notes. The incurrence of any such debt may reduce the amount recoverable by the Noteholders upon liquidation of the Issuer or insolvency of the Issuer.



***An active secondary market in respect of the Notes may never be established or may be illiquid.***

Although an application has been made for the Notes to be admitted to trading on the Regulated Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes. Therefore, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

***Return on investment in Notes may be affected by various fees.***

The overall return on investment in the Notes may be affected by the fees charged by the agent for the sale/purchase of the Notes (such as the Joint Lead Managers) or charged by the relevant settlement system used by the investor. Any such person or institution may charge fees for the opening and keeping of an investment account, securities transfers, securities safekeeping services, and other services. The Issuer recommends that potential investors in the Notes familiarise themselves with the materials that will serve as the basis for charging fees related to the Notes.

***Return on investment in the Notes may be negatively affected by the inflation rate.***

Prospective investors in or sellers of the Notes should be aware that the fair value of the investment may diminish concurrently with inflation, reducing the currency value. As the Notes do not contain an anti-inflation clause, inflation causes a decline in the yield of the Notes. According to the latest CNB forecast published on 5 November 2020, the year-on-year overall inflation will decrease into the tolerance band in late 2020 and early 2021 and return close to the CNB's two per cent. target in late 2021 and early 2022, and remain close to the target in the rest of 2022. If, however, a situation occurs where this forecast is not fulfilled and the inflation rate exceeds the nominal yield on the Notes, the value of the yield on the Notes will be negative.

***Return on investment in the Notes may be affected by the interest rate.***

Investment in the Notes with interest determined by reference to a reference rate, such as PRIBOR, involves certain risks. In particular, the holder of a Note with a floating interest rate might receive less interest than expected or no interest in respect of such Notes. The market price of such Notes may be volatile as a reference rate, such as PRIBOR, may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices. The timing of changes in a reference rate may affect the actual yield the holders of such Notes will receive, even if the average level is consistent with their expectations. These facts may have an adverse impact on the value and development of the investment in the Notes. The historical experience of a reference rate should not be viewed as an indication of the future performance of such reference rate during the term of the Notes.

***The Notes may be redeemed prior to maturity.***

In the event of an early redemption of the Notes in accordance with the Terms and Conditions, the Noteholders would be exposed to the risk of the value of the yield on the Notes being lower than anticipated due to such early redemption. Also, there can be no assurance that at the relevant time the Noteholders will be able to reinvest the redemption proceeds at an effective interest rate as high as the return that would have been received on such Notes had they not been redeemed. Potential investors should consider such reinvestment risk in light of other investments available at that time.

***The Terms and Conditions of the Notes contain provisions which may permit their modification without the consent of all investors.***

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including the Noteholders who did not attend and vote at the relevant meeting and the Noteholders who voted in a manner contrary to the majority.

***Legal investment considerations may pose restrictions for certain investors.***

The investment activities of certain investors are regulated by laws and orders or are subject to inspection or regulation by certain authorities. Potential investors in the Notes (foreign investors, in particular) should consult their legal advisers to determine whether and to what extent the Notes are legal investments for them. The Issuer shall not bear any responsibility for the legality of investment in the Notes by potential investors, regardless of whether the law applicable in the state of incorporation, state of residence or state of performance of business activities of potential investors is Czech law or another law.

***Some investors may be exposed to movements in exchange rates and to exchange controls.***

The Issuer will pay interest on the Notes in Czech Koruna. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**investor's currency**") other than Czech Koruna. These include the risk that exchange rates may significantly change (including changes due to depreciation of Czech Koruna or appreciation of the investor's currency) and the risk that authorities with jurisdiction over the investor's currency may impose or modify exchange controls. An appreciation in the value of the investor's currency relative to Czech Koruna would decrease (i) the investor's currency-equivalent yield on the Notes, (ii) the investor's currency-equivalent value of the principal payable on the Notes and (iii) the investor's currency-equivalent market value of the Notes. In addition, government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate or the ability of the Issuer to make payments in respect of the Notes. As a result, investors may receive less interest or principal than expected, or none at all.

## INFORMATION INCORPORATED BY REFERENCE

The following documents which have previously been published on the Issuer’s website [www.net4gas.cz](http://www.net4gas.cz), in section *Investors - Financial reports*, shall be incorporated in, and form part of, this Prospectus.

Information	Document	Pages	Hyperlink
Audited consolidated financial statements of the Group as of and for the year ended 31 December 2019	NET4GAS Group Consolidated Annual Report 2019	36-91	<a href="https://www.net4gas.cz/files/hospodar-ske-vysledky/n4g_annual_report_2019.pdf">https://www.net4gas.cz/files/hospodar-ske-vysledky/n4g_annual_report_2019.pdf</a>
Independent auditor’s report relating to the audited consolidated financial statements of the Group as of and for the year ended 31 December 2019	NET4GAS Group Consolidated Annual Report 2019	154-157	<a href="https://www.net4gas.cz/files/hospodar-ske-vysledky/n4g_annual_report_2019.pdf">https://www.net4gas.cz/files/hospodar-ske-vysledky/n4g_annual_report_2019.pdf</a>
Audited consolidated financial statements of the Group as of and for the year ended 31 December 2018	NET4GAS Group Consolidated Annual Report 2018	32-89	<a href="https://www.net4gas.cz/files/hospodar-ske-vysledky/n4g_annual_report_2018.pdf">https://www.net4gas.cz/files/hospodar-ske-vysledky/n4g_annual_report_2018.pdf</a>
Independent auditor’s report relating to the audited consolidated financial statements of the Group as of and for the year ended 31 December 2018	NET4GAS Group Consolidated Annual Report 2018	154-157	<a href="https://www.net4gas.cz/files/hospodar-ske-vysledky/n4g_annual_report_2018.pdf">https://www.net4gas.cz/files/hospodar-ske-vysledky/n4g_annual_report_2018.pdf</a>

References in the independent auditor’s reports to “other information” are references to other information in the respective annual reports. Such other information is not incorporated by reference in this Prospectus. References in the auditor’s reports to “separate financial statements” are references to the separate financial statements of the Issuer, disclosed in the respective annual reports. Such separate financial statements of the Issuer are not incorporated by reference in this Prospectus.

Parts of the above documents that have not been incorporated into the Prospectus by reference are not material to the investor, or the information collected from these parts is directly mentioned in the chapter “*Description of the Group*”.

## RESPONSIBILITY STATEMENT

The Issuer is responsible for the completeness and accuracy of information contained in this Prospectus. To the best of the Issuer's knowledge, the information contained in this Prospectus is in accordance with the facts and the Prospectus makes no omission likely to affect its import.

The information contained in this Prospectus is accurate only as of the date of this Prospectus and any delivery of this Prospectus at any time after the date hereof does not imply that the information in this Prospectus is correct at such subsequent time.

In Prague on the date of this Prospectus.

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



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Name: Andreas Rau  
Title: Director (*jednatel*)



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Name: Václav Hrách  
Title: Director (*jednatel*)

## SUBSCRIPTION AND SALE

### General Information about the Mandated Person and the Method of Subscription

On the basis of the mandate agreement dated 14 December 2020 (the “**Mandate Agreement**”), the Issuer has mandated Česká spořitelna, a.s. (“**ČS**”), as coordinator and joint lead manager, together with Komerční banka, a.s. (“**KB**”) and Československá obchodní banka, a. s. (“**ČSOB**” and together with ČS and KB, the “**Joint Lead Managers**” and each individually a “**Joint Lead Manager**”), as joint lead managers, with the preparation of the Issue and the placement of the Notes with the final investors.

The Issuer intends to issue the Notes in the anticipated aggregate nominal amount of the Issue of CZK 4,098,000,000 (four billion ninety eight million Czech Koruna).

This Prospectus has been prepared and published for the purpose of the admission of the Notes to trading on the Regulated Market.

### Subscription of the Notes

The Joint Lead Managers will subscribe the Notes in accordance with the agreement on the subscription and purchase of Notes (the “**Subscription Agreement**”) to be concluded between the Issuer and the Joint Lead Managers, the subject matter of which are the Issuer’s obligation to issue the Notes and the Joint Lead Managers’ obligation to subscribe and buy the Notes on the terms set out in the Subscription Agreement. The issue price has been set at 100 per cent. of the par value of the Notes.

The Joint Lead Managers will subscribe the Notes and, as the case may be, subsequently offer them to domestic or foreign investors in accordance with the applicable rules and regulations and based upon one or more exemptions from the obligation to publish a prospectus, as per the Prospectus Regulation. In this respect, the Issuer draws attention to the fact that (i) the par value per individual Note exceeds EUR 100,000 (or the equivalent of this amount in Czech Koruna), and (ii) the Notes may only be acquired for a price in excess of the minimum amount of EUR 100,000 (or the equivalent in Czech Koruna).

The Issuer has agreed to pay the Joint Lead Managers a combined management and underwriting commission, reimburse the Joint Lead Managers in respect of certain of their expenses, and indemnify the Joint Lead Managers against certain liabilities, incurred in connection with the issue of the Notes. The Subscription Agreement may be terminated in certain circumstances prior to payment to the Issuer.

There is no minimum amount (other than the nominal amount of each Note) for which the investor may subscribe and purchase the Notes. The maximum volume of the nominal value of the Notes demanded by the individual investor is limited by the foreseen aggregate nominal amount of the Notes offered by the Joint Lead Managers. If the volume of investors’ demands exceeds the volume of the Issue, each Joint Lead Manager may reduce the investor’s orders at its discretion (provided that any surplus will be immediately returned in the investor’s account stated to the relevant Joint Lead Manager). The final nominal value of the Notes assigned to the individual investor will be stated in the transaction clearing confirmation, which will be delivered to the investor by the Joint Lead Manager without unreasonable delay after the execution of the instruction. The investor may not trade in the subscribed Notes before this confirmation is delivered.

### Settlement

The settlement will be performed on a DVP (delivery versus payment) or DFP (delivery free of payment) basis through the Central Depository and Fiscal and Paying Agent, as applicable, or through persons keeping the related records following the standard practices in accordance with the rules and operating procedures of the PSE and the Central Depository and within the deadlines set by the applicable rules. The settlement will be administered by ČS in the role of the Fiscal and Paying Agent (as defined below).

### Admission of the Notes to Trading

The Issuer will apply through the Listing Agent (as defined below) for admission of the Notes to trading on the Regulated Market and expects the Notes to be admitted to trading on or around the Issue Date, i.e. 28 January 2021. The estimated amount of fees associated with the admission of the Notes to trading on the Regulated Market is CZK 50,000 as the listing fee and CZK 10,000 as the annual trading fee.

No person has accepted the obligation to act as a market maker. Neither the Issuer nor the Joint Lead Managers can rule out that the Notes may become non-tradable on any market(s) and that the Noteholders will thus be unable to sell the Notes on such a market or markets before maturity.

### **Provision of services and conduct of business by the Joint Lead Managers**

The Joint Lead Managers and their respective affiliates may have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform services for, the Issuer and other members of the Group (including, in some cases, credit agreements, credit lines and other financing arrangements) in the ordinary course of their banking business. The Joint Lead Managers and their respective affiliates may have positions, deal or make markets in the Notes, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

The Joint Lead Managers and their respective affiliates may provide banking services including financing, to the Issuer, and for which they may be paid fees and expenses. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer and/or its affiliates (including the Notes). The Joint Lead Managers may have a lending relationship with the Issuer and its affiliates and may routinely hedge its credit exposure to the Issuer and/or its affiliates consistent with their customary risk management policies. Typically, the Joint Lead Managers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the securities of the Issuer or the relevant affiliate, including potentially the Notes. Any such positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments (including, without limitation, the Notes).

### **Restrictions on the Distribution of the Prospectus and the Sale or Purchase of the Notes**

The distribution of this Prospectus as well as any offer, sale or purchase of the Notes is restricted by law in some jurisdictions. The Issuer will not ask for approval or recognition of this Prospectus (including its supplements, if any) in any other jurisdiction, the Notes will not be registered, permitted or approved by any administrative or other authority in any jurisdiction with the exception of the approval of this Prospectus by the CNB and, accordingly, in the absence of applicable exemption(s), no offering of the Notes will be possible outside of the Czech Republic.

All persons in possession of this Prospectus will be responsible for observing any restrictions relating to the offer, purchase and sale of the Notes and the possession and distribution of any documents relating to the Notes in all relevant jurisdictions.

The Issuer informs the prospective Noteholders that the Notes are not and will not be registered in accordance with the Securities Act or by any securities commission or another regulatory body of any state of the U.S. and therefore cannot be offered, sold or transferred in the territory of the U.S. or to U.S. residents (as these terms are defined in Regulation S) other than on the basis of an exemption from the registration obligation according to the Securities Act or as a part of a transaction that is not subject to mandatory registration according to the Securities Act.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. tax regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986 and regulations thereunder.

Each Joint Lead Manager has agreed that, except as permitted by the Subscription Agreement, it will not offer, sell or deliver the Notes (a) as part of their distribution at any time or (b) otherwise until 40 days after the later of the commencement of the offering and the Closing Date within the United States or to, or for the account or benefit of, U.S. persons and that it will have sent to each dealer to which it sells any Notes during the distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the Notes

within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering, an offer or sale of Notes within the United States by any dealer that is not participating in the offering may violate the registration requirements of the Securities Act.

The Issuer also notes that the Notes may not be offered or sold in the UK by disseminating any material or notice, except for sale to persons authorised to deal in securities in the UK on own account or on behalf of others or under circumstances which do not constitute a public offering of securities within the meaning of the Companies Act 1985, as amended. Any legal acts regarding notes performed in, from, or otherwise in connection with the UK must also be performed in accordance with the Financial Services and Markets Act 2000 (FSMA 2000), as amended, the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, and the Prospectus Regulations 2005, as amended.

In addition to the above, the Issuer asks the subscribers of each Note and the Note acquirers to observe all relevant restrictions in each country (including the Czech Republic) where they would purchase, offer, sell or otherwise transfer the Notes or where they would distribute, make accessible or otherwise circulate this Prospectus including its supplements, if any, or any other offering or promotional material or information in connection with the Notes, in each case at their own expense and irrespective of whether this Prospectus or its supplements or any other offering or promotional material or information in connection with the Notes is recorded in the printed form or in the electronic or any other intangible form.

Any person that acquires any Notes will be deemed to have represented and agreed that (i) such person acknowledges all relevant restrictions on the offer, sale and purchase of the Notes, in particular in the Czech Republic, relating to such person and the relevant method of offer, sale or purchase, (ii) such person will not further offer for sale or sell the Notes without complying with all relevant restrictions applicable to such person and to the relevant method of offer and sale and (iii) before further offering for sale or further selling the Notes, such person will inform the potential buyers that in certain jurisdictions, further offer or sale of the Notes may be subject to legal restrictions, which must be observed.

## TERMS AND CONDITIONS OF THE NOTES

The Notes issued by **NET4GAS, s.r.o.**, a limited liability company incorporated under the laws of the Czech Republic, with its registered office at Prague 4 – Nusle, Na Hřebenech II 1718/8, Postal Code: 140 21, Identification No. 272 60 364, registered with the Commercial Register kept by the Municipal Court in Prague, File No. C 108316 (the “**Issuer**”), in the anticipated aggregate nominal amount of up to CZK 4,098,000,000 (four billion ninety eight million Czech Koruna), bearing floating interest rate, due in 2028 (the “**Issue**” and the “**Notes**”), are governed by these Terms and Conditions of the Notes (the “**Terms and Conditions**”) and by Czech Act No. 190/2004 Coll., on Bonds, as amended (the “**Czech Bonds Act**”).

The Issue was approved by the resolution of the Issuer’s Executive Directors dated 5 January 2021 and by the resolution of the Issuer’s Supervisory Board dated 5 January 2021.

The ISIN of the Notes allocated by the Central Depository is CZ0003529786. The title of the Notes is NET4GAS VAR/28. The common code is 228774006.

Services of the fiscal and paying agent related to interest payments and Notes redemption will be provided by Česká spořitelna, a.s., with its registered office at Olbrachtova 1929/62, Praha 4, Postal Code 140 00, identification number: 452 44 782, registered with the Commercial Register kept by the Municipal Court in Prague, File No. B 1171 (the “**Fiscal and Paying Agent**”). The relationship between the Issuer and the Fiscal and Paying Agent in connection with the performance of payments to the Noteholders (as this term is defined below) and some other administrative services related to the Issue is governed by an agreement between the Issuer and the Fiscal and Paying Agent (the “**Fiscal and Paying Agency Agreement**”). A copy of the Fiscal and Paying Agency Agreement is available for inspection to the Noteholders during regular business hours at the Specified Office of the Fiscal and Paying Agent set out in Condition 11.1.

Services of the calculation agent in connection with the Notes will be provided to the Issuer by Česká spořitelna, a.s. (the “**Calculation Agent**”), under the terms of the Fiscal and Paying Agency Agreement.

Services of the listing agent related to the admission of the Notes comprising the Issue to trading on the regulated market of Burza cenných papírů Praha, a.s. (the “**PSE**” and “**Regulated Market**”) will be provided by Česká spořitelna, a.s. (the “**Listing Agent**”), under the terms of the Fiscal and Paying Agency Agreement.

For the purpose of the admission of the Notes to trading on the Regulated Market, the Issuer has prepared a prospectus for the Notes (the “**Prospectus**”) that includes these Terms and Conditions. The Prospectus constitutes a prospectus for the purposes of Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (the “**Prospectus Regulation**”). The Prospectus has been approved by the Czech National Bank (the “**CNB**”) as the competent authority under the Prospectus Regulation in its decision ref. no. 2021/007789/CNB/570, file no. S-Sp-2021/00005/CNB/572 dated 21 January 2021, which became final and effective on 22 January 2021. By approving the Prospectus the CNB certifies that the Prospectus contains all information required by law necessary for the investor to take an investment decision. The CNB assesses neither the financial results nor the financial situation of the Issuer and by approving the Prospectus it does not guarantee the quality of the security or the Issuer’s future profitability or its ability to pay the interest on, and the principal of, the Notes.

The CNB carries out supervision of the Issue and the Issuer to the extent resulting from Act No. 256/2004 Coll., on Doing Business on Capital Markets, as amended, the Czech Bonds Act, Act No. 6/1993 Coll., on the Czech National Bank, as amended, Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC, and the Prospectus Regulation, including its implementing legislation.

The terms with capital letters, unless defined otherwise, have the meaning assigned to them in Condition 16. In these Terms and Conditions, reference to any provision of law or regulation is a reference to that provision as extended, amended or re-enacted.



## 1. General Characteristics of the Notes

### 1.1 Form, Nominal Amount, Anticipated Volume of the Issue

The Notes will be issued on the Issue Date (as defined in Condition 2.1) as book-entered securities. The nominal amount of each Note is CZK 3,000,000 (three million Czech Koruna). The anticipated aggregate nominal amount of the Issue is up to CZK 4,098,000,000 (four billion ninety eight million Czech Koruna). In accordance with the Czech Bonds Act, the Issuer is entitled to issue the Notes in a lower aggregate nominal amount than the anticipated aggregate nominal amount. The Issuer is not entitled to issue the Notes in a higher aggregate nominal amount.

### 1.2 Separation of the Right to Interest

There will be no separation of the right to receive interest payable under the Notes through an issue of coupons as separate securities or otherwise.

### 1.3 Noteholders

For the purpose of these Terms and Conditions, an owner of the Note (the “**Noteholder**”) is any person on whose owner’s securities account (in Czech: *účet vlastníka*) with the Central Depository or in follow-up records (in Czech: *navazující evidenci*) linked to the Central Depository, the Note is recorded.

Unless and until the contrary is proved to the Issuer and the Fiscal any Paying Agent, the Issuer and the Fiscal and Paying Agent shall treat each Noteholder for all purposes as the owner of the nominal amount of the Notes recorded on their owner’s securities account with the Central Depository or in follow-up records linked to the Central Depository and the Issuer and the Fiscal and Paying Agent will make all payments to such Noteholder in accordance with these Terms and Conditions. Persons who are owners of the Notes and who are not registered for any reason in the relevant records of owners of book-entered securities will be obliged to promptly notify the Issuer and the Fiscal and Paying Agent in writing of such fact and of their acquisition of the ownership title to the Notes.

### 1.4 Transfer of the Notes

Transferability of the Notes is not restricted.

The transfer of the Notes will be effective upon the crediting thereof to the owner’s securities account with the Central Depository in accordance with the rules and regulations of the Central Depository and applicable law. In case that the Notes are recorded in the client’s securities account (in Czech: *účet zákazníka*) in the Central Depository, the transfer of the Notes will be effective (i) upon crediting of the transferred Note to the client’s securities account in accordance with the rules and regulations of the Central Depository and applicable law and the owner of the client’s securities account is obliged to promptly register such transfer in the owner’s securities account as of the moment of registration thereof in the client’s securities account, or (ii) in case of any transfer between the Noteholders within one client’s securities account, upon the registration of such transfer in the owner’s securities account in the follow-up records linked to the Central Depository.

### 1.5 Rating

The Issuer has been rated BBB (stable outlook) by Fitch Ratings Ireland Limited (“**Fitch**”) and Baa2 (stable outlook) by Moody’s Deutschland GmbH (“**Moody’s**”). Each of Fitch and Moody’s is established in the European Economic Area and registered under Regulation (EU) No 1060/2009 of 16 September 2009 on credit rating agencies, (as amended, the “**CRA Regulation**”). As such, each of Fitch and Moody’s is included in the list of credit rating agencies published by the European Securities and Markets Authority on its website ([www.esma.europa.eu/supervision/credit-rating-agencies/risk](http://www.esma.europa.eu/supervision/credit-rating-agencies/risk)) in accordance with the CRA Regulation. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. The Issuer does not expect for the Notes to be rated.

## 2. **Issue Date, Issue Price, Method and Place of Notes Subscription**

### 2.1 **Issue Date**

The issue date of the Notes is scheduled to be 28 January 2021 (the “**Issue Date**”). The Notes may be issued (i) in a single series on the Issue Date or (ii) in tranches during the subscription period ending one year after the Issue Date (the “**Issue Period**”). If all the Notes are not issued during the Issue Period, the Notes may also be issued during an additional issue period determined by the Issuer and ending no later than on the Record Date for Nominal Amount Repayment (as defined below). The Issuer will notify the Noteholders, in the same manner as used for publication of these Terms and Conditions, of the determination of such additional issue period.

Without undue delay after the Issue Date and after the expiry of the Issue Period, the Issuer will notify the Noteholders, in the same manner as used for publication of these Terms and Conditions, of the aggregate nominal amount of all issued Notes comprising the Issue.

### 2.2 **Issue Price**

The issue price of the Notes is contained in the Prospectus (see the cover page of the Prospectus).

### 2.3 **Method and Place of Notes Subscription**

The method and place of subscription for the Notes is set out in the Prospectus (see “*Subscription and Sale*”).

## 3. **Status of the Notes**

The Notes and all payment obligations of the Issuer vis-à-vis the Noteholders under the Notes constitute direct, unconditional, unsecured and unsubordinated liabilities of the Issuer, which are and will rank *pari passu* among themselves and at least *pari passu* with any present and future direct, unconditional, unsecured and unsubordinated liabilities of the Issuer with the exception of liabilities treated preferentially under applicable mandatory laws.

### 3.1 **No Pre-emptive or Priority Rights**

Neither the shareholders of the Issuer nor any other person has any right of first refusal, pre-emptive or conversion rights in relation to the Notes or any other subscription rights in relation to the Notes.

## 4. **Negative Pledge**

So long as any payment obligations from the Notes remain outstanding, the Issuer will not, and will ensure that none of its Subsidiaries will, create or permit to subsist any Security Interest, other than a Permitted Security Interest, over any of its assets to secure any Relevant Indebtedness or to secure any guarantee or indemnity in respect of any Relevant Indebtedness; unless, at the same time or prior thereto (i) the Issuer’s obligations under the Notes are equally and rateably secured therewith or secured by such other security as may be approved by the meeting of the Noteholders in accordance with Condition 13, or (ii) such Security Interests are approved by the meeting of the Noteholders in accordance with Condition 13.

In this Condition 4:

“**Permitted Security Interest**” means a Security Interest created for the purpose of any Project Financing, provided that such Security Interest is only upon (i) assets which are the subject of such Project Financing or (ii) revenues or claims which arise from the operation, failure to meet specifications, exploitation, sale or loss of, or failure to complete or damage to, such assets;

“**Project Financing**” means any arrangement for the provision of funds which are to be used solely to finance the acquisition, construction, development or exploitation of any assets pursuant to which the persons providing such funds agree that the only source of repayment of such funds will be the project and the assets and revenues (including insurance proceeds) generated by such project or a source other than the Issuer and its Subsidiaries;

“**Relevant Indebtedness**” means any indebtedness arising out of Notes, debentures, loan stock or other securities which for the time being are, or are capable of being, quoted, listed or dealt in or traded on any stock exchange or other securities market.

“**Security Interest**” means any mortgage, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction; and

“**Subsidiary**” means any entity whose financial statements at any time are required by law or in accordance with generally accepted accounting principles to be fully consolidated with those of the Issuer.

## 5. Interest

### 5.1 Interest Rate and Interest Payment Dates

The Notes will bear a floating interest rate equal to (i) the Reference Rate (see definition below in this Condition 5.1) valid for the relevant Interest Period (see definition below in this Condition 5.1) and determined by the Calculation Agent on the Reference Rate Determination Date (see definition below in this Condition 5.1) plus (ii) the margin of 0.95 per cent. p.a. The interest will be paid semi-annually in arrears, on 28 July and 28 January (the **Interest Payment Dates**). The first Interest Payment Date will be 28 July 2021.

“**Reference Rate**” means 6M PRIBOR; **6M PRIBOR** means the interest rate in per cent. p.a. offered for the Czech Koruna that is quoted in “Reuters Screen Service” PRBO page (or any other official source where such rate will be quoted) as the value of the Prague interbank offer rate for Czech Koruna interbank deposits for the 6-month period set out by the administrator of PRIBOR and valid on the Reference Rate Determination Date. If PRIBOR is not quoted in the aforementioned PRBO page (or other official source) for the relevant 6-month period, then the Calculation Agent will determine 6M PRIBOR from (i) PRIBOR for the nearest longer period for which PRIBOR is quoted in the aforementioned PRBO page (or other official source) and (ii) PRIBOR for the nearest shorter period for which PRIBOR is quoted on the aforementioned PRBO page (or other official source), using straight line linear interpolation by reference to the two rates.

If 6M PRIBOR cannot be determined on any day according to the preceding paragraph, then the Calculation Agent will determine 6M PRIBOR on such day as the arithmetic mean of the interest rates quoted for the sale of Czech Koruna interbank deposits for such period that corresponds to the relevant 6-month period and the relevant amount is obtained on such day after 11:00 (eleven) a.m. Prague time from at least 3 (three) banks operating in the Prague interbank market selected by the Calculation Agent at its sole discretion. If 6M PRIBOR cannot be determined in this manner, then it will be equal to the 6M PRIBOR determined in accordance with the precedent paragraph on the nearest previous Business Day when 6M PRIBOR was determinable in such a manner.

If the interest rate determined in accordance with this Condition 5.1 is below zero (i.e. the total of the Reference Rate and the margin), the interest rate will be deemed to be zero.

For the avoidance of doubt, if PRIBOR is cancelled or ceases to be generally used in the market for interbank deposits due to the adoption of euro as a lawful currency of the Czech Republic, the rate that will be generally used in the market for interbank deposits in the Czech Republic will be used instead of PRIBOR.

“**Reference Rate Determination Date**” means the date as of which the Reference Rate for the relevant Interest Period is determined. The Reference Rate Determination Date for the relevant Interest Period will be the second Business Day before the first day of such Interest Period.

For the purposes of these Terms and Conditions, “**Interest Period**” means the period from (and including) the Issue Date to (but excluding) the first Interest Payment Date, and each immediately following period from (and including) the Interest Payment Date to (but excluding) the next Interest Payment Date until the maturity date of the Notes (as specified in Condition 6.1). For the purposes of determining the Interest Periods, the Interest Payment Date will not be adjusted according to the Business Day Convention (see Condition 7.3 of these Terms and Conditions).

The Calculation Agent will round the interest rate for each Interest Period on the basis of mathematical rules to two decimal places according to the third decimal place. The Calculation Agent will notify the Fiscal and Paying Agent of the interest rate applicable to each Interest Period promptly after its determination and the Fiscal and Paying Agent will in turn communicate without any undue delay such interest rate to the Noteholders in accordance with Condition 14 of these Terms and Conditions.

The interest will accrue evenly from the first day of each Interest Period to the last day included in such Interest Period at the interest rate set out in this Condition 5.1.

The amount of interest accrued on one Note will be calculated as a multiple of the outstanding nominal amount of such Note, the relevant interest rate (expressed in decimal form) and the day count convention determined in Condition 5.3 of these Terms and Conditions.

## 5.2 **End of Interest Accrual**

The Notes will cease to bear interest on the Maturity Date (as this term is defined in Condition 6.1 of these Terms and Conditions) or on the Early Redemption Date (as this term is defined in Conditions 6.4, 6.5, 9.2, 13.4(a) and 13.4(b) of these Terms and Conditions) or on the date of redemption of the Notes pursuant to Condition 6.3 of these Terms and Conditions, unless the payment of any due amount is unlawfully retained or refused by the Issuer although all relevant conditions and requirements for payment on the Maturity Date or the Early Redemption Date or the date of redemption of the Notes pursuant to Condition 6.3 of these Terms and Conditions have been complied with. In such an event, interest will continue to accrue at the interest rate set out in Condition 5.1 until the earlier of (i) the date on which all amounts due and payable as of that date in accordance with these Terms and Conditions are paid to the Noteholders or (ii) the date on which the Fiscal and Paying Agent notifies the Noteholders that it has received all amounts payable in connection with the Notes, unless any additional unlawful retention or refusal of payments occurs after such notice.

## 5.3 **Day Count Convention for Interest Calculation**

The interest payable on the Notes for a period of less than 1 (one) year will be calculated on the basis of an Act/360 day count convention, i.e., the actual number of days in the period for which the interest is calculated divided by 360.

## 5.4 **Calculation of Interest**

The amount of interest accrued on one Note over any period of one current year will be calculated as a multiple of the nominal value of such Note and the relevant interest rate (expressed in decimal form). The amount of interest accrued on one Note over any period shorter than one current year will be calculated as a multiple of the nominal value of such Note, the relevant interest rate (expressed in decimal form) and the relevant day-count fraction determined according to the day count convention under Condition 5.3 of these Terms and Conditions. The total interest amount calculated according to this Condition 5.4 will be rounded to two decimal places.

## 6. **Redemption and Purchase**

### 6.1 **Redemption at Maturity**

Unless previously redeemed or purchased by the Issuer and cancelled as specified below, each Note will be redeemed by the Issuer at its outstanding nominal amount in a single payment on 28 January 2028 (the “**Maturity Date**”).

### 6.2 **Early Redemption at the Option of the Noteholders**

The Noteholders are not entitled to require early redemption of the Notes before the Maturity Date, except for early redemption pursuant to Conditions 6.4, 6.5, 9.2, 13.4(a) and 13.4(b) of these Terms and Conditions. In such events, the Issuer will repay the nominal amounts of the relevant Notes plus accrued and outstanding interest in accordance with these Terms and Conditions.

### 6.3 **Redemption for Taxation Reasons**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date on giving not less than 45 and not more than 60 days' notice to the Fiscal and Paying Agent and, in accordance with Condition 14, the Noteholders (which notice shall be irrevocable), if:

- (a) (i) the Issuer has or will become obliged to pay additional amounts as provided or referred to in Condition 8; or
- (ii) the Issuer would not be entitled to claim a full deduction in computing taxation liabilities in respect of any payments in respect of the Notes in computing its taxation liabilities,

in each case as a result of any change in, or amendment to, the laws or regulations of any Relevant Jurisdiction, including any treaty to which such Relevant Jurisdiction is a party, or any change in the application or official interpretation of such laws or regulations, including a decision of any court or tribunal or any action taken by a taxing authority, which change or amendment becomes effective on or after the Issue Date; and

- (b) such obligation cannot be avoided by the Issuer taking reasonable measures available to it,

provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Notes then due.

Prior to the publication of any notice of redemption pursuant to this Condition 6.3, the Issuer shall make available at its registered office to the Noteholders a certificate signed by two officers of the Issuer stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred.

Notes redeemed pursuant to this Condition 6.3 will be redeemed at their outstanding nominal amount together (if appropriate) with interest accrued to (but excluding) the date of redemption.

### 6.4 **Early Redemption at the Option of the Noteholders upon a Change of Control**

If a Change of Control Put Event occurs, then any Noteholder will have the option (the "**Change of Control Put Option**") (unless, prior to the giving of the relevant Change of Control Put Event Notice (as defined below), the Issuer gives notice of its intention to redeem the Notes under Condition 6.3) to require the Issuer to redeem or, at the Issuer's option, to purchase or procure the purchase of the Notes held by such Noteholder on the Change of Control Put Date (as defined below) (the "**Early Redemption Date**"), at its outstanding nominal amount together with (or, where purchased, together with an amount equal to) interest accrued up to but excluding the Change of Control Put Date.

Within 15 calendar days of the Issuer becoming aware that a Change of Control Put Event has occurred, the Issuer shall give notice to the Noteholders in accordance with Condition 14 (a "**Change of Control Notice**") specifying the nature of the relevant Change of Control Put Event, the circumstances giving rise to it and the procedure for Noteholders to exercise the Change of Control Put Option.

To exercise the Change of Control Put Option, any holder of the Notes must deliver at the Specified Office of the Fiscal and Paying Agent on any Business Day falling within the Change of Control Put Period, a duly signed and completed notice of exercise in the form obtainable from the Specified Office of the Fiscal and Paying Agent (a "**Change of Control Put Notice**") and in which the holder must specify a bank account to which payment is to be made by the Issuer under this paragraph on or before the Change of Control Redemption Date. A Change of Control Put Notice, once given, is irrevocable without the consent of the Issuer.

If 80 per cent. or more in nominal amount of the Notes then outstanding have been redeemed or purchased pursuant to this Condition 6.4, the Issuer may, on giving not less than 45 nor more than 60 days' notice to the Noteholders (such notice being given within 30 days of the Change of Control Put Date), redeem or purchase (or procure the purchase of), at its option, all but not some only of the remaining outstanding

Notes at their nominal amount, together with interest accrued to (but excluding) the date fixed for such redemption or purchase.

In this Condition 6.4:

“**Affiliate**” means, in relation to any person, a Subsidiary Undertaking of that person or a Holding Company of that person or any other Subsidiary Undertaking of that Holding Company;

“**Allianz**” means Allianz SE and any Affiliate or Associate of Allianz SE;

“**Associate**” means in relation to a person, a person who is his associate and the question of whether a person is an associate of another will be determined in accordance with section 435 of the Insolvency Act 1986 of England and Wales;

“**Change of Control**” shall be deemed to have occurred if: (i) the Controlling Shareholders cease to hold, directly or indirectly, at least 50 per cent. plus one share of the ordinary shares of the Issuer; or (ii) any person or persons (other than the Controlling Shareholders) acting in concert or any person or persons acting on their behalf, at any time directly or indirectly, come(s) to acquire control through share-ownership, acquisition of voting rights or the ability to direct management of the Issuer;

“**Change of Control Put Event**” means: (i) a Change of Control occurs and, if at the start of the Change of Control Period the Notes are rated by any Rating Agency, a Rating Downgrade in respect of that Change of Control occurs within such Change of Control Period; or (ii) a Change of Control occurs and, on the occurrence of the Change of Control, the Notes are not rated by any Rating Agency;

“**Change of Control Period**” means the period (i) commencing on the date that is the earlier of (A) the date of the first public announcement of the relevant Change of Control and (B) the date of the earliest Potential Change of Control Announcement (as defined below), if any, and (ii) ending on the date which is 60 days after the date of the relevant public announcement (the “**Initial Longstop Date**”); provided that, unless any other Rating Agency has on or prior to the Initial Longstop Date effected a Rating Downgrade in respect of its rating of the Notes, if a Rating Agency publicly announces, at any time during the period commencing on the date which is 60 days prior to the Initial Longstop Date and ending on the Initial Longstop Date, that it has placed its rating of the Notes under consideration for rating review either entirely or partially as a result of the relevant public announcement of the Change of Control or Potential Change of Control Announcement, the Change of Control Period shall be extended to the date which falls 60 days after the date of such public announcement by such Rating Agency;

“**Change of Control Put Date**” means the date which is seven days after the expiration of the Change of Control Put Period.

“**Change of Control Put Period**” means the period of 30 calendar days following the date on which a Change of Control Notice is given.

“**Change of Control Redemption Date**” means the last Business Day of the month following the month in which the Change of Control Put Period expired.

“**Controlling Shareholders**” means OMERS or Allianz or any funds or entities controlled by them;

“**Holding Company**” means, in relation to a person, any other person in respect of which it is a Subsidiary Undertaking;

“**OMERS**” means, together or individually, each of OMERS Administration Corporation (“**OAC**”) and one or more funds (including limited partnerships, corporations or trusts) formed by or on behalf of OMERS Infrastructure Management Inc. for the purposes of ensuring OAC’s compliance with the Pensions Benefit Act (Ontario);

“**Potential Change of Control Announcement**” means any public announcement or statement by the Issuer, the Controlling Shareholders or any other shareholder of the Issuer, or any actual or potential bidder or any designated adviser thereto relating to any specific and near-term potential Change of Control (where “near-term” shall mean that such potential Change of Control is reasonably likely to

occur, or is publicly stated by the Issuer, any such actual or potential bidder or any such designated adviser to be intended to occur, within 120 days of the date of such announcement or statement);

“**Rating Agency**” means any of the following: (i) Fitch Ratings Ireland Limited or Moody’s Deutschland GmbH; or (ii) any other rating agency of equivalent international standing specified from time to time by the Issuer, and, in each case, their respective successors or affiliates;

a “**Rating Downgrade**” shall be deemed to have occurred in respect of a Change of Control if, within the Change of Control Period, the rating previously assigned to the Notes by any Rating Agency is (i) withdrawn or (ii) changed from an investment grade rating (BBB-/Baa3, or their respective equivalents for the time being, or better) to a non-investment grade rating (BB+/Ba1, or their respective equivalents for the time being, or worse) or (iii) if such rating previously assigned to the Notes by any Rating Agency was below an investment grade rating (as described above), lowered by at least one full rating notch (for example, from BB+ to BB or their respective equivalents), provided that a Rating Downgrade otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Change of Control if the Rating Agency making the reduction in rating to which this definition would otherwise apply does not announce or publicly confirm that the reduction was wholly or partially the result of the applicable Change of Control Event (whether or not the applicable Change of Control shall have occurred at the time of the Rating Downgrade); and

“**Subsidiary Undertaking**” means a subsidiary undertaking within the meaning of section 1162 of the UK Companies Act 2006.

#### 6.5 **Early Redemption at the Option of the Noteholders upon Loss of Licence**

If Loss of Licence Put Event occurs, then any Noteholder will have the option (the “**Loss of Licence Put Option**”) (unless, prior to the giving of the relevant Loss of Licence Put Event Notice (as defined below), the Issuer gives notice of its intention to redeem the Notes under Condition 6.3) to require the Issuer to redeem or, at the Issuer’s option, to purchase or procure the purchase of Notes held by such Noteholder on the Loss of Licence Put Date (as defined below) (the “**Early Redemption Date**”), at its outstanding nominal amount together with (or, where purchased, together with an amount equal to) interest accrued up to but excluding the Loss of Licence Put Date.

Within 15 calendar days of the Issuer becoming aware that a Loss of Licence Put Event has occurred, the Issuer shall give notice to the Noteholders in accordance with Condition 14 (a “**Loss of Licence Notice**”) specifying the nature of the relevant Loss of Licence Put Event, the circumstances giving rise to it and the procedure for Noteholders to exercise the Loss of Licence Put Option.

To exercise the Loss of Licence Put Option, any holder of the Notes must deliver at the Specified Office of the Fiscal and Paying Agent on any Business Day falling within the Loss of Licence Put Period, a duly signed and completed notice of exercise in the form obtainable from the Specified Office of the Fiscal and Paying Agent (a “**Loss of Licence Put Notice**”) and in which the holder must specify a bank account to which payment is to be made by the Issuer under this paragraph on or before the Loss of Licence Redemption Date. A Loss of Licence Put Notice, once given, is irrevocable without the consent of the Issuer.

If 80 per cent. or more in nominal amount of the Notes then outstanding have been redeemed or purchased pursuant to this Condition 6.5, the Issuer may, on giving not less than 45 nor more than 60 days’ notice to the Noteholders (such notice being given within 30 days of the Loss of Licence Put Date), redeem or purchase (or procure the purchase of), at its option, all but not some only of the remaining outstanding Notes at their nominal amount, together with interest accrued to (but excluding) the date fixed for such redemption or purchase.

In this Condition 6.5:

“**Licence**” means the exclusive licence for gas transmission in the Czech Republic granted by the Czech Energy Regulatory Office to the Issuer on 1 January 2006 under the Czech Energy Act;

“**Loss of Licence Put Date**” means the date which is seven days after the expiration of the Loss of Licence Put Period.

**“Loss of Licence Put Event”** means the Licence is terminated and not immediately replaced or reissued on substantially similar terms within 45 days of such termination becoming effective;

**“Loss of Licence Put Period”** means the period of 30 calendar days following the date on which a Loss of Licence Notice is given; and

**“Loss of Licence Redemption Date”** means the last Business Day of the month following the month in which the Loss of Licence Put Period expired.

## 6.6 **Early Redemption at the Option of the Issuer**

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any date, from and including, 28 October 2027 to, but excluding, the Maturity Date (the **“Early Redemption Date”**) at a price equal to 100 per cent. of their principal amount on the Issuer’s giving not less than 45 nor more than 60 days’ notice to the Noteholders (which notice shall be irrevocable and shall oblige the Issuer to redeem the Notes on the Early Redemption Date at such price plus accrued interest to such date).

## 6.7 **Purchases**

The Issuer is entitled to purchase the Notes at any time on the market or otherwise at any price.

## 6.8 **Cancellation of the Notes**

The Notes purchased by the Issuer will not be cancelled, unless decided otherwise by the Issuer. If the Issuer does not decide on the cancellation of the Notes purchased by it, it will be entitled to dispose of such Notes at its sole discretion.

## 6.9 **Applicability of the Payment Terms**

The provisions of Condition 7 of these Terms and Conditions also apply to the redemption and purchase of the Notes under this Condition 6.

## 7. **Payment Terms**

### 7.1 **Currency of Payments**

The Issuer undertakes to pay interest on and repay the nominal amount of the Notes solely in the Czech Koruna, or in any other lawful currency of the Czech Republic that might replace the Czech Koruna. Interest will be paid to the Noteholders and the nominal amount of the Notes will be repaid subject to and in accordance with these Terms and Conditions and the tax, foreign exchange and other applicable laws of the Czech Republic in effect at the time of the relevant payment.

In the event that the Czech Koruna in which the Notes are denominated and in which the payments relating to the Notes should be made in compliance with these Terms and Conditions ceases to exist and is replaced by euro, (i) the denomination of such Notes will be changed to Euro in conformity with the applicable laws, and (ii) all monetary liabilities arising from such Notes will automatically and without any further notice to the Noteholders be payable in Euro, with the official rate (i.e. the fixed conversion ratio) being in accordance with the applicable law being used as the exchange rate between the Czech Koruna (CZK) and euro (EUR). Such replacement of the Czech Koruna (i) will not, in any respect, affect the existence or enforceability of the Issuer’s liabilities under the Notes, and (ii) for the avoidance of doubt, will not be deemed to constitute any change to these Terms and Conditions or a default or an event of default or an enforcement event under these Terms and Conditions.

### 7.2 **Payment Date**

The payment of interest on and the repayment of the nominal amount of the Notes will be made by the Issuer through the Fiscal and Paying Agent on the dates specified in these Terms and Conditions (each such date further referred to, according to its meaning, as the **“Interest Payment Date”** or the **“Maturity Date”** or the **“Early Redemption Date”** or also as the **“Payment Date”**).



### 7.3 **Business Day Convention**

If any Payment Date falls on a day that is not a Business Day, such Payment Date will instead fall on the next following Business Day, and the Issuer will not be obliged to pay any interest or any other additional charges by reason of such delay in payment resulting from the application of any Business Day convention (the “**Business Day Convention**”).

### 7.4 **Determination of the Right to Receive Payments Related to the Notes**

The authorised persons to whom the Issuer will pay interest or other amounts on the Notes will be persons on whose owner’s securities account kept with the Central Depository, or in the register maintained by a person keeping follow-up records linked to the Central Depository, the Notes are recorded at the close of the relevant Record Date for Interest Payment (the “**Authorised Persons**”).

“**Record Date for Interest Payment**” is a day falling 30 calendar days prior to the relevant Interest Payment Date; however, for the purposes of determining the Record Date for Interest Payment, the Interest Payment Date will not be adjusted according to the Business Day Convention.

For the purposes of determining the recipient of interest, neither the Issuer nor the Fiscal and Paying Agent will take into account any transfer of any Notes registered in the Central Depository or in the register maintained by a person keeping follow-up records linked to the Central Depository after the Record Date for Interest Payment. The authorised persons to whom the Issuer will repay the nominal amount of the Notes shall be persons on whose owner’s securities account with the Central Depository, or in the register maintained by a person keeping follow-up records linked the central registry for securities, the Notes are recorded at the close of the relevant Record Date for Nominal Amount Repayment (also the “**Authorised Persons**”).

“**Record Date for Nominal Amount Repayment**” is a day falling 30 calendar days prior to the relevant Maturity Date or the Early Redemption Date; however, for the purposes of determining the Record Date for Nominal Amount Repayment, such Payment Date will not be adjusted according to the Business Day Convention.

For the purposes of determining the recipient of the nominal amount of the Notes, neither the Issuer nor the Fiscal and Paying Agent will take into account any transfer of any Notes registered in the Central Depository or in the register maintained by a person keeping follow-up records linked to the Central Depository after the Record Date for Nominal Amount Repayment.

If, according to the entry in the owner’s securities account kept with the Central Depository, or in the register maintained by a person keeping follow-up records linked to the Central Depository, the Notes with respect to which the payments of interest or other amounts shall be performed by the Fiscal and Paying Agent, are pledged, then the pledgee, recorded in the extract from the register of the Issue, shall be considered an Authorised Person in respect of the Notes, unless (i) it is evident that a person authorised to receive the payments of interest or other amounts attached to the pledged Notes is the respective Noteholder and/or (ii) it is proven to the Fiscal and Paying Agent in other satisfactory manner that the respective Noteholder has the right to receive the payments of interest or other amounts attached to the pledged Notes by virtue of an agreement between such Noteholder and the pledgee.

### 7.5 **Payments**

The Fiscal and Paying Agent will make payments to the Authorised Persons by means of wire transfer to their accounts kept with a bank in the Czech Republic. The Authorised Person’s account details shall be communicated together with an instruction by the Authorised Person to the Fiscal and Paying Agent at the address of the Fiscal and Paying Agent’s Specified Office in a verifiable manner no less than five (5) Business Days prior to the Payment Date. Such instruction shall be in the form of a written statement in the Czech or English language with notarised signatures, and contain sufficient details of such bank account to allow the Fiscal and Paying Agent to make the payment, and, in the case of the Authorised Person being a legal entity, the Fiscal and Paying Agent may, at its own discretion, require such instruction to be accompanied by an original or an officially certified copy of an extract from the commercial register or other respective register in respect of the Authorised Person not older than three months from the Payment Date (such instruction, together with the excerpt from the Commercial Register

(if applicable), and the other required appendices, if any, is hereinafter also referred to as the “**Instruction**”).

The Instruction must be in form and substance reasonably satisfactory to the Fiscal and Paying Agent, and the Fiscal and Paying Agent shall be entitled to require reasonably satisfactory evidence that the signatory of such Instruction had the authority to sign such Instruction on behalf of the Authorised Person. Such evidence shall also be delivered to the Fiscal and Paying Agent no less than five Business Days prior to the Payment Date. In this respect, the Fiscal and Paying Agent shall be authorised to require that (a) a power of attorney be delivered in the event that the Authorised Person is acting through an agent or (b) the instruction from the Authorised Person be subsequently confirmed.

Notwithstanding the foregoing, neither the Fiscal and Paying Agent nor the Issuer will be obliged to examine the correctness, completeness or authenticity of any such Instruction in any manner whatsoever and neither of them will be liable for any damage incurred in connection with any delay in the delivery of such Instruction by the Authorised Person or with the delivery of an incorrect or otherwise defective Instruction. The Instruction will be deemed properly made if it contains all the items required by this Condition, is delivered to the Fiscal and Paying Agent in accordance with this Condition and complies with the requirements of this Condition in all other respects. Upon the Issuer’s request, the Fiscal and Paying Agent shall provide the Issuer with other information as set out in the Fiscal and Paying Agency Agreement, if any.

Any Authorised Person who claims tax relief in accordance with any applicable double taxation treaty (to which the Czech Republic is a party) shall deliver to the Fiscal and Paying Agent a certificate of such Authorised Person’s tax domicile and such other documents as the Fiscal and Paying Agent and the applicable tax authorities may request, together with the Instruction as an integral part thereof. Notwithstanding such rights, neither the Fiscal and Paying Agent nor the Issuer shall verify the authenticity or completeness of such Instructions, or be liable for any damage incurred in connection with any delay in the delivery of such Instruction by any Authorised Person, or with the delivery of an incorrect or otherwise defective Instruction.

The Issuer’s obligation to pay any amount due in connection with the Notes will be deemed discharged in a due and timely manner, if the relevant amount has been remitted to the Authorised Person in compliance with a proper Instruction pursuant to this Condition 7.5 and if such amount is credited to the account of the Authorised Person’s bank with the clearing centre of the Czech National Bank not later than on the relevant due date, if the payment is made in the Czech Koruna or in a currency that replaces the Czech Koruna (provided that settlement in such currency is made through the clearing centre of the Czech National Bank).

Neither the Issuer nor the Fiscal and Paying Agent will be liable for any delay in the payment of any amount due caused by the Authorised Person, e.g. by its failure to deliver a proper Instruction in a timely manner. If any Authorised Person fails to deliver to the Fiscal and Paying Agent in time a proper Instruction under this Condition 7.5 of these Terms and Conditions, it will have no right to receive either from the Fiscal and Paying Agent or the Issuer any interest or any other payment on account of such delay if (i) the relevant amount has been remitted to the Authorised Person in accordance with a proper Instruction pursuant to this Condition 7.5 and (ii) such amount has been debited from the Fiscal and Paying Agent’s account not later than ten Business Days following the day on which the Fiscal and Paying Agent received the proper Instruction.

Neither the Issuer nor the Fiscal and Paying Agent will be liable for any damage incurred by (i) the failure to deliver in time the proper Instruction or any other documents or information required to be delivered under this Condition 7.5, or (ii) such Instruction or any related document or information being incorrect, incomplete or untrue, or (iii) circumstances beyond the control of the Issuer or the Fiscal and Paying Agent. No Authorised Person will be entitled in any such event to receive any additional payment, other compensation or interest for any such delay in the relevant payment.

## **7.6 Change in the Payment Method**

The Issuer and the Fiscal and Paying Agent are jointly entitled to elect to change the payment procedure. However, such change may not affect the position and interests of the Noteholders. The Noteholders will be notified of such change in the same manner as set out in Condition 14. If such change would affect the position and interests of the Noteholders, the Issuer will be obliged to promptly convene the Meeting

(as defined in Condition 13) and request the Noteholders to provide their opinion on the Issuer's proposal for any amendment to these Terms and Conditions that requires the Noteholders' consent under applicable laws as set out in Condition 13.

## 8. **Taxation**

All payments of nominal and interest in respect of the Notes by or on behalf of the Issuer will be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by the Czech Republic or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. The payment of nominal and interest in respect of the Notes may be subject to withholding of tax. Please see section *Taxation* of the Prospectus for further details. If any deduction or withholding is required at the time of such payment, the Issuer shall not be obligated to pay to the Noteholders any additional amounts.

## 9. **Early Redemption of the Notes upon the Occurrence of Events of Default**

### 9.1 **Events of Default**

If any of the following events occurs and is continuing (each an "**Event of Default**"):

(a) **Payment Default**

any default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes;

(b) **Breach of Other Obligations**

the Issuer fails to fulfil or to comply with any obligation relating to the Notes other than payment obligation under these Terms and Conditions and, if capable of remedy, such default is not remedied within 45 Business Days of the date when the Issuer was notified of such fact by any Noteholder by means of a letter delivered to the Issuer or to the address of the Fiscal and Paying Agent's Specified Office;

(c) **Cross-default**

(i) any other financial indebtedness of the Issuer for or in respect of moneys borrowed or raised exceeding in aggregate EUR 50,000,000 (or its equivalent in any other currency or currencies) will not be duly paid on its due date and remain unpaid after expiration of any applicable grace period or (ii) any such liability is declared due and payable before its original due date by reason of any default, event of default or the like (howsoever described);

(d) **Court Judgments and Other Decision**

the Issuer fails to comply with any of its payment obligations determined by a final and binding decision of a competent court, arbitration body or administrative authority for a period longer than 45 days unless the aggregate amount of such payment obligations is lower than EUR 25,000,000 (or its equivalent in other currency or currencies);

(e) **Security Enforced**

a secured party takes possession, or a receiver, manager or other similar officer is appointed, in respect of any part of the undertaking, assets and revenues of the Issuer, which exceeds an amount of EUR 25,000,000 (or its equivalent in any other currency or currencies), whether individually or in the aggregate;

(f) **Insolvency**

the Issuer, under the laws of any jurisdiction where, at the relevant time, the Issuer has its centre of main interest, registered office or seat, (i) is or becomes insolvent (in Czech: *v úpadku*), (ii) issues any decision on readjustment or deferment of its obligations generally or makes a general assignment, an arrangement

or composition with or for the benefit of its creditors or declares a moratorium concerning any of its indebtedness, (iii) is declared bankrupt by any court or (iv) an application for the declaration of bankruptcy of the Issuer is refused by any court on the sole grounds that the Issuer has insufficient assets from which to meet the costs and expenses of any bankruptcy proceedings;

(g) Liquidation

a legally effective and non-appealable order is issued by the relevant Czech court or a legally effective and non-appealable resolution of the general meeting of the Issuer is passed for the winding up, liquidation or dissolution (i.e. dissolution with no legal succession) of the Issuer. No Event of Default shall occur in the event of dissolution of the Issuer with legal succession (e.g. as a consequence of and followed by a restructuring of the Issuer due to amalgamation, merger or otherwise);

(h) Termination of Business Activities

the Issuer ceases to carry on all or substantially all of its business, save for the purposes of a solvent liquidation or reorganisation of the Issuer to the extent required under applicable law or regulation; or

(i) Delisting of the Notes from the Regulated Market

the Notes cease to be admitted to trading on the Regulated Market or any European regulated market that would supersede the Regulated Market; or

(j) Illegality

The Issuer's obligations under the Notes or the performance by the Issuer of any such obligations cease to be partially or fully legally enforceable or become in breach of applicable laws,

then,

- (a) with respect to the Events of Default in paragraphs (b), (c), (d) and (e) above, the Noteholders holding the Notes representing at least 10 per cent. of the nominal amount of the Notes then outstanding, at their discretion, by a written notice addressed to the Issuer and delivered to the Fiscal and Paying Agent at the address of the Specified Office (the "**Early Redemption Notice**"), may request early redemption of the Notes held by such Noteholders which the Noteholders undertake not to dispose (this prohibition does not apply if the request of a Noteholder to early redeem the Notes is not binding on the Issuer) of since that moment, plus any accrued and unpaid interest thereon pursuant to Condition 5.1 of these Terms and Conditions, as at the Early Redemption Date (as this term is defined below), and the Issuer is obliged to redeem such Notes unless such obligation contradicts with applicable law (together with accrued and undistributed interest thereon) in accordance with Condition 9.2 of these Terms and Conditions. For avoidance of any doubt, the Early Redemption Notice must be delivered by each Noteholder individually; or
- (b) with respect to the Events of Default in paragraphs (a) and (f) through (j) above, any Noteholder, at its discretion, by a written notice addressed to the Issuer and delivered to the Fiscal and Paying Agent at the address of the Specified Office (the "**Early Redemption Notice**"), may request early redemption of the Notes held by such Noteholder which such Noteholder undertakes not to dispose (this prohibition does not apply if the request of a Noteholder to early redeem the Notes is not binding on the Issuer) of since that moment, plus any accrued and unpaid interest thereon pursuant to Condition 5.1 of these Terms and Conditions, as at the Early Redemption Date (as this term is defined below), and the Issuer is obliged to redeem such Notes unless such obligation contradicts with applicable law (together with accrued and undistributed interest thereon) in accordance with Condition 9.2 of these Terms and Conditions.

## 9.2 Maturity of the Accelerated Notes

Any and all amounts payable by the Issuer to any Noteholder according to foregoing Condition 9.1 of these Terms and Conditions will become due and payable as of the last Business Day of the month following the month in which the Noteholder delivered the relevant Early Redemption Notice for the Issuer to the Specified Office of the Fiscal and Paying Agent (the "**Early Redemption Date**").

### 9.3 **Withdrawal of Early Redemption Notice**

A Noteholder may, with the consent of the Issuer, withdraw, in writing, the Early Redemption Notice but only with respect to the Notes held by such Noteholder and only if such withdrawal is addressed to the Issuer and delivered to the Fiscal and Paying Agent at the address of the Specified Office before the relevant amounts become due and payable according to preceding Condition 9.2 of these Terms and Conditions. However, any such withdrawal of the Early Redemption Notice will not affect any Early Redemption Notices given by the other Noteholders.

### 9.4 **Other Conditions for Early Redemption of the Notes**

The provisions of Condition 7 of these Terms and Conditions will apply *mutatis mutandis* to the early redemption of the Notes pursuant to this Condition 9.

## 10. **Statute of Limitations**

All rights connected with the Notes will become statute-barred upon the expiration of ten years from the day when such rights could be exercised for the first time.

## 11. **Fiscal and Paying Agent**

### 11.1 **Fiscal and Paying Agent and Specified Office**

Česká spořitelna, a.s., will act as the Fiscal and Paying Agent. The Fiscal and Paying Agent's specified office and place of payment (the "**Specified Office**") will be at the following address:

Česká spořitelna, a.s.  
Budějovická 1518/13a,b  
140 00 Prague 4  
Czech Republic

### 11.2 **Additional and Other Fiscal and Paying Agent and Specified Office**

The Issuer reserves the right to appoint, at any time, an additional or other Fiscal and Paying Agent and to designate an additional or other Specified Office, or to appoint additional payment providers.

The Issuer will give a notice of such change in the Fiscal and Paying Agent or Specified Office and/or of the appointment of additional payment providers to the Noteholders in the manner set out in Condition 14 and any such change will become effective upon the expiration of 15 calendar days following the date of such notice unless a later effective date is specified in the notice. In any event, any such change that would otherwise become effective less than 30 calendar days before or after the Payment Date for any amount payable under the Notes will become effective on the 30th day following such Payment Date.

### 11.3 **Relationship between the Fiscal and Paying Agent and the Noteholders**

Unless provided otherwise by law or by the Fiscal and Paying Agency Agreement, the Fiscal and Paying Agent will act as an agent of the Issuer when performing its duties under the Fiscal and Paying Agency Agreement, providing no guarantee or security for the Issuer's liabilities under the Notes, and will be in no legal relationship with the Noteholders.

### 11.4 **Calculation Agent**

#### (a) Calculation Agent

Česká spořitelna, a.s., will be the Calculation Agent.

#### (b) Additional and other Calculation Agent

The Issuer reserves the right to appoint another or additional Calculation Agent, provided such change does not affect the Noteholders' status or interests. If a change of the Calculation Agent occurs, the Issuer will notify the Noteholders of such change in the manner set out in Condition 14 of these Terms and

Conditions and any such change will become effective upon the expiration of 15 (fifteen) calendar days following the day of such notice unless a later effective date is set out in such notice. In any case, any change that would otherwise become effective less than 15 (fifteen) calendar days after the date when the Calculation Agent is required to make any calculation in connection with the Notes, such change will become effective on the 15th (fifteenth) calendar day following the date when the Calculation Agent was required to make such calculation.

(c) Relationship between the Calculation Agent and the Noteholders.

The Calculation Agent acts as the Issuer's agent and has no legal relationship with the Noteholders.

## 12. Listing Agent

(a) Listing Agent

Česká spořitelna, a.s., will be the Listing Agent.

(b) Additional and other Listing Agent

The Issuer reserves the right to appoint another or additional Listing Agent, provided such change does not affect the Noteholders' status or interests. If a change of the Listing Agent occurs, the Issuer will notify the Noteholders of such change in the manner set out in Condition 14 of these Terms and Conditions and any such change will become effective upon the expiration of 15 (fifteen) calendar days following the day of such notice unless a later effective date is set out in such notice.

(c) Relationship between the Listing Agent and the Noteholders

The Listing Agent acts as the Issuer's agent and has no legal relationship with the Noteholders

## 13. Noteholders' Meeting

### 13.1 Authority and Convocation of the Meeting

(a) **Right to Convene the Noteholders' Meeting**

The Issuer or any Noteholder(s) may convene a meeting of the Noteholders (the "**Meeting**") in accordance with these Terms and Conditions and applicable laws if so required to decide on common interests of the Noteholders. The costs of organising and convening the Meeting will be borne by the person who convened the Meeting, unless set out otherwise by law. The costs related to the attendance at the Meeting will be borne by each participant itself. If the convening person is one or more Noteholders, such person will be required, not later than on the date on which a notice of the Meeting is published (see Condition 13.1(c): (i) to deliver to the Fiscal and Paying Agent a request for procuring evidence of the number of all Notes within the Issue entitling the holder(s) to attend the Meeting convened by a Noteholder or the Noteholders, i.e. an extract from the register of the Issue (*in Czech: výpis emise*) maintained by the Central Depository, and (ii) where relevant, to pay to the Fiscal and Paying Agent an advance to cover the costs associated with its services in relation to the Meeting. The due and timely delivery of the request under item (i) above and the payment of the advance for the costs referred to in item (ii) above are conditions for the valid convocation of the Meeting.

(b) **Meeting Convened by the Issuer**

The Issuer is obliged to promptly convene the Meeting and request the Noteholders to provide their opinion on the Issuer's proposal for any amendment to these Terms and Conditions that requires the Noteholders' consent under applicable laws (the "**Material Change**").

(c) **Notice of the Meeting**

The Issuer is obliged to give notice of the Meeting in a manner set out in Condition 14 (Notices) not later than 15 calendar days prior to the date of the Meeting. If the Meeting is convened by any Noteholder (or the Noteholders), such Noteholder(s) will deliver a notice of the Meeting

(containing all statutory elements) sufficiently in advance (at least 20 calendar days prior to the proposed date of the Meeting) to the Issuer at the address of the Specified Office. The Issuer will promptly ensure that such notice of the Meeting is published in the manner and within the time limit specified in the first sentence of this Condition 13.1(c) (however, the Issuer is responsible neither for the content of such notice nor for any delay or default in complying with any statutory time limits by a Noteholder who convened the Meeting). The notice of the Meeting must contain at least (i) the business name, identification number and registered office of the Issuer, (ii) the identification of the Notes, at least the Note title, the Issue Date and the ISIN (or other Note identifiers if no ISIN is available), (iii) the venue, date and time of the Meeting, provided that the date of the Meeting must fall on a date which is a Business Day, (iv) the agenda of the Meeting and, in the case of any proposed amendment(s) to these Terms and Conditions, the specification of the proposed amendment(s) and justification thereof, and (v) the day that is the record date for the attendance at the Meeting. The Meeting shall be authorised to decide on the proposed resolutions that have not been contained in the notice of the Meeting only in the presence of and with the consent of all Noteholders. If the reason for convocation of the Meeting is not continuing, the person, who convened the Meeting, will revoke the convocation of the Meeting in the same manner as convened.

## 13.2 **Persons Authorised to Attend and Vote at the Meeting**

### (a) **Persons Authorised to Attend the Meeting**

A person entitled to attend and vote at the Meeting shall only be (i) the Noteholder recorded as a Noteholder in the register of the Issue maintained by the Central Depository and in an extract from such Issue register at the close of the Meeting Attendance Record Date or (ii) a person who provides to the Issuer and the Fiscal and Paying Agent a certificate of the custodian in whose owner's securities account with the Central Depository the relevant number of the Notes was recorded as of the Meeting Attendance Record Date certifying that such person was a Noteholder as at the Meeting Attendance Record Date and that the Notes held by such person are registered in the securities account of the custodian by reason of their custodianship (the "**Person Authorised to Attend the Meeting**"). The certificate according to the preceding sentence must be in writing (with notarised signatures) and otherwise satisfactory in form and substance to the Fiscal and Paying Agent. In the case of the custodian being a legal entity, the Fiscal and Paying Agent may, at its own discretion, require such certificate to be accompanied by an original or an officially certified copy of an extract from the commercial register or other respective register in respect of the custodian not older than three months prior to the date of the relevant Meeting. No transfers of the Notes made after the Meeting Attendance Record Date will be taken into account.

"**Meeting Attendance Record Date**" is a day falling seven calendar days prior to the date of the relevant Meeting.

### (b) **Voting Rights**

Each Person Authorised to Attend the Meeting will have such number of votes out of the total number of votes that corresponds to the ratio between the nominal amount of the Notes held by such person on the Meeting Attendance Record Date to the total outstanding nominal amount of the Issue on the Meeting Attendance Record Date. No voting right will be attached to any Notes held by the Issuer or any of its Affiliates as of the Meeting Attendance Record Date that have not been cancelled by the Issuer within the meaning of Condition 6.8, and no such Notes will be taken into account when determining the presence of a quorum at the Meeting under Condition 13.3(a). If the Meeting decides on recalling a common proxy, the common proxy (if they are a Person Authorised to Attend the Meeting) may not exercise his/her/its voting right at such Meeting.

### (c) **Attendance of the Meeting by Other Persons**

The Issuer is obliged to attend the Meeting, either in person or by proxy. Other persons entitled to attend the Meeting are Noteholders, proxies of the Noteholders, proxies of the Fiscal and Paying Agent, the common proxy of the Noteholders under Condition 13.3(c) (unless he is a

Person Authorised to Attend the Meeting) and any guests invited by the Issuer and/or the Fiscal and Paying Agent.

A power of attorney granted by a Noteholder to any proxy must be in writing with a notarised signature of the Noteholder. In the case of a Noteholder being a legal entity, the Fiscal and Paying Agent may, at its own discretion, require from an individual entitled to represent such Noteholder at the Meeting on the basis of a power of attorney or otherwise an original or an officially certified copy of an extract from the commercial register or other respective register in respect of such Noteholder not older than three months prior to the date of the relevant Meeting.

### 13.3 **Course of the Meeting; Decision-Making**

(a) **Quorum**

The Meeting will constitute a quorum if attended by the Persons Authorised to Attend the Meeting, who were, as of the Meeting Attendance Record Date, owners of the Notes the nominal amount of which represents more than 30 per cent. of the aggregate nominal amount of the issued and outstanding Notes. If the Meeting decides on recalling a common proxy, any votes belonging to the common proxy (if he is a Person Authorised to Attend the Meeting) will not be included in the total number of votes. Before opening the Meeting the Issuer will inform the Meeting, either alone or through the Fiscal and Paying Agent, about the number of all the Notes in respect of which the Persons Authorised to Attend the Meeting are entitled to vote at the Meeting in accordance with these Terms and Conditions.

(b) **Chairman of the Meeting**

The Meeting convened by the Issuer will be chaired by a chairman appointed by the Issuer. The Meeting convened by a Noteholder or the Noteholders will be chaired by a chairman elected by a simple majority of votes of the attending Persons Authorised to Attend the Meeting. Until the chairman is elected, the Meeting will be chaired by a person appointed by the Noteholder(s) who convened the Meeting, and the election of the chairman must be the first item on the agenda of any Meeting not convened by the Issuer.

(c) **Common Proxy**

The Meeting may elect, by resolution, an individual or a legal entity to act as a common proxy. The common proxy is authorised under the law (i) to enforce, on behalf of all of the Noteholders, any rights associated with the Notes to the extent specified in a resolution adopted by the Meeting, (ii) to supervise the compliance with these Terms and Conditions by the Issuer, and (iii) to execute, on behalf of all of the Noteholders, any other acts or protect the Noteholders' interests in the manner and to the extent specified in a resolution adopted by the Meeting. The Meeting may recall the common proxy in the same way in which the common proxy was elected or replace him with a new common proxy. An agreement on appointment of the common proxy shall be publicly available on the Issuer's website specified under Condition 14.

(d) **Decision-Making at the Meeting**

The Meeting will decide on any issues on its agenda in the form of resolutions. Any resolution that (i) approves a proposal on any amendment to these Terms and Conditions that requires the Noteholders' consent under applicable law, or (ii) appoints or recalls a common proxy, will require the affirmative vote of at least three-quarters of the attending Persons Authorised to Attend the Meeting. Unless provided otherwise by law, any other resolutions will require a simple majority of votes of the attending Persons Authorised to Attend the Meeting in order to pass.

(e) **Adjourned Meeting**

If within one hour after the scheduled opening of the Meeting a quorum is not present, then such Meeting will be automatically dissolved without further notice.



If the Meeting convened by the Issuer which is to decide on amendments to the Terms and Conditions does not have a quorum within one hour after the scheduled opening of the Meeting, the Issuer will convene, if necessary, a substitute Meeting to be held not later than six weeks after the scheduled date of the original Meeting. The holding of a substitute Meeting with the unchanged agenda will be notified to the Noteholders not later than 15 calendar days after the scheduled date of the original Meeting. The substitute Meeting convened by the Issuer deciding on amendments to these Terms and Conditions will have no quorum irrespective of the conditions for quorum set out in Condition 13.3(a) above.

#### 13.4 **Certain Additional Rights of the Noteholders**

(a) **Consequence of Voting against Certain Resolutions of the Meeting**

If the Meeting approved a Material Change in accordance with Condition 13.1(b) of these Terms and Conditions, the Person Authorised to Attend the Meeting who, according to the minutes of such Meeting, voted against a resolution adopted by the Meeting or failed to attend the Meeting (the “**Applicant**”) may request the repayment of the nominal amount of the Notes, which such Noteholder owned as of the Meeting Attendance Record Date and which will not be disposed of since such time, together with the pro-rata interest accrued on such Notes in compliance with these Terms and Conditions. This right must be exercised by the Applicant within 30 (thirty) days of the publication date of such Meeting resolution according to Condition 13.5 of these Terms and Conditions by a written notice (the “**Application**”) addressed to the Issuer and delivered to the Specified Office of the Fiscal and Paying Agent, failing which the right will terminate. The amounts referred to above will become due and payable within 30 days from the date the Application was delivered to the Fiscal and Paying Agent (the “**Early Redemption Date**”).

(b) **Resolution on Early Redemption of the Notes upon Noteholders’ Request**

If the Meeting agenda includes a Material Change under Condition 13.1(b) of these Terms and Conditions and the Meeting does not consent to such a Material Change, the Meeting may, even beyond the scope of the agenda, decide that if the Issuer proceeds in conflict with the resolution of the Meeting that disagreed with such a Material Change under Condition 13.1(b) of these Terms and Conditions, the Issuer will be obliged to repay the nominal amount of the Notes and any pro-rata interest accrued thereon (if relevant) to any Noteholder who requests such early repayment (the “**Applicant**”). This right must be exercised by the Applicant by a written notice (the “**Application**”) addressed to the Issuer and delivered to the Specified Office of the Fiscal and Paying Agent. The amounts referred to above will become due and payable within 30 days from the date the Application was delivered to the Fiscal and Paying Agent (the “**Early Redemption Date**”).

(c) **Requirements as to the Application**

The Application will specify the number of Notes the redemption of which is claimed in compliance with this Condition. The Application must be in writing and signed by persons authorised to act on behalf of the Applicant, the authenticity of such signatures to be officially verified. Within the same time limit, the Applicant is obliged to deliver to the Specified Office of the Fiscal and Paying Agent all the documents required for making the payment under Condition 7 of these Terms and Conditions.

#### 13.5 **Minutes of the Meeting**

Minutes of the business discussed and resolved at the Meeting will be taken by the person who convened the Meeting or by a person authorised by such person within 30 calendar days after the date of the Meeting. The minutes will contain the conclusions of the Meeting, including, without limitation, any resolutions adopted by such Meeting. If the Meeting is convened by a Noteholder or the Noteholders, the minutes of such Meeting must also be delivered to the Issuer at the Specified Office address not later than 30 calendar days after the date of the Meeting. The Issuer is obliged to keep the minutes of the Meeting until the rights under the Notes expire under the statute of limitations. The minutes of the Meeting will be available for inspection by the Noteholders at the Specified Office during regular office hours. The Issuer is obliged, in person or through its authorised person (especially the Fiscal and Paying

Agent), to publish information on all resolutions adopted at the Meeting in the manner set out in Condition 14 not later than 30 calendar days after the date of the Meeting.

#### 14. Notices

Any notice to the Noteholders will be valid and effective if published in the English language on the Issuer's website: [www.net4gas.cz](http://www.net4gas.cz) by selecting the following sections: *Investors – Bonds*. If mandatory provisions of applicable laws or these Terms and Conditions determine any other method for publishing any of the notices given hereunder, such notice will be deemed to be validly published upon its publication in the manner prescribed by the relevant legislation. The date of such a notice shall be the date on which it was first published on the above Issuer's website.

#### 15. Governing Law and Submission to Jurisdiction

##### 15.1 Governing law

Any rights and obligations under the Notes will be governed by, and interpreted and construed in accordance with, the laws of the Czech Republic.

##### 15.2 Submission to Jurisdiction

The Czech courts have exclusive jurisdiction to settle any dispute arising out of or in connection with the Notes, including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligations arising out of or in connection with the Notes (a “**Dispute**”) and accordingly each of the Issuer and any Noteholders in relation to any Dispute submits to the exclusive jurisdiction of the Czech courts.

##### 15.3 Language Versions

These Terms and Conditions may be translated into other languages. In the event of any inconsistencies between the various language versions, the English language version shall prevail.

#### 16. Definitions

In these Terms and Conditions:

“**Business Day**” means any day (other than a Saturday, Sunday or a public holiday) on which banks in the Czech Republic are open for business, and on which foreign exchange transactions and interbank payments in the Czech Koruna, or in any other lawful currency of the Czech Republic that might replace the Czech Koruna, are settled.

“**Central Depository**” means Centrální depozitář cenných papírů, a.s., a company with its registered office in Prague 1, Rybná 14, Postal Code: 110 05, Identification No. 250 81 489, registered with the Commercial Register maintained by the Municipal Court in Prague, Section B, Insert No. 4308.

“**IFRS**” means the International Financial Reporting Standards as adopted by the EU.

“**Person**” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality.

“**Prospectus**” means the prospectus in respect of the Notes approved by the Czech National Bank.

“**Relevant Jurisdiction**” means the Czech Republic or any political subdivision or any authority thereof or therein having power to tax or any other jurisdiction or any political subdivision or any authority thereof or therein having power to tax to which the Issuer becomes subject in respect of payments made by it of nominal and/or interest on the Notes.

## **USE AND ESTIMATED NET AMOUNT OF PROCEEDS**

The net proceeds from the issue of the Notes (i.e. after deduction of commissions, fees and estimated expenses) is expected to be approximately CZK 4,080,000,000. The Issuer will use such net proceeds for (i) the financing of its material capital projects as described in “*Description of the Group—Planned Capital Expenditures*” and (ii) general corporate purposes.

## SELECTED FINANCIAL INFORMATION

The following tables present selected historical consolidated financial information of the Group as of and for the nine months ended 30 September 2020 and 2019 and the years ended 31 December 2019 and 2018. The selected historical consolidated financial information of the Group as of and for the years ended 31 December 2019 and 2018 has been derived from the Annual Financial Statements incorporated by reference into this Prospectus. The information below should be read in conjunction with the information contained in “Presentation of Financial and Other Information” and the Annual Financial Statements incorporated by reference into this Prospectus.

### Consolidated Statement of Profit or Loss and Other Comprehensive Income

	Nine months ended 30 September		Year ended 31 December	
	2020	2019	2019	2018
	<i>(in CZK millions)</i>			
Revenue .....	7,636	6,052	8,054	7,335
Raw materials consumed .....	(213)	(74)	(159)	(97)
Services purchased and lease charges .....	(241)	(309)	(390)	(432)
Employee benefits .....	(335)	(325)	(533)	(458)
Depreciation and amortisation .....	(1,761)	(1,419)	(2,002)	(1,891)
Losses on disposal of property, plant and equipment .....	-	-	-	(1)
Changes in fair value of derivatives (net) .....	-	(1)	7	40
Foreign exchange differences (net) .....	67	33	(2)	30
Other operating income .....	71	161	165	44
Other operating expenses .....	1	(31)	(110)	(36)
<b>Operating profit</b> .....	<b>5,225</b>	<b>4,087</b>	<b>5,030</b>	<b>4,534</b>
Finance income .....	33	69	118	53
Finance costs .....	(1,015)	(826)	(1,027)	(957)
Finance result (net) .....	(982)	(757)	(909)	(904)
<b>Profit before income tax</b> .....	<b>4,243</b>	<b>3,330</b>	<b>4,121</b>	<b>3,630</b>
Income tax expense .....	(804)	(635)	(791)	(697)
<b>Profit for the period</b> .....	<b>3,439</b>	<b>2,695</b>	<b>3,330</b>	<b>2,933</b>
<b>Other comprehensive income</b>				
Cash flow hedge .....	(1,177)	(780)	(284)	(512)
Income tax recognised directly in other comprehensive income – cash flow hedge .....	224	148	54	98
<b>Total other comprehensive income for the period</b> .....	<b>(953)</b>	<b>(632)</b>	<b>(230)</b>	<b>(414)</b>
<b>Total comprehensive income for the period</b> .....	<b>2,486</b>	<b>2,063</b>	<b>3,100</b>	<b>2,519</b>

### Consolidated Balance Sheet

	As of 30 September		As of 31 December	
	2020	2019	2019	2018
	<i>(in CZK millions)</i>			
<b>Assets</b>				
Non-current assets				
Property, plant and equipment .....	51,852	50,025	42,704	
Intangible assets .....	65	88	68	
Other non-current assets .....	424	402	220	
<b>Total non-current assets</b> .....	<b>52,341</b>	<b>50,515</b>	<b>42,992</b>	
Current assets				
Inventories .....	115	72	65	
Trade and other receivables .....	309	686	701	
Current income tax prepayments .....	3	-	68	
Loans to related parties .....	-	-	8	
Other non-financial assets .....	27	38	48	
Other financial assets .....	1,279	-	2,787	
Cash and cash equivalents .....	2,587	2,162	1,302	
<b>Total current assets</b> .....	<b>4,320</b>	<b>2,958</b>	<b>4,979</b>	
<b>Total assets</b> .....	<b>56,661</b>	<b>53,473</b>	<b>47,971</b>	

	As of		As of 31 December	
	30 September		2019	2018
	2020			
	<i>(in CZK millions)</i>			
<b>Equity and liability</b>				
Equity				
Registered capital .....	2,750		2,750	2,750
Capital contributions outside registered capital .....	13,467		9,066	4,549
Cash flow hedge reserve .....	(1,132)		(179)	51
Retained earnings .....	1,900		1,663	4,084
<b>Total equity</b> .....	<b>16,985</b>		<b>13,300</b>	<b>11,434</b>
Non-current liabilities				
Other payables .....	37		39	10
Borrowings .....	27,885		26,966	27,106
Lease liability .....	169		180	0
Derivative financial instruments .....	1,406		1,714	1,258
Deferred income tax liability .....	6,226		6,517	6,572
Long-term employee benefits .....	127		114	105
Other non-financial liabilities .....	3		3	10
<b>Total non-current liabilities</b> .....	<b>35,853</b>		<b>35,533</b>	<b>35,061</b>
Current liabilities				
Borrowings .....	654		276	291
Lease liability .....	40		40	-
Trade and other payables .....	1,779		3,495	703
Derivative financial instruments .....	998		242	231
Current income tax payable .....	269		48	-
Other taxes payable .....	22		19	18
Provisions .....	3			
Short-term employee benefits .....	16		49	56
Other non-financial liabilities .....	42		471	177
<b>Total current liabilities</b> .....	<b>3,823</b>		<b>4,640</b>	<b>1,476</b>
<b>Total liabilities</b> .....	<b>39,676</b>		<b>40,173</b>	<b>36,537</b>
<b>Equity and liabilities</b> .....	<b>56,661</b>		<b>53,473</b>	<b>47,971</b>

## Consolidated Statement of Cash Flows

	Nine months ended		Year ended	
	30 September		31 December	
	2020	2019	2019	2018
	<i>(in CZK millions)</i>			
Profit before tax .....	4,243	3,330	4,121	3,630
Operating cash flows before working capital changes .....	6,939	5,386	7,013	6,470
Operating cash flows after changes in working capital .....	6,539	4,973	7,206	5,819
Net cash flows from operating activities .....	5,247	3,764	5,797	4,540
Net cash flows used in investing activities .....	(6,549)	(1,238)	(3,942)	(3,513)
<i>of which</i> Purchase of property, plant and equipment .....	(5,284)	(2,549)	(6,776)	(1,379)
<i>of which</i> Purchase of intangible assets .....	(11)	(20)	(56)	(27)
<i>of which</i> Proceeds from intangible assets .....	24	95	95	-
<i>of which</i> Loans provided to related parties .....	-	(2)	8	(3)
<i>of which</i> Sale / Purchase of other financial assets .....	(1,278)	1,238	2,787	(2,104)
Net cash flows from financing activities .....	1,727	5,123	(995)	(356)
Net increase in cash and cash equivalents .....	425	7,649	860	671
Cash and cash equivalents at the beginning of the period .....	2,162	1,302	1,302	631
Cash and cash equivalents at the end of the period .....	<b>2,587</b>	<b>8,951</b>	<b>2,162</b>	<b>1,302</b>

## Key Performance Indicators

	Nine months ended	Year ended
	30 September	31 December

	<b>2020</b>	<b>2019</b>	<b>2019</b>	<b>2018</b>
	<i>(in CZK millions, unless indicated otherwise)</i>			
EBITDA .....	6,986	5,506	7,032	6,425
CAPEX .....	(5,295)	(2,569)	(6,832)	(1,406)
Free Cash Flow .....	(48)	(1,195)	(1,035)	3,134
Financial Indebtedness .....	30,943	-	29,198	28,886

## DESCRIPTION OF THE GROUP

### Overview

The Group is the sole TSO in the Czech Republic with an exclusive gas transmission licence. Its gas transmission network connects to all three corridors for delivery of gas from Russia to North-Western Europe, CEE, South-Eastern Europe and Italy, benefitting from the Czech Republic's strategic location in central Europe. As of 30 September 2020, the Group operated approximately 3,823 kilometres of high-pressure pipelines running across the Czech Republic and the annual transmission capacity of its system was 57 billion cubic metres ("bcm") in the east-west direction, 37 bcm in the north-south direction and 43 bcm with respect to the reverse flow (west-east).

In the nine months ended 30 September 2020, the Group transported approximately 35 bcm of gas (as compared to 33 bcm of gas transported in the nine months ended 30 September 2019), in the year ended 30 December 2019, the Group transported approximately 43.4 bcm of gas (as compared to 44 bcm of gas transported in the year ended 31 December 2018). In the nine months ended 30 September 2020, the Group generated revenues of CZK 7,636 million, operating profit of CZK 5,225 million and EBITDA of CZK 6,986 million (as compared to revenues of CZK 6,052 million, operating profit of CZK 4,087 million and EBITDA of CZK 5,506 million in the nine months ended 30 September 2019). In the year ended 31 December 2019, the Group generated revenues of CZK 8,054 million, operating profit of CZK 5,030 million and EBITDA of CZK 7,032 million (as compared to revenues of CZK 7,335 million, operating profit of CZK 4,534 million and EBITDA of CZK 6,425 million in the year ended 31 December 2018). The Group's Financial Indebtedness as of 30 September 2020 was CZK 30,943 million.

### General Information

The Issuer was incorporated in the Czech Republic on 29 June 2005 and is registered in the Commercial Register maintained by the Municipal Court in Prague, File No. C 108316, with company identification number 272 60 364. The Issuer is a limited liability company (*společnost s ručením omezeným*) governed by (i) the laws and regulations applicable to commercial companies in the Czech Republic, in particular Act No. 90/2012 Coll., on Business Corporations ("**Czech Corporations Act**"), and (ii) specific provisions of Czech and EU law in relation to natural gas transmission networks as described in further detail in "*Regulation*", including the Energy Act and Decree of ERO No. 349/2015 Coll., on the Rules of the Gas Market, as amended. The registered office of the Issuer is Na Hřebenech II, 1718/8 140 21, Prague 4 - Nusle, Czech Republic. The Issuer's telephone number is +420 220 221 111 and its website is [www.net4gas.cz](http://www.net4gas.cz).

### History and Development

The Group and its legal predecessors have been engaged in international gas transmission through the Czech Republic for about 50 years. Construction of the first transit gas pipeline in then-Czechoslovakia for the transmission of natural gas to Central and Western Europe began in March 1971. The pipeline was operated by the national enterprise Tranzitní plynovod Praha and transmitted gas to Austria from the end of 1972 and to the German Democratic Republic and the Federal Republic of Germany from 1973. On 1 January 1993, Czechoslovakia was dissolved and the Czech Republic and the Slovak Republic emerged as independent states. As a consequence, the Czechoslovak gas transmission system was also split. From 1 January 1994, gas transmission services in the Czech Republic were operated by a state-owned enterprise Český plynárenský podnik, státní podnik, odštěpný závod Transgas, and distribution companies were spun-off from Český plynárenský podnik, státní podnik, as part of the first stage of privatisation. The company was renamed to Transgas, státní podnik, on 28 January 1998, and was converted into a joint-stock company and privatised as Transgas, a.s., in June 2001.

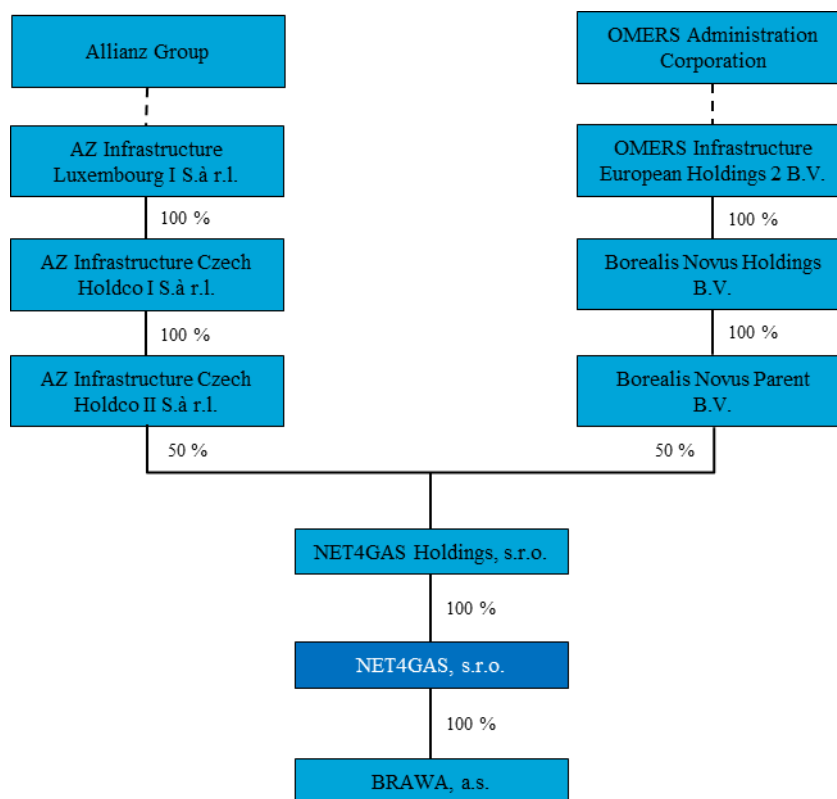
In April 2005, the operations were consolidated to form RWE Transgas, a.s. As a result of the legislative requirements for legal unbundling, the TSO business was separated and began operations as RWE Transgas Net, s.r.o., from 1 January 2006.

In March 2010, RWE Transgas Net, s.r.o., was renamed to NET4GAS, s.r.o., as part of a continuing process of unbundling transmission from gas trading activities, in compliance with the regulatory policy of the EU which required complete separation of branding strategies for transmission activities from the trading activities of vertically integrated gas companies.

In March 2013, the RWE group sold its ownership interest in the Issuer to a consortium whose members are the wholly-owned direct or indirect subsidiaries of Allianz Group and OMERS Administration Corporation.

## Group Structure

Set out below is the corporate structure of the Group and its parent companies as of the date of this Prospectus:



As of the date of this Prospectus, the Issuer is directly wholly-owned by NET4GAS Holdings, s.r.o., which is 50 per cent.-owned by Allianz Infrastructure Czech Holdco II S.à r.l., a subsidiary of Allianz SE as the holding company of the Allianz Group, and 50 per cent.-owned by Borealis Novus Parent B.V., a subsidiary of OMERS Administration Corporation, each of whom holds 50 per cent. of the votes in NET4GAS Holdings, s.r.o. The Issuer operates as an independent TSO in accordance with the relevant provisions of the Energy Act and as such operates independently of its controlling entities and other entities controlled by them. The Issuer uses standard statutory mechanisms to prevent NET4GAS Holdings, s.r.o.’s potential misuse of its position and control over the Issuer, including the statutory instrument of the report on relations between the related entities. Management of the Issuer is not aware of any arrangements, the operation of which could result in a change in control of the Issuer. Except for the funding agreement described in “—*Financial Indebtedness*” below, the Issuer is not dependent upon other Group members or its parent companies.

## Key Strengths

Management believes that the Group benefits from the following key strengths:

### *Assets of Strategic Importance*

The Issuer is the sole TSO in the Czech Republic with an exclusive gas transmission licence and its networks connect, among other things, to all three corridors for delivery of gas from Russia to North-Western Europe. The Group has a key strategic role in the transmission of gas to North-Western Europe, CEE, South-Eastern Europe and Italy, benefitting from the Czech Republic’s strategically important location in the centre of Europe. This places the Group at the heart of important gas flows in Europe. Additional new European pipeline projects could increase demand for transmission capacity. Projections outlined in the World Energy Outlook 2019 published by the International Energy Agency suggest a significant decrease in indigenous gas production in Europe, mainly in the Netherlands and Norway, combined with an increase of imports of gas from non-European sources, which could also increase demand for additional gas transmission capacity.<sup>2</sup> The Group continues to invest into its infrastructure to secure both existing and expected future gas flows.

<sup>2</sup> Source: <https://www.iea.org/reports/world-energy-outlook-2019>



### ***Stable and Predictable Revenues***

Revenues related to capacity bookings of the Group's Gas Transit are stable and predictable due to its 100 per cent. (or, in the case of the Gazelle Contract (as defined below), 80 per cent.) ship-or-pay contracts, whereby the contracted transmission fees are paid even if the booked capacity is not utilised. Most of the Group's capacity is usually booked by its customers on a long-term basis. Around 82 per cent of the total annual capacity of the Gazelle Pipeline is contracted to the Major Shipper until 1 January 2021. Thereafter, 91 per cent of the total annual capacity of the Gazelle Pipeline is contracted to the Major Shipper until 1 January 2035 (see "*—Customers and Long-Term Contracts*" below). In addition, the Group is a party to a number of short-term contracts with various gas supply and trading companies. In addition, most of the capacity of the Gazelle Pipeline is exempt both from the obligations of (i) ownership unbundling and (ii) provision of third party access under the regulatory price limits until 1 January 2035 and is instead priced based on negotiated tariffs. Revenues from the Group's Gas Transport are stable and predictable due to price regulation by ERO which takes the form of a revenue cap on a cost plus basis, with certain incentives.

### ***High Cash Conversion***

The Group's business has been cash generative, underpinned by long-term ship-or-pay Gas Transit contracts (see "*—Customers and Long-Term Contracts*" below) and a highly-regulated domestic Gas Transport business. The Group's cash flow from operations is supported by its infrastructure which has historically provided for predictable and stable maintenance costs. Only after carefully considering all operational and investment funding needs and future debt service necessary to maintain a stable leverage ratio does the Group distribute excess cash to its shareholders.

### ***Experienced Management Team***

The Group has been able to attract and employ high calibre professionals with solid experience of the energy industry. The local knowledge and expertise of the management team is integral to the Group's business and the management team benefits from its stable composition for some years and from the backing of committed shareholders. The management team has a proven track record of delivering growth in the Group's business through organic growth projects, efficient management and operational optimisation of the Group's assets. The Group is committed to the continued and progressive implementation of best practices with respect to corporate governance and continues to adjust and improve its internal practices in order to meet evolving standards.

### ***Strategy***

The Group's business is to transmit natural gas economically efficiently, reliably and safely through the Czech Republic to European gas markets and to transmit natural gas to its partners in the Czech Republic.

The Group believes that the most important part of its strategy is to properly fulfil its existing contracts by continuing its track record of uninterrupted operations. In addition, the Group continuously monitors the efficiency of its network and continuously seeks to reduce the cost of gas transmission for its customers.

The Group's long-term strategy focuses on the following goals: (i) securing economically efficient, safe and reliable gas transmission services for customers; (ii) providing adequate transmission capacity; (iii) guaranteeing a non-discriminatory and transparent third party access to its network; and (iv) developing its transmission system with a view to further market integration and taking into account capacity needs in accordance with the applicable ten year network development plans as well as in the context of the transition to a low or zero carbon economy (see "*—Infrastructure Investment Regulation*" and "*—Planned Capital Expenditures*" below).

The strategy is implemented through demand-driven management of its gas transmission network that takes into account not only the gas demand of final customers in the Czech Republic and the capacity demand of shippers, but also the capacity required to develop and maintain competitive and liquid gas markets in Europe and increasing fluctuations in grid utilization, regulation and growing competition on energy markets. That includes the creation of new cross-border interconnectors to form the foundation for more closely interconnected gas markets and ultimately market integration. In addition, the Group contributes to the gas market by offering a range of customer-focused capacity products. In general, the Group aims to operate its transmission system efficiently and ecologically.

The Issuer is a member of a number of domestic and international organisations, including the Czech Gas Association (Český plynárenský svaz), the European Network of Transmission System Operators for Gas (“ENTSOG”), Gas Infrastructure Europe (GIE), EASEE-gas and the International Gas Union (IGU) and Marcogaz working groups. Through its membership and participation in such organisations, the Issuer is taking a proactive role in the development of the future European gas target model in the context of the transition to a low carbon economy.

## **Business Overview and Principal Activities**

### ***Overview***

The Issuer is the sole owner and operator of the gas transmission system in the Czech Republic, except for the Gazelle Pipeline which is owned by BRAWA, a wholly-owned subsidiary of the Issuer, and operated by the Issuer under a lease. The Issuer has been granted a certificate of independence (*certifikát nezávislosti*) by ERO following a successful completion of the certification procedure under the Energy Act, the Third Gas Directive and the Gas Regulation, and holds the exclusive licence for gas transmission as a gas TSO in the Czech Republic, which includes the regulated activities of Gas Transit and Gas Transport.

The Group’s Gas Transit consists of international transit of natural gas across the Czech Republic to customers outside of the Czech Republic. In the nine months ended 30 September 2020 and 2019, revenues from Gas Transit represented 80 and 78 per cent., respectively, of the Group’s total revenues. In the years ended 31 December 2019 and 2018, revenues from Gas Transit represented 77 and 83 per cent., respectively, of the Group’s total revenues. Revenues from Gas Transit are collected in USD, EUR and CZK. They are dependent on transmission tariffs applicable at the relevant entry and exit border points and are subject to price caps to be approved by ERO (since 2020 on a cost plus basis).

The Group’s Gas Transport consists of domestic transport of natural gas into the distribution grid, gas storage facilities and to large industrial customers in the Czech Republic. In the nine months ended 30 September 2020 and 2019, revenues from Gas Transport represented 19 and 21 per cent., respectively, of the Group’s total revenues. In the years ended 31 December 2019 and 2018, revenues from Gas Transport represented 21 and 16 per cent., respectively, of the Group’s total revenues. Revenues from Gas Transport are collected in CZK. They are subject to price regulation by ERO which takes the form of a revenue cap on a cost plus basis, with certain incentives.

The transmission network operated by the Group has historically constituted a section of the key route for shipments of Russian gas to the Western Europe, connecting the transmission networks of Slovakia and Germany. The completion of the Gazelle Pipeline in 2013 has added a new route across the north west of the Czech Republic, connecting the transmission systems of the Czech Republic and Germany at the border points Brandov and Waidhaus. The aim has been to further increase the security of gas supply to Western Europe by enabling Russian gas delivered through the Nord Stream and OPAL pipelines and the Yamal/EuRoPol Gaz pipeline through Germany to be transported across the Czech Republic to Southern Germany and France. As of the date of this Prospectus, the Gazelle Pipeline has a daily capacity of approximately 968 GWh. The Gazelle Pipeline has been exempted from the regulated tariff requirements until 1 January 2035. The fully reversible transit system allows the Group to provide capacity for gas from alternative sources (e.g. from Norway, LNG and shale gas). The connection to the OPAL pipeline also offers the possibility for additional gas deliveries in reverse flow from north-west to east (i.e. towards Slovakia and further to Austria, Hungary, Slovenia and Italy).

The maximum technical daily capacity at the border points of the transmission system operated and maintained by the Group is more than 3,800 GWh on entry. In the nine months ended 30 September 2020 and 2019, the Group transported 35 and 33 bcm of gas, respectively. In the years ended 31 December 2019 and 2018, the Group transported 42 and 44 bcm of gas, respectively. All major cross-border entry and exit points for gas transmission support physical reverse flow so that gas can be transported through the Czech Republic both from east to west and from west to east.

The Group’s contractual partners include major energy companies from EU and non-EU states. As of the date of this Prospectus, the Group is a party to four Material Contracts with respect to Gas Transit. These include a contract for Gas Transit concluded in 2017 and related to the Capacity4Gas Project. The first stage of the Capacity4Gas project was successfully completed at the end of 2019 and the second stage was completed and put into trial operation in December 2020 (see “—Planned Capital Expenditures” below). The Material Contracts in existence as of the date of this Prospectus (with the exception of the Gazelle Contract (as defined below) which is exempt from the regulated tariff requirements until 1 January 2035 and the Capacity4Gas Contract which was

concluded already within the Third Energy Package framework) were amended due to implementation of the Third Energy Package to comply with the applicable regulatory regime. The actual level of the fee remained unchanged, however.

The Group allows access to the gas transmission network and offers its customers transmission services on a transparent and non-discriminatory basis (see also “—*Response to Gas Supply Emergencies*” below). The Group’s Gas Transit and Gas Transport are subject to regulated tariffs, which have given rise to a predictable return on investments (see “—*Tariffs for Using the Gas Transmission Network*” and “—*Customers and Long-Term Contracts*” below).

### Gas Transmission Network

As of the date of this Prospectus, the Group is the sole TSO in the Czech Republic and the owner of the entire gas transmission infrastructure in the Czech Republic. The Group’s main assets, including the assets of the Issuer’s wholly-owned subsidiary BRAWA, consist of gas transmission pipelines running across the Czech Republic with a total length of approximately 3,973 kilometres. As of the date of this Prospectus, the Group’s network connects to the transmission networks of Germany, Slovakia and Poland. Plans regarding new connections to adjacent countries, such as Austria and Poland, are being discussed and considered (see “—*Planned Capital Expenditures*” below). The capacity of the Group’s transmissions system in each major flow direction (east-west, west-east and north-south) is several hundred GWh per day. The Group also operates three border transfer stations, five compressor stations and other infrastructure for the purpose of gas transmission.

The following map sets out the Group’s gas transmission network as of the date of this Prospectus and its connection to the gas transmission networks of other TSOs:



Source: Issuer

Notes: The numbers in the map indicate the maximum daily capacity at each border station and arrows indicate the direction of flow.

The following map sets out the diameter size of the pipelines in the Group's gas transmission network as of the date of this Prospectus:



Source: Issuer

Notes: The "DN" figures above refer to the approximate diameter of the pipe. The number following these letters is in millimetres.

### Planned Capital Expenditures

As of the date of this Prospectus, the Group is developing or considering the development of five material capital projects:

- The Capacity4Gas Project consisting mainly of the construction of a DN 1400 / PN 84 pipeline from Kateřinský potok near the Czech-German border in North Bohemia to Přimda in Western Bohemia. The aim of the project is to connect the gas infrastructure operated by the Group to the EUGAL pipeline in Germany and to increase its capacity for the needs of gas transit in the Czech Republic and for further transit to and from Slovakia. The capacity demand has been confirmed by the legally binding results of the European capacity auction held on 6 March 2017 in which capacities of up to approximately 40 bcm per year were booked until 2039. The second and final stage of the Capacity4Gas Project, consisting of the construction of a 150 km high-pressure DN1400 pipeline running largely in parallel to the existing Gazelle pipeline, was completed and put into trial operation in December 2020.
- The MCE Project consisting of the construction of an 85-kilometers-long pipeline between Tvrdonice and Bezměrov and the modernisation of the compression station in Břeclav. The MCE Project aims to contribute to improving the security of gas supply for the central and northern Moravian region. As of the date of this Prospectus, the MCE Project has received the Group's investment decision and is in the permitting phase.
- The MCE Project is a part of the Moravia Project, a 157-km-long pipeline from Tvrdonice to Libhošť in the northern Moravian region and close to the Czech-Polish border. As of the date of this Prospectus, the Group has not taken a final investment decision whether to proceed with the remaining phases of the Moravia Project.
- The Polish-Czech interconnection is a planned pipeline connection of the Polish and Czech gas transmission networks that seeks to respond to the non-binding indication of demand for incremental capacity, which both the Group and the Polish TSO received in 2019. The pipeline would enhance capacity between the two countries. Its purpose would be to secure efficient transmission capacity and to enable supply source diversification and further market integration fostering the liquidity of gas trading places and gas-to-gas competition on gas wholesale markets in the Czech Republic and Poland. The projected length of the pipeline in the Czech Republic is 60 km and includes also a new compressor

station. As of the date of this Prospectus, the Group has not taken a final investment decision whether to proceed with the project.

- The Austrian-Czech interconnection is a planned pipeline connection of the Austrian and Czech gas transmission networks that seeks to respond to the non-binding indication of demand for incremental capacity, which both the Group and the Austrian TSO received in 2019. The pipeline would establish the first direct gas pipeline connection between the two countries. Its purpose would be to secure efficient transmission capacity and to enable further market integration fostering the liquidity of gas trading places and gas-to-gas competition on gas wholesale markets in the Czech Republic and Austria. The projected length of the pipeline in the Czech Republic is 12 km. As of the date of this Prospectus, the Group has not taken a final investment decision whether to proceed with the project.

The Group cannot guarantee that the planned investment projects will be pursued, that they will be completed on time or at all, or that their cost will not be higher than expected (see “*Risk factors—Risk related to the Group’s business and industry generally—The Group may be required to make substantial capital expenditures and these may be subject to delays*”).

### ***Third Party Access to the Gas Transmission Network***

The European and Czech regulatory framework in the gas sector is intended to ensure competitive and efficient European gas markets. An important element of that framework is the principle of transparent and non-discriminatory access to gas transmission networks. Accordingly, the Energy Act requires the TSOs, such as the Group, to guarantee a right of access to the transmission network and ancillary services to all gas market participants who meet certain non-discriminatory access requirements provided by ERO. Under the Energy Act, the Group is also required to take measures to ensure that its transmission network maintains adequate capacity to meet security of supply requirements. These measures, among other things, are also required to comply with the EU-wide network development plan. Except for situations when there is a lack of available capacity or a threat to a secure and reliable operation of the network arises, the Group is not permitted to refuse the provision of gas transmission services to anyone who meets the criteria for access to its gas transmission networks. Temporary exemptions from the obligation to ensure access to the network may, however, be granted by ERO on the basis of serious economic difficulties of gas traders with take-or-pay contracts.

### ***Compliance Programme relating to Third Party Access to the Gas Transmission Network***

The Group has established a compliance programme setting out its internal organisational measures designed to prevent discriminatory practices in relation to third party access to the Group’s transmission network. The compliance programme also specifies the duties of the Group’s employees to achieve such purpose and applies to all of the Group’s personnel. The Issuer has appointed a compliance officer whose task is to ensure the Group’s compliance with non-discriminatory principles.

### ***Operation of the Gas Transmission Network***

The Group’s service to its customers consists of taking-over an energy quantity of gas (measured in GWh) delivered to it by a shipper at one or more entry points and delivering an equivalent energy quantity of gas (measured in GWh) to one or more exit points, within the limits of daily and hourly capacities established by the relevant contract. Subject to capacity limitations, the Group’s network is designed in such a way as to be able to transport natural gas between any combination of entry and exit points. The delivery of gas of a contractually-specified quality and quantity and the balancing of natural gas flows requires sophisticated modelling of the gas grid. Such modelling requires, among other things, detailed understanding of safety requirements, physics of gas flows and measurement of gas quality. Furthermore, pursuant to the Energy Act, network operators, such as the Group, are required to ensure that their networks are safe and efficient and to ensure that gas flows are balanced at all times, taking into account technical constraints.

### ***Tariffs for Using the Gas Transmission Network***

The Group generates revenue by charging tariffs for the transmission of gas through its pipelines.

#### ***Gas Transit Tariffs***

Tariffs for Gas Transit are comprised of entry and exit tariffs at the border crossing points. These are subject to price cap regulation and are set in a price decision published by ERO. Gas Transit entry and exit tariffs are

generally based on the cost plus principle in line with the EU-wide methodology set out in NC TAR, which has fully entered into force in May 2019. According to NC TAR, Gas Transit tariffs are based on determination of corresponding planned target revenues and calculated on the basis of the so-called capacity weighted distance methodology, which is based on weighting of the average distance between entry and exit points by the forecasted contracted capacity at entry and exit points, with the split of revenue between entry and exit points being set to a 50:50 ratio. In this connection, the ERO issued a decision under clause 27(4) of NC TAR, published in the Official Journal of ERO on 27 May 2019 (the “**TAR Decision**”), which implements the methodology of NC TAR in the Czech Republic. Most importantly, the TAR Decision deviates from the split of revenue specified in NC TAR as ERO implemented a different entry/exit ratio of 20.35:79.65. Despite the new methodology set out in NC TAR and the TAR Decision, the resulting Gas Transit tariffs do not substantially differ from those calculated under the previous methodology which was based on a benchmarking process. Exit tariffs consist of a ‘capacity charge’ and a ‘commodity charge’. It is common industry practice that shippers must pay a capacity charge for reserving capacity at the time of booking regardless of whether they use the reserved capacity to transport gas. The commodity charge is paid by the shipper based on the amount of gas actually transported under their capacity booking. The Group’s commodity charge essentially represents a monetary value for the small percentage of the gas transported which is used to power compressors to propel the gas through the Group’s pipelines. Under regulations applicable as of the date of this Prospectus, a shipper can enter into a long-term contract with regulated tariffs effective at the time when the contract is concluded and which will be applicable throughout the whole duration of the booking, subject to adjustments for inflation.

### *Gas Transport Tariffs*

Tariffs for Gas Transport are determined in the revenue cap regime and calculated on the basis of the regulatory decision by ERO applicable for a five-year regulatory period, unless the duration of the regulatory period is extended. As of the date of this Prospectus, the regulation is currently at the end of the fourth period, as the fifth period will begin to run from 1 January 2021. Under the Energy Act, through Gas Transport tariffs, the Group is allowed to recover (i) depreciation, (ii) reasonably incurred operating costs and (iii) profit on realised investments (calculated as a product of the regulatory asset base and the weighted average cost of capital). During the regulatory determination process, ERO determines the values of the key regulatory parameters, such as opening regulatory asset base and the regulatory formula used to calculate allowed revenue in each year of the regulatory period. Prior to the start of each year, ERO determines input parameters and confirms the allowed revenue for that year on the basis of the regulatory formula. In particular, ERO determines the exact weighted average cost of capital (“**WACC**”) and confirms the balance of the regulatory asset base (“**RAB**”) used to calculate the allowed profit during that year.

For the purposes of calculating these allowed revenues, depreciation is calculated under the applicable Czech GAAP standards. In both the fourth and fifth regulatory period, calculation of operating costs is based on the amount of costs actually incurred in the selected referential years. In the fourth period, operating costs have been calculated for the whole period on the basis of costs incurred in the referential years of 2012 and 2013. In the fifth period, operation costs will be calculated for each regulatory year separately, taking into account the costs incurred in the preceding three years. In addition, calculation in the fifth period will involve the principle of profit/loss sharing of the difference between the approved amount of operating costs and the amount of actually incurred costs. Operating costs included in the calculation of reasonably incurred operating costs are increased each year for inflation based on the Czech compounded price index and decreased by an efficiency factor, thereby incentivising the regulated entities to increase efficiency by enabling them to generate additional profit.

Allowed profit is determined as RAB multiplied by WACC. RAB is defined by ERO at the start of each regulatory period. Throughout the current fourth regulatory period, RAB has been based on the adjusted net book value of the network assets, which were revalued in 2005 as part of the legal unbundling process. RAB consists of 100 per cent. of Gas Transport network assets and a pro-rata allocation of Gas Transit network assets which are jointly used for Gas Transit and Gas Transport. The allocation mechanism in the fourth regulatory period is based on a single allocation key applicable during the whole period whereas in the fifth regulatory period, due to the planned substantial investments into infrastructure development, each network asset (e.g. compression stations, border transfer stations and pipelines) will have its separate allocation key for each year. For example, the MCE pipeline will be allocated to the Gas Transport to the extent of 95 per cent. RAB is determined as net book value times a correction factor. This correction factor was introduced at the start of the third regulatory period to ensure a smooth transition between the second and third regulatory periods, thus partly taking into account the revaluation effect. The correction factor does not apply to new investment or allowed depreciation. Furthermore, in the fifth regulatory period, the value of RAB will be adjusted to the book residual value of assets gradually by annual increments until 2025. This adjustment will be based on a coefficient determined by ERO individually for each regulated company.

WACC is firmly set for the whole fourth and fifth regulatory period (except if the corporate income tax rate changes) and, as of the date of this Prospectus, it is based on a given capital structure which envisages an equity to debt ratio of 61.52:38.48. The fifth regulatory period will use the equity to debt ratio of 51.11:48.89. The elements of the calculation in the fourth regulatory period include a cost of equity based on the risk-free rate of return derived from the ten years median of daily yields from 10-year Czech government bonds, a peer-group beta value and a market-related equity risk premium, which is set at a fixed value of 5 per cent. (or 6.54 percent. in the fifth regulatory period) and cost of debt (post-tax) based on the risk free rate of return and a credit risk margin. The value of WACC was set at 7.94 per cent. for the fourth regulatory period and 6.43 per cent. (pre-tax) for the fifth regulatory period. In the determination of the Gas Transit price cap, there is an additional equity risk premium amounting to three per cent. which is applied in the calculation of WACC.

The majority of Gas Transport fees are collected in monthly advance payments as the fixed part of the tariff for distribution system operators. Surpluses or deficits are corrected subsequently.

### ***Crisis Management in the Gas Industry***

According to the Crisis Management Act, the regional governor (*hejtman*) or the mayor (*primátor*) of Prague are authorised to declare a state of danger (*stav nebezpečí*) as an extraordinary measure when lives, public health, property and environment are threatened, provided the intensity of such threat does not reach the danger of considerable extent, and it is not possible to avert such threat by regular actions of administrative authorities, regional and municipal bodies, emergency response services or entities of critical infrastructure. The state of danger may be declared for a limited period of time not exceeding 30 days and it can be extended only with the consent of the Government of the Czech Republic. If the danger cannot be remedied, the regional governor (*hejtman*) or the mayor (*primátor*) of Prague must request the Government of the Czech Republic to declare a state of emergency (*nouzový stav*).

Under the constitutional Act No. 110/1998 Coll., on Security of the Czech Republic, the Government of the Czech Republic may declare a state of emergency in cases of natural or ecological disasters, industrial accidents or other events which significantly endanger lives, public health, property, social stability and security. The state of emergency may be declared for a period not exceeding 30 days and can be extended only with the consent of the Chamber of Deputies of the Parliament of the Czech Republic. In cases of immediate threat to the state sovereignty, its territorial integrity or its democratic system, the Parliament of the Czech Republic may declare a state of threat to the state (*stav ohrožení státu*).

According to the Crisis Management Act, the declaration of the state of emergency or the state of threat to the state may result in a temporary limitation of ownership rights of the Group and may involve expropriation, for a monetary compensation, both of the Group's assets and shares in the members of the Group held by its shareholders, but only for such a period and to such an extent as is necessary to remedy the threat. Given the strategic nature of the gas infrastructure for the state, it is possible that additional special legislation may be enacted from time to time to enable actions such as expropriation or limitation of ownership of energy infrastructure and equipment (see "*Risk Factors—Risks related to the Group's business and industry generally—The Group's gas infrastructure is subject to the risk of expropriation*").

### ***Response to Gas Supply Emergencies***

The Group aims to maintain undisturbed gas supply in the Czech Republic and beyond its national borders to the extent reasonably possible, and prepares emergency plans for possible interruptions or supply constraints in co-operation with neighbouring TSOs and storage service operators, taking into account available storage capacities, ability to deal with expected supply congestions in emergency situations and meeting at least the EU 'N-1' security of supply criterion. This describes the ability of the gas infrastructure to satisfy total gas demand in the calculated area in the event of disruption of the single largest gas infrastructure during a day of exceptionally high gas demand occurring with a statistical probability of once in 20 years and which is calculated in accordance with Regulation (EU) 2017/1938.

As of the date of this Prospectus, the Group has sufficient technical capacity available at its entry points to enable the supply of protected final customers in the Czech Republic in the event of large-scale disruption in the gas infrastructure during a day of exceptionally high gas demand occurring with a statistical probability of once in 20 years and it fully meets the EU 'N-1' security of supply criterion. The Group also has set-aside technical capacity offering additional short-term capacity to shippers for instances when gas trading opportunities arise or during peak demand periods.

## ***Technical Standards for the Gas Transmission Network***

The Group's operation and maintenance activities are based on the relevant technical standards of the EU as well as on Czech national technical gas standards TPG. Among other things, these technical standards regulate gas infrastructure, including pipelines, equipment and regulating stations, pressure equipment, earth works, gas supply systems, terms of operation, functional requirements, safety systems, testing, cathodic protection, electric engineering, electrical installations and explosive atmospheres (see also "*—Environmental and Safety Policies*" below).

## ***Property and Equipment***

The Group's transmission assets are mainly comprised of pipelines, compression stations, delivery stations and administrative buildings. As of the date of this Prospectus, the Issuer owns all of its pipelines and transmission assets, except for the Gazelle Pipeline, which it leases from its wholly-owned subsidiary BRAWA, and has the legal right of usage of the land underlying these assets.

## ***Infrastructure Investment Regulation***

In line with the Gas Regulation, ENTSOG must publish a European Community-wide Ten Year Network Development Plan (the "**ENTSOG TYNDP**") and TSOs, acting in cooperation with ENTSOG, must publish a Gas Regional Investment Plan (the "**GRIP**"), in each case every two years. Neither the ENTSOG TYNDP nor the GRIP is legally binding. The aim of the GRIP is to show a regional gas infrastructure outlook, consistent with the wider ENTSOG TYNDP, assessing and identifying potential future infrastructure investments, viable gas transmission networks and necessary regional interconnections, all of which are relevant from a commercial, sustainability or security of supply point of view.

The Third Gas Directive gave new powers to national regulatory authorities regarding the monitoring of investments. In particular, TSOs are required to submit to national regulatory authorities a national ten-year network development plan (the "**TYNDP**") based on existing and forecasted supply and demand. The TYNDP is intended to indicate the main transmission infrastructures that should be built or upgraded over the next ten years, identify new investments which will have to be executed in the next three years and provide a time frame for each investment project. At the European level, ENTSOG is required to define a non-binding EU-wide ENTSOG TYNDP every two years, after a consultation process with stakeholders. The Agency for the Cooperation of Energy Regulators ("**ACER**") is required to provide an opinion on the plan and, after checking its consistency with national plans, monitor its implementation. At a national level, national regulatory authorities are required to organise a public consultation. National regulators are also required to examine the consistency of the national TYNDPs with the ENTSOG TYNDP and, in the case of any doubt, consult ACER. They may also require network operators to amend their national TYNDPs.

## ***Maintenance and Safety***

### *General*

Safe, economically efficient and reliable gas transmission requires continuous investment in new technologies and regular maintenance. The Group's goal is to keep all interested parties, such as other network operators and shippers, informed in advance of maintenance schedules and other factors that influence its ability to operate its gas transmission system at full capacity.

The Group estimates that the expected technical lifetime of gas pipelines is around 70 years from the date of coming into service. The Group expects that the monitoring of technical condition and maintenance focused on the critical parts which it carries out should increase the lifetime of gas pipelines beyond this base expectation.

### *Pipeline Integrity Management System*

The Group's Pipeline Integrity Management System (the "**PIMS**"), which is an advanced technological information system, is a comprehensive approach to pipeline maintenance providing an advanced network management tool. Its methodology is based on the ASME B31.8S standard. The main functions of the PIMS are the integration of data sources, defect and risk assessment and repair planning. Pipeline assessment is based on information from different sources. The most important sources are in-line inspections, the active corrosion protection system and the geographic information system ("**GIS**"). The data is evaluated using a risk index. The risk index reflects the technical condition of a pipeline, the environment (e.g. soil and geology) of where the



pipeline is situated and possible consequences of pipeline damage, such as hazards to population or reduction of gas transition. In addition to the advanced fault protection system provided by PIMS, network availability is maintained at all times through a 24 hours-a-day control and dispatch system, highly-qualified staff, comprehensive back-up capacity due to parallel transit pipelines and an independent external power supply. However, with the implementation of the Capacity4Gas Project and the related capacity bookings, the Issuer expects a higher average load on the whole transmission system and, consequently, less back-up capacities/redundancies. Nevertheless, there is no guarantee that the capacity bookings related to the Capacity4Gas Project will materialise as expected.

Annual maintenance plans are also based on PIMS. The Group's pipelines are subject to in-line inspections on a regular basis. The results of such 'in-line inspections' are fed into a report that discusses the technical condition of pipelines. The in-line inspection results are then analysed and assessed and maintenance activities are planned accordingly. Intervals between in-line inspections are in compliance with the current Czech and international gas industry standards. The maintenance of the non-pipeline technology (including compressors and ball valves) is based on the Risk Based Maintenance/Condition Based Maintenance approach and is also part of the PIMS system. A risk assessment using the risk matrix is the basis for the design of remedial measures for the individual assets, the appropriate inspection interval, specific preventive maintenance actions, reconstruction or replacement of the asset.

#### *Pipeline safety procedures*

The entire cycle (planning, in-line inspection, assessment and repairs) contributes to the safe and reliable operation of the Group's pipelines. All such activities are governed by the Group's internal guidelines.

The Group performs periodical aerial inspections of the area over and around the pipeline system in accordance with the requirements of the TPG 905 01 standard. The Group is obliged to monitor and check gas pipelines and the land over them periodically with a special focus on visual inspections of transmission pipelines, gas facilities and protective and safety zones and monitoring of activities of third parties near the pipeline routes. During the aerial inspection using helicopters, which are performed in time intervals specified in the relevant technical standards, specialists also pay attention to the identification of gas leakages. In addition to in-line inspections and aerial inspections, the Group plans and executes other periodical inspections which are required by the TPG 905 01 standard. All of these are incorporated in an annual plan of inspections.

The Group's facilities are protected by a technical security system. A contracted private security service provides physical protection of the buildings and facilities of the Group.

#### **Customers and Long-Term Contracts**

The Group's network represents an important part of several supply corridors for the delivery of Russian gas into the EU. The Group's portfolio of clients consists mainly of European utilities, gas suppliers and gas traders. As of the date of this Prospectus, a capacity amounting to 2,173 GWh/d is booked by counterparties which are located in what are currently key locations on the European gas map, including Russia, Germany and Slovakia, and who have historically met their payment obligations in a timely fashion. Up to the date of this Prospectus, there have been no incidents of payment default by customers with whom the Group has a Material Contract, except for one Material Contract which was a subject of a dispute before the Arbitration Court in Prague. The arbitration proceedings resulted in a favourable outcome for the Group and the payment that was due under the Material Contract has been fully made.

Gas transmission is a highly regulated industry, and therefore, terms and pricing of contracts are heavily influenced by regulation at the national, European and international level. The profitability of the Group's business has been predominantly driven by bookings for Gas Transit, which are primarily made under long-term contracts. All the Material Contracts, regardless of duration, are based on a ship-or-pay principle, whereby the Group receives the contracted Gas Transit fees even if the booked capacity is not utilised. Gas Transit tariffs depend on pre-defined entry and exit points, duration and contracted capacity. The quality of natural gas is materially the same across all shippers.

In the years ended 31 December 2019 and 2018, the Group concluded 7,456 and 5,570, respectively, gas transmission contracts for Gas Transit and Gas Transport, with the majority of them being contracts concluded for one year or a shorter period. However, the vast majority of the Group's capacity bookings is composed of the Material Contracts described below which represent long-term relationships with three shippers. For the nine

months ended 30 September 2020 and 2019<sup>3</sup>, revenues from the Material Contracts accounted for 64 per cent. and 66 per cent., respectively, of the Group's total revenues. For the years ended 31 December 2019 and 2018, revenues from the Material Contracts accounted for 66 per cent. and 72 per cent., respectively, of the Group's total revenues. The Material Contracts concluded with the Major Shipper accounted for 55 per cent. and 55 per cent., respectively, of the Group's total revenues (including Gas Transit and Gas Transport) for the nine months ended 30 September 2020 and 2019, and 56 and 61 per cent., respectively, for the years ended 31 December 2019 and 2018. With the exception of the Gazelle Contract (as defined below), all the Material Contracts are on a fully ship-or-pay basis.

The following are the Material Contracts concluded by the Group as of the date of this Prospectus:

- (a) a contract for Gas Transit from Eastern Europe to Western Europe with a single shipper, expiring on 1 January 2022 (the "**East-West Contract**");
- (b) a contract for Gas Transit from Western Europe to Eastern Europe with a single shipper, expiring on 1 October 2021;
- (c) the Capacity4Gas Contract for Gas Transit with a single shipper related to the Capacity4Gas Project, the performance of which commenced in the gas year 2019/2020 and which is to expire on 1 October 2039; and
- (d) a contract for Gas Transit of Russian gas through the Gazelle Pipeline in the north-to-south direction with a single shipper expiring on 1 January 2035 (the "**Gazelle Contract**").

## Competition

Based on its own analysis, the Group considers that it faces competition from other pipeline routes that transit gas across Europe, both eastwards and westwards, namely, the Yamal/EuRoPol Gaz and the WAG/MEGAL. The Group also faces competition from pipeline routes that transit gas east to south, namely the route from Russia through Ukraine, Slovakia to Austria, Slovenia and Italy. A key competing project in this respect is an interconnector between Poland and Slovakia, which as of the date of this Prospectus is under construction and is scheduled to commence operation at the beginning of 2022.

The Group faces potential competition from other planned pipelines that would transit gas across Europe from east to west and south through Europe. The choice of supply routes from Russia to Europe has expanded since 2011 when the Nord Stream pipeline was completed and shippers have obtained a greater choice of gas transit routes into Europe. According to the Issuer's internal estimates, the current pipeline capacity for the export of Russian gas to the EU is approximately 2,800 TWh per year. Future projects, in particular Nord Stream 2, which is Nord Stream's planned expansion by two additional pipelines with a total capacity of 55 bcm, which is currently in an advanced phase of construction, would increase the overall annual capacity of Nord Stream to up to 110 bcm.<sup>4</sup> The decisions of shippers as to which route to use may be shaped by their appraisal of the transmission costs and the risk of gas flow interruption or gas loss. In addition, shippers may have full or partial ownership interests in certain transit routes and so may prefer to recoup net marginal transport costs through dividend income from this ownership.

Changing preferences of shippers and the existence of the Nord Stream pipelines have led to increased opportunities for west to east supply. Specifically, heightened tensions between Russia and Ukraine have resulted in uncertainty regarding the transit of Russian gas through Ukraine. As a result, these factors have significantly impacted the traditional European gas sector and have brought about increased demand for natural gas imports from the reverse direction, i.e. from the west (Poland, Hungary and the Slovak Republic) to Ukraine and for gas storage services in Ukraine. Since 2009, the direction of flows of Russian gas to the Group's gas transmission system have generally reversed. Whereas the flows of gas in the east-to-west direction from Ukraine and Slovakia have decreased, for instance the flows of gas from Nord Stream via Germany through the Group's pipelines have increased significantly.

The Group faces competition risk from existing alternative transmission routes and faces risks associated with the development of further alternative gas transmission routes to the areas where the Group currently delivers gas.

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<sup>3</sup> Revenues for the nine months ended 30 September 2019 and the years ended 31 December 2019 and 2018 include also revenues from a contract for Gas Transit from Western Europe to Eastern Europe with a single shipper which expired in 2020.

<sup>4</sup> Source: <https://www.nord-stream2.com/en/pdf/document/198/>

Some projects that have been announced or are currently under construction are designed to transport gas to or within Europe and may impact the Group's transmission business. These includes, for example, the TAP, which is planned to import gas to Southern Italy from the Caspian region. As of the date of this Prospectus, an extension of the TurkStream pipeline to Bulgaria, Serbia and Hungary is under construction.

The following pipeline projects in particular could have a considerable impact on the Group's business, because some of the planned gas pipelines may substantially increase competition and adversely impact the Group's ability to negotiate and conclude new transmission contracts or renew existing contracts, while other projects may remove bottlenecks between gas transmission networks of the CEE countries and facilitate further integration of their markets and as such benefit the Group's business:

- Completion of a transmission pipeline connecting the outlets of TANAP/TAP pipelines with the Southeast Europe and Central Europe in order to increase diversification of gas supplies to these regions.
- Construction of missing interconnectors or removing capacity bottlenecks between neighbouring markets in CEE, such as the interconnector between Poland and Slovakia, to facilitate further market integration. This is to some extent supported by the European Commission.
- Completion of a gas pipeline between Norway and Poland in order to create a new corridor for the transit of gas from the North Sea via Denmark. As of the date of this Prospectus, the project is expected to become fully operational in 2022 and will enable the supply of Norwegian gas to Poland as well as the reverse gas transmission from Poland to Denmark and Sweden.
- Establishment of a North-South corridor from Poland through the Czech Republic or Slovakia and Hungary towards Croatia. The North-South corridor aims to increase the security of gas supply and facilitate European gas market integration. The scheme is divided into several projects, which are in different stages of development and at times competing. While the interconnector between Slovakia and Hungary was fully completed and its commercial operations began in July 2015, the market case for the interconnector between Poland and the Czech Republic is currently being assessed based on an incremental capacity procedure (please see bullet point below). As of the date of this Prospectus, the competing interconnector between Poland and Slovakia is under construction and is scheduled to commence operation at the beginning of 2022. The project is being financially supported by the EU's Connecting Europe Facility, which is a funding instrument to support the development of interconnected trans-European networks in the fields of transport, energy and digital services.
- Interconnectors between the Czech Republic and Poland and the Czech Republic and Austria and the expansion of capacity between Austria and Hungary, including the introduction of reverse flow capacity. As of the date of this Prospectus, the Polish-Czech and Austrian-Czech interconnectors await final investment decisions subject to positive economic tests after a capacity auction that is planned to be held in July 2021.

Further, the Group expects the traditional suppliers of gas to compete with new market entrants, in particular the suppliers of LNG, trying to fill the supply gap in the gradually deepening European internal energy market arising from the expected decrease of domestic gas production in the North-West of Europe.

### **Financial Indebtedness**

The Group's Financial Indebtedness was CZK 30,943 million as of 30 September 2020 and CZK 30,079 million as of 31 December 2019. The change in value was broadly driven by currency fluctuations, as approximately 53 per cent. of the Group's Financial Indebtedness as of 30 September 2020 was denominated in CZK, approximately 41 per cent. was denominated in USD and approximately 6 per cent. was denominated in EUR.

The following table provides an overview of outstanding bonds issued by the Issuer as of 30 September 2020:

<u>Year of Issue</u>	<u>Bonds Outstanding</u> <i>(in millions)</i>	<u>Maturity</u>	<u>Coupon</u> <i>(%)</i>	<u>Rating</u>
2014	CZK 4,345.3 <sup>(1)</sup>	January 2021	2.25	BBB (S&P) / BBB (Fitch)
2014	EUR 300	July 2021	2.50	BBB (S&P) / BBB (Fitch)
2014	EUR 160	July 2026	3.50	BBB (S&P) / BBB (Fitch)
2015 <sup>(2)</sup>	EUR 50	July 2026	N/A	N/A
2018	CZK 2,643	July 2025	2.75	BBB (S&P) / BBB (Fitch) <sup>(3)</sup>

Notes:

- (1) The original volume of CZK 7,000 million was reduced within the „Exchange and tender offer” transaction in 2018.
- (2) The issue was a part of a private placement of an offering of bonds.
- (3) Issuer rating.

The Issuer is a party to bank loan facility agreements dated 26 April 2017 with a group of credit institutions, including BNP Paribas Fortis SA/NB, pobočka Česká republika, Československá obchodní banka, a.s., Česká spořitelna, a.s., Export Development Canada, Komerční banka, a.s., and KfW IPEX Bank GmbH as lenders. The lenders under these unsecured loan facility agreements have provided the Issuer with term loans in an aggregate amount of CZK 7073.6 million equivalent and due in May 2025 and revolving loans in an aggregate amount equivalent to EUR 80 million with a final maturity in May 2022 in order to facilitate the Issuer’s access to liquidity (“**Facility Agreement I**”). As of the date of this Prospectus, EUR 80 million of the total commitment under the revolving loan facilities of Facility Agreement I remains undrawn.

The Issuer is also a party to an overdraft credit facility agreement dated 29 May 2017 with Československá obchodní banka, a.s., pursuant to which the Issuer has access to liquidity in an aggregate amount equivalent to EUR 20 million with a final maturity in May 2022 (“**Facility Agreement II**”). As of 11 January 2021, EUR 1.4 million of the total commitment under Facility Agreement II remains undrawn.

The Issuer is also a party to a syndicated bank loan facility agreement dated 21 January 2020 with Československá obchodní banka, a.s., as agent and Československá obchodní banka, a.s., and Všeobecná úverová banka, a.s., acting through Všeobecná úverová banka a.s., pobočka Praha, as original lenders (“**Facility Agreement III**”), pursuant to which the Issuer has been provided with a term loan facility in the amount of CZK 7,400 million due in July 2028. As of the date of this Prospectus, CZK 7,400 million of the total commitment under Facility Agreement III remains undrawn.

In addition, the Issuer is a party to a syndicated bank loan facility agreement dated 21 January 2020 with Komerční banka, a.s., as agent and Česká spořitelna, a.s., and Komerční banka, a.s., as original lenders (“**Facility Agreement IV**” and together with Facility Agreement I, Facility Agreement II and Facility Agreement III, the “**Facility Agreements**”), pursuant to which the Issuer has been provided with a term loan facility in the amount of CZK 2,875 million due in July 2025. As of the date of this Prospectus, CZK 2,875 million of the total commitment under Facility Agreement III remains undrawn. The Issuer may decide to cancel the commitment under the Facility Agreement IV in whole or in part on or around the date of this Prospectus.

The obligations of the Issuer under the Facility Agreements are general, senior unsecured obligations of the Issuer and rank equally in right of payment with the Issuer’s existing and future indebtedness that is not subordinated in right of payment, including under the Notes.

The terms of certain of the Issuer’s financial indebtedness, including under the Facility Agreements, contain restrictive provisions which, among other things, limit the Group’s ability to create security interests over its assets, dispose of its assets, merge with other companies, provide loans, make distributions and certain other payments, or engage in certain other transactions. These restrictions are subject to exceptions and qualifications.

On 9 June 2017, the Issuer also concluded a funding agreement with its direct shareholders which allows the Issuer to request and obtain additional funding from its shareholders for the purposes of financing the Capacity4Gas Project. Under the funding agreement, the Issuer may obtain financing up to the amount of EUR 540 million in the form of equity capital contribution or a shareholder loan. The individual drawdowns are subject to certain conditions precedent and should reflect the progress of Capacity4Gas Project development. As of the date of the Prospectus, the Issuer has already drawn a part of the financing pursuant to the funding agreement amounting to EUR 517 million in the form of contribution outside the registered capital.

Pursuant to the above bank loan facility agreements, the Issuer is required to hedge its interest rate exposure by hedging floating rate debt through interest rate hedging transactions, in each case in respect of a minimum of 70 per cent. of the aggregate principal outstanding under such bank term loans and any bonds, notes, bilateral note instruments, schuldschein or similar capital market instruments. In addition and to the extent necessary, the Issuer manages any cross-currency risk exposures between the currencies of its operating cash-flows (being CZK, EUR and USD) and the currency of its senior financial indebtedness by a combination of (i) borrowing and issuing in the relevant currencies to the extent possible, and (ii) cross-currency hedging transactions.

### ***Distributions of Capital***

The following table provides an overview of total cash distributions, including dividends paid, advance dividends paid and decrease of contribution outside registered capital paid out in the nine months ended 30 September 2020 and the years ended 31 December 2019 and 2018:

	<b>Nine months ended 30 September</b>	<b>Year ended 31 December</b>	
	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<i>(in CZK million)</i>		
Dividends, retained earnings paid.....	1,666	4,081	-
Advance dividends paid .....	1,536	1,670	1,500
Decrease of contribution outside registered capital .....	-	3,009	-
<b>Total cash distribution .....</b>	<b>3,202</b>	<b>8,760</b>	<b>1,500</b>

### **Environmental and Safety Policies**

Environmental protection, sustainable development and safety are key considerations in the way the Group conducts its business. Accordingly, in November 2015, the management of the Issuer updated its internal environmental protection policy aimed at permanently minimising the potential environmental impact of the Group's activities, both in its operations and in development and construction of new pipelines. Focus areas of the environmental protection are:

- emergency preparedness;
- air pollution prevention;
- greenhouse gas emission reduction;
- waste and water management;
- handling chemical products and mixtures; and
- nature conservation and countryside protection.

In addition, the Group's "NET4GAS Closer to Nature" programme supports certain projects aimed at environmental conservation and protection. The Group is committed to corporate social responsibility and is a major corporate donor in the field of environmental conservation in the Czech Republic.

The Group's internal health and safety programmes and strategies go beyond the requirements imposed by the applicable legislation. Its internal requirements also apply to its suppliers and subcontractors as well as to its own employees.

Up to the date of this Prospectus, the Group has not experienced any material environmental incidents and all of the Group's compressor stations were operated in accordance with their permits issued under the applicable pollution prevention regulations. The Group is in material compliance with current legislation on reporting, notification obligations and relevant permits and has not been subject to any sanctions or censure from the competent authorities.

### **Insurance**

The Group does not have insurance against damage or for business interruption relating to the pipelines it owns. Based on the character of placement, maintained prevention and available redundancies, management of the Group believes that such insurance would not be cost effective. While the Group's other assets, such as other gas transmission assets, compression stations and the pipelines located within compression stations, are insured

against damage and business interruption, the Group cannot provide any assurance that the insurance will be sufficient or provide effective coverage under all circumstances and against all hazards or liabilities to which the Group may be exposed (see “*Risk Factors—Risks related to the Group’s business and industry generally—The Group’s insurance coverage with respect to its assets and operations may be inadequate*”).

## **Licences, Permits and Authorisations**

As of the date of this Prospectus, the Group holds a certificate of independence and the exclusive TSO licence in the Czech Republic necessary for the operation of the Group’s gas transmission business. This licence has been granted for an indefinite period of time and is subject to the possibility of revocation by ERO if the Issuer were to be declared insolvent. As of the date of this Prospectus, the Issuer holds all the necessary licences, permissions, exemptions and authorisations necessary for activities that it conducts in the ordinary course of its business, such as installation, repair, maintenance, professional inspections and tests of gas and pressure facilities and technical testing, metering and analysing.

## **Employees and Internal Organisation**

As of 31 December 2019, the Group had 546 full-time equivalent employees, of whom 19.6 per cent. were women. As of 31 December 2019, 234 employees of the Group had a university degree (*vysokoškolský diplom*), 215 employees had full secondary education (*úplné středoškolské vzdělání*) and 97 had secondary education (*středoškolské vzdělání*). The standard of working and social conditions for employees is defined in a collective agreement which remains valid until the end of 2024 and which stipulates that the obligations from which the claims of individual employees arise remain effective until the effective date of the next collective agreement and until 31 March 2025 at the latest.

The Issuer is internally organised into the following departments:

- Commercial Operations department is responsible for the sale and customer-facing delivery of gas Transport and Transit services.
- Corporate Office department is responsible for the corporate governance of the Group and NET4GAS Holdings s.r.o., high level strategic communication, contract administration and translation services.
- Human Resources department is responsible for personnel planning, recruitment, education, development, remuneration, social dialogue, collective bargaining and other matters relating to the employees.
- Internal Audit is an independent department which reports directly to the Issuer’s management. It is a part of the control system and is also an important means for achieving continuous improvement within the Group. The department closely co-operates with well-known external audit services providers.
- Legal, Regulation and Communication department is responsible for the legislative agenda of the Group, regulatory affairs, public relations, external and internal communication, sponsorship and corporate design/corporate identity.
- Strategy department is responsible for the development of strategic as well as mid-term and short-term goals. The department is also responsible for all projects in respect of the transmission capacity of the Group. It performs analysis relating to external factors, in particular economic, political, regulatory, customer, competitor, EU gas demand and supply infrastructure, transition to a low carbon economy and other factors. The department is in charge of preparation of national, regional and European TYNDPs and is responsible for capacity calculations and gas flow simulations.
- Asset Engineering department is responsible for design engineering, technical support, permissions and easements for the Group’s development and operating projects within their front-end phase, as well as for quality control and the geographic information system GIS. The department is also responsible for ensuring health and safety, environmental protection, fire prevention and security.
- Asset Maintenance department is responsible for the management and planning of the maintenance of the gas system on the basis of the maintenance and corporate strategy. It defines the basic rules and strategic objectives for the maintenance of the gas system and the procedures and resources to achieve them. It is responsible for ensuring available system capacity contracted for natural gas for customers in the Czech Republic. It also manages the activities of the regional maintenance teams.
- Asset Operation department is responsible for the safe and reliable operation of the transmission system on the basis of the Issuer’s gas transmission licences. It is responsible for delivery of all requirements

of contract customers, shippers and users of the transmission system capacity for national and international gas transmission. It defines the basic rules and strategic objectives for the operation of the transmission system and the procedures and resources to achieve them.

- Investment Projects department is responsible for project management of all new grid connections, as well as the realisation of major construction and maintenance projects. The MCE Project and the Capacity4Gas Project are managed within a separate organisational unit.
- Procurement, Fleet and Facility department is responsible for procurement and logistics, car fleet and facility management.
- Controlling, Accounting and Tax department is responsible for financial controlling and reporting, covering activities relating to financial planning (short- and long-term), managing financial targets and budget discipline, reporting to shareholders, management, budget holders. The department is also responsible for the transparent reporting of the Group's transactions and preparation of the financial statements of the Group.
- Treasury department is responsible for risk management functions (including enterprise risk management, financial risk management and insurance functions), funding of the Group, relationships with banks, daily cash and liquidity management and other treasury activities; and
- IT department is responsible for the provision of information and communications services across the Group.

## MANAGEMENT

The Issuer has a two-tier management structure consisting of its executive directors (*jednatelé*) (the “**Executive Directors**”) and its supervisory board (the “**Supervisory Board**”). The Executive Directors represent the Issuer in all matters and are charged with its day-to-day business management, while the Supervisory Board is responsible for the supervision of the Issuer’s activities and of the Executive Directors in their management of the Issuer and resolves on matters defined in the Czech Corporations Act and the Issuer’s memorandum of association (the “**Memorandum of Association**”), particularly matters with material impact on the value of the ownership interests in the Issuer. Under the Czech Corporations Act, the Supervisory Board may not make management decisions. Furthermore, the Issuer established an audit committee (the “**Audit Committee**”) responsible for overseeing the financial reporting and controlling of the Issuer, including the process of internal and statutory audit.

### Executive Directors

Pursuant to the Memorandum of Association, the Issuer shall have three Executive Directors. As of the date of this Prospectus, the business address of all Executive Directors is Na Hřebenech II, 1718/8 140 21, Prague 4 – Nusle, Czech Republic.

The Executive Directors are elected by the Supervisory Board for a five year term. Re-election of the Executive Directors is permitted. Executive Directors are obliged to discharge the office with necessary loyalty as well as necessary knowledge and care and to bear full responsibility for such tasks, as required by the Czech Corporations Act.

The Executive Directors are the Issuer’s statutory body which directs its operations and acts on its behalf. No-one is authorized to give the Executive Directors instructions regarding the business management of the Issuer, unless the Czech Corporations Act or other laws or regulations provide otherwise. The powers and responsibilities of the Executive Directors are set forth in detail in the Memorandum of Association.

The Executive Directors constitute a quorum if a majority of members are present at the meeting. Decisions of the Executive Directors are made by a simple majority vote of all the Executive Directors. Each Executive Director has one vote.

The following table sets forth the Executive Directors as of the date of this Prospectus:

<b>Name</b>	<b>Year of Birth</b>	<b>Position</b>	<b>Commencement of Current Term of Office</b>
Radek Benčík	1966	Executive Director and Chief Operating Officer	1 October 2016
Andreas Rau	1967	Executive Director and Chief Executive Officer	1 December 2018
Václav Hrach	1974	Executive Director and Chief Financial Officer	1 March 2019

### **Andreas Rau**

#### *Executive Director and Chief Executive Officer*

Andreas Rau has been an Executive Director of the Issuer since December 2013 and has been re-elected as of 1 December 2018.

His career in the energy industry began in 1997 at Ruhrgas AG Technical System Design in Essen. After holding various positions in technical and commercial gas transmission management with E.ON Ruhrgas AG, he was appointed a member of the board of directors of eustream, a.s. in Bratislava in 2006, where he later took over as chairman of the board of directors. By the end of 2011, he developed eustream, a.s. into a separate and independent transmission system operator, which in terms of transmission volume belongs to one of the largest TSOs in the EU. In 2012, Mr. Rau was appointed a member of the board of directors of SPP, a.s. in Bratislava, where he was responsible for gas supply & sales, gas trading, electricity sales activities and portfolio optimization until early 2013.

Mr. Rau is a member of the supervisory board of BRAWA, a subsidiary company of the Issuer, and a member of the supervisory board of bayernets GmbH in Germany. Since 2018, Mr. Rau has been a member of the executive



committee of International Gas Union and since 2020 also a member of the governing board of Eurogas. He performs no other principal activities outside the Issuer which would be significant with respect to the Issuer.

Mr. Rau studied Mechanical Engineering at the Ruhr University in Bochum and European Studies at RWTH Aachen.

### ***Václav Hrach***

#### *Executive Director and Chief Financial Officer*

Václav Hrach has been an Executive Director of the Issuer since March 2014 and has been re-elected as of 1 March 2019.

He began his professional career during his last year of studies as a marketing specialist with Škoda Praha, a.s. From 1997 to 2000, he was a partner in TES Praha, a.s., where he oversaw a number of large-scale information control and management projects. At the same time, he worked as a lecturer at the Institute of Corporate Finance and Management associated with the Faculty of Mechanical Engineering of the Czech Technical University. In 2000, Mr. Hrach joined MVV Energie CZ s.r.o., where he first served as chief financial officer, and from 2005 as chief executive officer and managing director. He was appointed a member of the board of directors in 2009 and was later appointed chairman of the board of directors of MVV Energie CZ a.s. In this position, he successfully completed a group-wide restructuring program, achieving a considerable increase in the group's market share and the added value that it generates. Mr. Hrach represented MVV Energie CZ a.s. in the executive committee of the Heat Association for District Heating of the Czech Republic, and in the executive committee of COGEN CZECH.

Mr. Hrach performs no principal activities outside the Issuer which would be significant with respect to the Issuer.

Mr. Hrach graduated from the Czech Technical University in 1997, where he majored in corporate finance and management at the Faculty of Mechanical Engineering. He stayed on to earn a Ph.D. in 2002.

### ***Radek Benčík***

#### *Executive Director and Chief Operating Officer*

Radek Benčík has been an Executive Director of the Issuer since 2011 and has been re-elected as of 1 October 2016.

From 2008, he was engaged at Alstom, s.r.o. in the position of managing director and chief executive officer for Thermal Services - Czech Republic and Slovakia, while at the same time performing a management role in charge of Central Europe and the countries of the former Soviet Union. In this position he implemented emission reduction projects at power plants and CHP plants, e.g. for the ČEZ Group at Pruněřov and for the Žilinská teplárenská district heating company in Slovakia. Prior to that, he had served as chief executive officer and chairman of the board of directors at ŠKODA Praha, a.s., while also holding the post of managing director at ŠKODA Praha Invest, s.r.o. From 2001 onwards he worked on the management of ŠKODA JS a.s., subsequently being appointed the company's chief executive officer and chairman of the board of directors, and also served as a member of the board of directors of the international group OMZ - Nuclear Division.

Mr. Benčík is a member and vice-chairman of the supervisory board of BRAWA, a subsidiary company of the Issuer, and a member and vice-chairman of the board of Czech Gas Association. He performs no other principal activities outside the Issuer which would be significant with respect to the Issuer.

Mr. Benčík studied machining technology at the Faculty of Mechanical Engineering of Brno University of Technology and in 2005 received an MBA degree at Nottingham Trent University.

### **Supervisory Board**

The Supervisory Board has five members elected by the Issuer's general meeting of shareholders. Members of the Supervisory Board are elected for a five year term and may be re-elected. The business address of all of the Supervisory Board members is Na Hřebenech II, 1718/8 140 21, Prague 4 – Nusle, Czech Republic.

The Supervisory Board is responsible for the supervision of activities of the Issuer and of the Executive Directors in its management of the Issuer and resolves on matters defined in the Czech Corporations Act and the

Memorandum of Association. The Supervisory Board's powers include the power to inquire into all documents concerned with the activities of the Issuer, including inquiries into the Issuer's financial matters, review of the financial statements and profit allocation proposals.

No-one is authorized to give the Supervisory Board instructions regarding their supervision of the Executive Directors in its management of the Issuer. The Supervisory Board shall adhere to the principles and instructions as approved by the General Meeting of shareholders, provided these are in compliance with the applicable law and the Memorandum of Association.

The Supervisory Board constitutes a quorum if certain conditions under the Memorandum of Association are met, particularly if at least two-thirds of the members of the Supervisory Board are present. Decisions of the Supervisory Board are made by a simple majority vote of the Supervisory Board members who are present at the meeting. Each Supervisory Board member has one vote. With the consent of all members, *per rollam* voting is also allowed. Pursuant to the Memorandum of Association, the Supervisory Board shall meet at least twice a year.

The following table sets forth the members of the Supervisory Board as of the date of this Prospectus:

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>	<u>Commencement of Current Term of Office</u>	<u>Principal activities performed outside the Issuer where these are significant with respect to the Issuer</u>
Jaroslava Korpancová	1974	Chairman	2 August 2018	executive director of NET4GAS Holdings, s.r.o.,
Georg Nowack	1960	Member	6 December 2018	none
Delphine Voeltzel	1984	Member	16 April 2019	executive director of NET4GAS Holdings, s.r.o
Alastair C. Hall	1982	Member	1 September 2020	executive director of NET4GAS Holdings, s.r.o.
Igor Lukin	1983	Member	1 May 2020	executive director of NET4GAS Holdings, s.r.o., member of the audit committee of Autobahn Tank & Rast Gruppe GmbH & Co. KG

### **Audit Committee**

The Audit Committee has five members elected by the Issuer's general meeting of shareholders, whereas three of these members are independent. The term of office of the independent members is one year and the term of office of the other members is three years. The members may be re-elected for a further term of the same length. The business address of all of the Audit Committee members is Na Hřebenech II, 1718/8 140 21, Prague 4 – Nusle, Czech Republic.

The main responsibilities of the Audit Committee include monitoring of the internal control system and the risk management system of the Issuer, overseeing the effectiveness of its 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 following table sets forth the members of the Audit Committee as of the date of this Prospectus:

<u>Name</u>	<u>Year of Birth</u>	<u>Position</u>	<u>Commencement of Current Term of Office</u>	<u>Principal activities performed outside the Issuer where these are significant with respect to the Issuer</u>
Michal Petrman	1958	Chairman (Independent)	1 June 2016	member of the audit committee of Allianz pojišťovna, a.s.; member of the audit committee of Allianz penzijní společnost, a.s.;

				<p>member of the audit committee of Diamond Point, a.s. (Allianz Group);</p> <p>chairman of the audit committee and member of the supervisory board of MONETA Money Bank, a.s.;</p> <p>chairman of the audit committee of MONETA hypoteční banka, a.s.;</p> <p>chairman of the audit committee of Wüstenrot stavební spořitelna, a.s.;</p> <p>member of the board of directors of NFNZ - Nadační fond nezávislé žurnalistiky;</p> <p>member of the board of directors of the Prague University of Economics and Business</p>
Igor Lukin	1983	Member	1 June 2016	<p>member of the supervisory board of the Issuer; executive director of NET4GAS Holdings, s.r.o.;</p> <p>member of the audit committee of Autobahn Tank &amp; Rast Gruppe GmbH &amp; Co. KG</p>
Delphine Voeltzel	1984	Member	1 July 2019	<p>executive director of NET4GAS Holdings, s.r.o.</p>
Stanislav Staněk	1968	Member (Independent)	1 June 2016	<p>member of the audit committee of Raiffeisenbank a.s.;</p> <p>member of the audit committee of Česká exportní banka, a.s.;</p> <p>member of the Chamber of Auditors of the Czech Republic;</p> <p>member of the Association of Chartered Certified Accountants (ACCA)</p>
Pavel Závitkovský	1955	Member (Independent)	1 June 2016	<p>member of the audit committee of Česká spořitelna, a.s.;</p> <p>member of the audit committee of Raiffeisenbank, a.s.;</p> <p>Member of the audit committee of OTE, a.s.;</p> <p>chairman of the audit committee of EGAP, a.s.;</p> <p>chairman of the audit committee of MERO ČR, a.s.;</p> <p>chairman of the supervisory board and member of the audit committee of Českomoravská záruční a rozvojová banka, a.s.;</p> <p>member of the audit committee and of the remuneration committee of J&amp;T Banka, a.s.;</p> <p>member of the supervisory board of Par System, a.s.;</p> <p>member of the supervisory board of Nadace Charty 77</p>

### Conflicts of Interest

There are no existing or potential conflicts of interest between any duties owed to the Issuer by the Executive Directors, members of the Supervisory Board and members of the Audit Committee and their private interests and other duties, but the discharge of their office may involve a conflict of interest due to the fact that they are also members of the bodies of other companies and also follow the interests of such companies or those of the persons controlled by such companies.

## REGULATION

*This section contains selected information on certain aspects of EU and Czech energy legislation that is applicable to the business activities of the Group as of the date of this Prospectus. A description of EU law has been included due to its increasing influence on Czech national energy legislation. The information in this section is intended to provide only a brief overview of the above legislation and it does not purport to be a complete analysis. The information in this section focuses solely on legislation applicable as of the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may be forthcoming that could alter or modify the statements forth herein.*

### EU Energy Legislation

The gas industry sector in the EU has been governed mainly by three liberalisation directives. The first EU liberalisation directive (Directive 98/30/EC) concerning common rules for the internal market in natural gas (the “**First Gas Directive**”) came into force on 10 August 2000 and constituted the first step towards the creation of an open and integrated internal market in the EU. The First Gas Directive established common rules regarding the storage, transmission, supply and distribution of natural gas. The aim of the First Gas Directive was to promote full and fair competition in the market, while maintaining a structural framework favourable to the funding of large international natural gas and LNG projects.

This First Gas Directive set out the following principles:

- *The accounting separation of transmission and storage businesses from supply and distribution businesses.*

This was the first move in an effort to bring an end to integrated business models that had combined transmission, storage and supply of natural gas within a single company. The First Gas Directive created a regulated economic environment in which natural gas transmission and storage businesses are required, among other things, to grant access to their networks and facilities to all gas suppliers on a transparent basis.

- *Third party access to networks and third party access to storage.*

Access conditions, including pricing conditions, must be non-discriminatory and are stipulated in the TSO’s network code, which is subject to approval by ERO.

- *The gradual opening up of the energy markets, with the possibility in the long term for end- users to choose their gas supplier.*

In the First Gas Directive, this possibility was limited to industrial customers with consumption of more than 25 million cubic metres of gas per year.

- *Creation of an independent supervisory authority in the Czech Republic.*

ERO is responsible for monitoring and enforcing compliance by market participants with the laws and regulations applicable to the energy markets and for determining the framework for network access and tariff setting. ERO is also the competent authority to decide upon disputes listed in the Energy Act that may arise between participants in the markets.

- *Strict confidentiality of data.*

Operators of gas transmission networks and storage facilities are required to preserve the confidentiality of commercially-sensitive information obtained in the context of their business. Transmission network operators are not permitted to abuse commercially-sensitive information in the context of providing or negotiating access to their systems.

The First Gas Directive was replaced by EU Directive 2003/55/EC (the “**Second Gas Directive**”) on 26 June 2003. The Second Gas Directive was intended to accelerate the process of liberalisation of the gas markets with a view to achieving a fully operational internal market. In particular, it required legal separation of gas transmission, storage and distribution activities by 1 January 2004, although combined operators continued to be permitted

subject to complying with a number of conditions intended to ensure their independence. The Second Gas Directive also set out a timetable for the liberalisation of the markets, with eligibility for non-domestic customers from 1 July 2004, and the complete liberalisation of the markets (including eligibility for individuals) by 1 July 2007. The Second Gas Directive was implemented in the Czech Republic through the enactment of the amendment to the Energy Act. In the Czech Republic, the legal separation of transmission from other gas industry activities took place on 1 January 2006 when a new legally separated company dealing with gas transmission was established. As of 4 March 2010, the company was rebranded to NET4GAS.

The final step in the series of the EU's liberalisation directives was the Third Gas Directive and the new Gas Regulation (which entered into force on 3 March 2011). The Third Gas Directive was published in the EU's Official Journal on 14 August 2009. It was implemented into Czech law by the amendment to the Energy Act (Act No. 211/2011 Coll.), and was fully effective in the Czech Republic from 18 August 2011.

The Third Gas Directive introduces further requirements on regulated entities, which aim to further eliminate the risk of discrimination and strengthen the transparency of the gas transmission business. It also introduced ownership unbundling rules, requiring change of ownership of assets, which is a step further from legal unbundling rules introduced by the Second Gas Directive. However, exemptions to full ownership unbundling through certification of operators as independent transmission operators or independent system operators were enabled. The Third Gas Directive has been further amended by Directive 2019/692/EC which enables the application of the rules of the Third Gas Directive on the transmission lines which lead outside the EU's territory.

The Gas Regulation complements the Third Gas Directive and establishes the conditions for access to the natural gas transmission networks. It addresses the access to the infrastructure, and allocation of capacity. Article 16 of the Gas Regulation requires the transmission system operators to implement certain mechanisms of capacity allocation and congestion management. These must be non-discriminatory and transparent and must be published. This regulation also contains tariff principles and principles reflected in network codes adopted by TSOs.

Further, several more detailed instruments directly applicable to the Group were issued within the framework of the Gas Regulation. They are referred to as Network Codes ("NC") and each of them sets out rules regarding a particular aspect of the Group's operations. The Network Codes issued thus far are the following:

- *Commission Regulation establishing a Network Code on interoperability and data exchange rules (703/2015/EU).*

This NC mainly aims to harmonise certain technical, operation and communication areas enabling better flow of gas in the EU between the TSOs.

- *Commission Regulation establishing a Network Code on Gas Balancing of Transmission Networks (312/2014/EU).*

This NC covers in particular the network-related rules on nomination and the related procedures, imbalance charges and settlement processes. The general principle of the NC is that network users are responsible to balance their balancing portfolios in order to minimise the need for TSOs to undertake balancing actions set out in the NC. On the other hand, network users must have the possibility to enter into an agreement with a TSO enabling them to submit trade notifications regardless of whether they have contracted transport capacity or not. The TSO is obliged to undertake balancing actions in order to maintain the transmission network within its operational limits. The balancing actions include the purchase and sale of short-term standardised products and the use of balancing services.

- *Commission Regulation (EU) 2017/459 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) No 984/2013 (commonly referred to as the NC CAM).*

This NC applies to interconnection points. It may also apply to entry points from and exit points to non-EU countries if the relevant national regulatory authority decides so. This NC provides for the following categories of products which the TSOs are obliged to offer:

- Standard firm capacity products: yearly, quarterly, monthly, daily and within-day standard capacity products. Allocation of firm capacity is to be made by means of annual auctions (yearly capacity), ad hoc auctions during each year (quarterly auctions), monthly auctions (monthly capacity), daily

auctions (daily capacity) and hourly auctions (within-day capacity; subject to the capacity being available).

- Bundled capacity products: to be offered by TSOs. For that purpose, adjacent TSOs are obliged to establish functional virtual interconnection points.
- Interruptible capacity: TSO may only offer standard capacity products for interruptible capacity with duration longer than one day if the corresponding monthly, quarterly or yearly standard capacity product for firm capacity was sold at an auction premium, was sold out, or was not offered.

- *Commission Decision (EU) 2015/715/EU amending Annex I to Regulation (EC) 715/2009 on conditions for access to the natural gas transmission networks.*

This NC deals with congestion management at interconnection points and transparency requirements (such as the monitoring reports of ACER).

- *Commission Regulation (EU) 2017/460 establishing a network code on harmonised transmission tariff structures for gas, commonly referred to as "NC TAR".*

The purpose of this NC is to set out the rules on harmonised transmission tariff structures for gas transmission. It sets out the details of capacity weighted distance methodology and three secondary adjustments: equalisation, benchmarking and adjustments by constant. Based on the results of consultation with stakeholders and after taking into account the recommendations of ACER, the national regulatory authority will decide on the reference price methodology to be applied. However, the results of the consultation and the recommendations of ACER are not binding on the national regulatory authority. The application of the reference price methodology will provide a reference price, the price for a capacity product for firm capacity with duration of one year which is applicable at entry and exit points and used to set capacity-based transmission tariffs. This NC contains a clause protecting the existing contracts, i.e. historical contracts (concluded before 6 April, 2017) with their own tariffs should not be adversely affected for the future.

### ***EU policy on carbon neutrality and climate change***

As the Group's main business activity lies in the transmission of natural gas, which serves as a carbon-based fuel, the future activities of the Group are indirectly affected by the EU's climate-change-related policies on carbon neutrality which aim to reduce the use of carbon-based fuels. The following section presents an overview of the key policy documents and legislation in this area.

In January 2014, the European Commission presented the 2030 Climate and Energy Framework Proposal in which it proposed to set a target for the reduction of greenhouse gas emissions of 40 per cent. by 2030 relative to emissions in 1990, target for the share of renewable energy to be consumed in the EU by 2030 of at least 32 per cent. and target for the improvement in energy efficiency of at least 32.5 per cent. The 2030 Climate and Energy Framework Proposal did not constitute a final or binding decision but served as a basis for further discussion, in particular in the European Commission and the Council. At the end of February 2015, the European Commission made its initial legislative proposals regarding implementation of the 2030 Climate and Energy Framework Proposal. These proposals are set out in the "Energy Union Package" and aim to provide a coherent approach to climate change, energy security and competitiveness whilst contributing to the achievement of some of the goals agreed under the 2030 Climate and Energy Framework Proposal. In October 2014, the European Council adopted its conclusions on the 2030 Climate and Energy Framework Proposal. At the end of November 2016, the EU presented the Winter Package, which consists of legislation proposals mainly focused on, but not limited to, energy efficiency, promotion of renewable sources and new electricity market design.

By mid-2019, all of the regulations and directives forming the Winter Package (currently known as the "**Clean Energy for all Europeans Package**") had been approved by the European Parliament and the Council of the EU and had been published in the Official Journal. The Clean Energy for all Europeans Package consists of the following eight regulations and directives:

- Directive (EU) 2018/844 of the European Parliament and of the Council of 30 May 2018 amending Directive 2010/31/EU on the energy performance of buildings and Directive 2012/27/EU on energy efficiency (Energy Performance of Buildings);

- Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources (Renewable Energy);
- Directive (EU) 2018/2002 of the European Parliament and of the Council of 11 December 2018 amending Directive 2012/27/EU on energy efficiency (Energy Efficiency);
- Regulation 2018/1999 of the European Parliament and of the Council of 11 December 2018 on the Governance of the Energy Union and Climate Action, amending Regulations (EC) No 663/2009 and (EC) No 715/2009 of the European Parliament and of the Council, Directives 94/22/EC, 98/70/EC, 2009/31/EC, 2009/73/EC, 2010/31/EU, 2012/27/EU and 2013/30/EU of the European Parliament and of the Council, Council Directives 2009/119/EC and (EU) 2015/652 and repealing Regulation (EU) No 525/2013 of the European Parliament and of the Council (Governance of the Energy Union);
- Regulation (EU) 2019/943 of the European Parliament and of the Council of 5 June 2019 on the internal market for electricity;
- Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market for electricity and amending Directive 2012/27/EU;
- Regulation (EU) 2019/941 of the European Parliament and of the Council of 5 June 2019 on risk-preparedness in the electricity sector and repealing Directive 2005/89/EC; and
- Regulation (EU) 2019/942 of the European Parliament and of the Council of 5 June 2019 establishing a European Union Agency for the Cooperation of Energy Regulators.

The aim of the Clear Energy for all Europeans Package is to achieve three goals: to make energy efficiency a priority, to achieve the world leading position of EU countries in the sphere of energy from renewable sources and to provide fair conditions for the consumers. The package increases the required share of renewable sources from 20 per cent. in 2020 to 32 per cent. in 2030 and the energy efficiency to at least 32.5 per cent. in 2030. The energy efficiency target, renewable share target and the Clean Energy for all Europeans Package in general aim to facilitate the transition to a low-carbon economy and to decrease emissions in accordance with EU emissions targets.

In late 2019, the European Commission presented the European Green Deal (the “**European Green Deal**”). It is a growth strategy that aims to transform the EU into a society with a resource-efficient and competitive economy where there are no net emissions of greenhouse gases in 2050 and where economic growth is decoupled from the use of resources. The European Green Deal includes a roadmap on how to achieve the EU’s climate goals and sets out dates by which certain legislative acts are to be proposed and approved.

As part of the European Green Deal, the European Commission presented the 2030 Climate Target Plan (the “**2030 Climate Target Plan**”) which aims to cut greenhouse gas emissions by at least 55 per cent. (compared with 1990 levels) by 2030 and to reach climate neutrality by 2050. The European Commission will also review and propose to revise by June 2021, where necessary, all relevant climate related policies. Further, the Regulation (EU) No 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure is to be revised and aligned with the climate goals presented by the European Green Deal by the end of 2020.

In March 2020, the European Commission published the legislative proposal for the Regulation of the European Parliament and of the Council establishing the framework for achieving climate neutrality and amending Regulation (EU) 2018/1999 (the “**European Climate Law**”). The European Climate Law aims to enact the key objectives of the European Green Deal, particularly the goal of reaching net zero greenhouse gas emissions by 2050. In September 2020, the European Commission also proposed to include the 2030 target of reduction of greenhouse gas emissions by at least 55 per cent. (set out in the 2030 Climate Target Plan) in the European Climate Law. As of the date of the Prospectus, the European Climate Law is being considered by the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions under the ordinary legislative procedure.

Earlier in 2020, the European Commission introduced the Sustainable Europe Investment Plan (the “**Sustainable Europe Investment Plan**”), which is the investment pillar of the European Green Deal. The Sustainable Europe

Investment Plan indicates that by 2021, state aid rules will be revised with respect to the policy objectives of the European Green Deal.

A part of the Sustainable European Investment Plan is the Just Transition Mechanism (the “**Just Transition Mechanism**”), which is targeted to a fair and just green transition. The Just Transition Mechanism aims to mobilise at least EUR 150 billion in investments over the period 2021-2027 to support workers and citizens as well as companies of the regions most impacted by the transition. The mechanism consists of three pillars: (i) the Just Transition Fund (consisting of EUR 40 billion available to support EU countries in their transition to low-carbon economy), (ii) the Just Transition scheme (aiming to mobilise EUR 30 billion in investments), and (iii) the European Investment Bank’s public sector loan facility (comprising EUR 10 billion in loans, mobilising up to EUR 30 billion of investments). The Just Transition Mechanism seeks to, among other things, protect companies in carbon-intensive industries by providing early access to loans and financial support in order to support the transition to low-carbon technologies and economic diversification.

### **Czech energy legislation**

The main law in the Czech Republic regulating the activities of the Group is the Energy Act, which regulates the conduct of businesses in the energy sector, as well as requirements for obtaining licences for the production, distribution and sale of electricity, gas and heat. The Energy Act also aims to liberalise the energy market and to ensure the protection of consumers. The Energy Act complies with relevant EU legislation, including the EU Third Energy Package. As of the date of this Prospectus, a new act replacing the Energy Act is in the early phases of preparation and is not yet available to the public.

The activities of the Group are also regulated by the Decree of ERO No. 349/2015 Coll., on the Rules of the Gas Market, as amended, which stipulates detailed rules for the process of reservation of transmission capacities offered by the Issuer.

The main governmental authorities supervising the energy sector are ERO, the Ministry of Industry of the Czech Republic, the Ministry of Environment of the Czech Republic and the State Energy Inspectorate.

ERO is an independent energy regulatory body established as the main supervisory authority in the energy sector. ERO is endowed with a broad range of powers, including the right to grant licences, fix prices, adopt rules implementing energy legislation, review and certify the implementation of unbundling rules, review contractual relationships between vertically integrated companies, perform inspections, resolve disputes between licensed entities and consumers and monitor quality of energy services and the right to request the provision of documents and information from the companies which it regulates. The breach of obligations owed by holders of licences may be punished by the imposition of fines of up to CZK 100 million or 10 per cent. of the company’s turnover, whichever is higher.

The Czech Ministry of Industry prepares the state energy policy pursuant to applicable Czech laws and regulations and also provides for the harmonisation of Czech legislation on renewable energy resources and compliance with applicable EU legislation. The State Energy Inspectorate ensures the compliance of energy market participants with the respective regulations and like ERO, it is entitled to impose sanctions on regulated entities.

In order to conduct business in the energy sector, an entity needs a licence issued by ERO for the particular activity in question. ERO is under an obligation to grant the licence to the applicant, provided that the criteria set by law are met. Under the Energy Act, licences for the gas transmission are valid for an indefinite period of time. In order to secure transparency, ERO publishes the list of licence holders on its website.



## TAXATION AND FOREIGN EXCHANGE REGULATION IN THE CZECH REPUBLIC

*This chapter summarises certain tax aspects of Czech laws regarding the acquisition, ownership and selling of the Notes and does not purport to be a comprehensive description of all tax-relevant aspects that may be of importance when deciding on investing in the Notes. This summary does not describe any tax aspects resulting from the laws of any state other than the Czech Republic. This summary does not specifically comment on or take into account the impact of the U.S. Foreign Account Tax Compliance Act (“FATCA”) or any of its aspects.*

*This summary is based upon the law, administrative practice and prevailing interpretations as in effect on the date of this Prospectus. Legislative, judicial or administrative changes or interpretations may, however, be forthcoming that could alter or modify the statements and conclusions set forth herein. Any such changes or interpretations may be retroactive and could affect the tax consequences to the holders of the Notes. In this respect, it should specifically be noted that the summary reflects the significant changes to the taxation of bonds (incl. the Notes) as introduced by the latest amendment to the Czech income taxes act which became effective as of 1 January 2021 (further referred to as the “2021 ITA Amendment”). The 2021 ITA Amendment has been approved by the Czech Parliament and promulgated in the Collection of Laws of the Czech Republic and, accordingly, has become a law. That said, the 2021 ITA Amendment has not been signed by the president of the Czech Republic and there is a risk that the presidential actions can render both the enactment as well as the effective date of the 2021 ITA Amendment susceptible to challenge in front of the courts. Furthermore, it should be noted that the new 2021 ITA Amendment rules affecting taxation of bonds (incl. the Notes) are untested in practice and there is neither any prevailing interpretation nor any administrative guidance available.*

*The description below does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities and commodities and certain investment funds) may be subject to a special tax regime.*

*The description below assumes that the person receiving any payments arising from the Notes is the beneficial owner of such income, notably that such person is not an agent or an intermediary, or who otherwise receives such payments on behalf of another person.*

*It is recommended that parties interested in acquiring the Notes consult their legal and tax advisors with regard to the tax, foreign exchange and legal consequences of purchasing, selling or holding the Notes and receiving payments under the tax and foreign exchange legislation in effect in the Czech Republic and the countries where such parties reside, as well as countries in which proceeds from holding or selling the Notes could be taxed.*

The Issuer is, under certain conditions, obliged to withhold and pay withholding tax on income from the Notes.

### Interest Income

Interest income on the Notes (with the exception of Discount as described below) paid to:

- (a) an individual, or
- (b) a taxpayer other than an individual who is not treated as a resident of the Czech Republic for tax purposes and does not hold the Notes through a permanent establishment in the Czech Republic,

is generally subject to a withholding tax to be withheld (and paid to the tax authorities) by the Issuer. The tax rate is 15 per cent. or 35 per cent., unless decreased or eliminated by an applicable double taxation treaty (or, in the specific respect of Taiwan, by the Czech Act on elimination of double taxation with Taiwan; which hereinafter is also included in the term “double taxation treaty”). The 15 per cent. rate is applicable with respect to:

- (a) Czech tax resident individuals, and
- (b) recipients (whether individuals or not), who are tax residents in (i) an EU/EEA-member state, or (ii) a country or jurisdiction with which the Czech Republic has an effective double tax treaty or an effective double (or multilateral) treaty on the exchange of information.

The 35 per cent. rate is applicable with respect to other Czech tax non-resident recipients. The withholding tax represents final Czech tax liability in respect of the interest income on the Note, save for certain exceptions in the case of an individual or a taxpayer other than an individual who are not treated as residents of the Czech Republic for tax purposes (either of them further referred as the “**Non-Czech Holder**”), but are tax residents in an EU/EEA-member state and decide to include the interest income in a Czech self-assessment tax return where the withheld tax would be credited against the tax liability declared in the tax return with any overpayment being refunded subject to standard rules.

Interest income on the Notes paid to the Non-Czech Holder who is not an individual and holds the Notes through a permanent establishment in the Czech Republic, is generally subject to a securing tax to be withheld (and paid to the tax authorities) by the Issuer, unless the recipient of the interest is a tax resident in an EU/EEA-member state or the obligation to withhold is waived based on a tax authority’s decision. The rate of the securing tax is 10 per cent. (applicable on a gross basis). Such interest income recipient is, irrespective whether or not being a tax resident in an EU/EEA-member state and whether the obligation to withhold is waived based on a tax authority’s decision, obliged to file a tax return and therein declare the interest income (and claim related expenses, if any). This means that the interest income would be taxed on a net basis (rather than on a gross basis) using standard corporate income tax rate of 19 per cent. (the 10 per cent. securing tax, if applicable, would be credited against the tax liability declared in a tax return with any overpayment being refunded subject to standard rules).

Interest income on the Notes paid to a taxpayer other than an individual, who is treated as a resident of the Czech Republic for tax purposes, is not subject to withholding tax. Such holder of the Notes would include the interest income (on an accrual basis) in its general tax base (subject to corporate income tax at a rate of 19 per cent.).

A double tax treaty between the Czech Republic and the country of which the recipient of interest income is resident for tax purposes may reduce or even eliminate the tax imposed on such income in the Czech Republic. The entitlement to such benefit under a double tax treaty is generally conditional upon meeting conditions specified in the relevant double tax treaty, the satisfaction of which may need to be proved to the Issuer. For example, evidence of the recipient’s tax residence in the other state or of beneficial ownership of the income by the recipient may have to be produced to the Issuer who bears a corresponding burden of proof with respect to the tax authorities. Interest paid to a related foreign legal entity may be, under certain conditions, fully exempt from the Czech corporate income tax (including any withholding tax) under the Council Directive 2003/49/EC of 3 June 2003, on a common system of taxation applicable to interest and royalty payments made between associated companies of different Member States (Interest and Royalties Directive), as implemented in the Czech tax law.

Selected categories of taxpayers (for example, charitable foundations or the Guarantee Fund of securities traders) are exempt from tax on interest income, subject to certain conditions.

## **Capital gains/Losses**

### *Non-Czech Holders*

Income realised by a Non-Czech Holder not holding the Notes through a permanent establishment in the Czech Republic, from the sale of the Notes to another Non-Czech Holder, not purchasing the Notes through a permanent establishment in the Czech Republic, will not be subject to taxation in the Czech Republic.

Income realised by a Non-Czech Holder, whether holding the Notes through a permanent establishment in the Czech Republic or not, from the sale of the Notes to (i) an individual or to a taxpayer other than an individual who is, in each case, for tax purposes treated as a resident of the Czech Republic (either of them further referred to as the “**Czech Holder**”) or to (ii) a Non-Czech Holder acquiring the Notes through a permanent establishment in the Czech Republic, will be subject to taxation in the Czech Republic, unless such income is exempt from tax (as described further below) or the selling Non-Czech Holder is resident for tax purposes in a country within the meaning of a double taxation treaty between that country and the Czech Republic, pursuant to the terms of which the right to tax that income is conferred exclusively to the former country and the Non-Czech Holder is entitled to enjoy the benefits of that double taxation treaty.

Income realised by Non-Czech Holders holding the Notes in connection with the business activities through a permanent establishment in the Czech Republic from the sale of the Notes will be subject to taxation in the Czech Republic regardless of the status of the buyer.

If income realised by a Non-Czech Holder from the sale of the Notes is subject to taxation in the Czech Republic (as discussed in the foregoing paragraphs), a Czech Holder or a permanent establishment in the Czech Republic

of a Non-Czech Holder paying that income will be obliged to withhold an amount of 1 per cent. on a gross basis representing the securing tax, unless the Non-Czech Holder selling the Notes is a tax resident in an EU/EEA-member state or the obligation to withhold is waived based on a tax authority's decision. The recipient is, irrespective whether or not being a tax resident in an EU/EEA-member state and whether the obligation to withhold is waived based on a tax authority's decision, obliged to file a tax return and therein declare the income (and claim expenses, in particular the purchase price of the Notes). The tax securing will be credited against the final tax liability of the Non-Czech Holder selling the Notes with any overpayment being refunded subject to standard rules.

Income realised by a Non-Czech Holder from the sale of the Notes to (i) a Czech Holder or to (ii) a Non-Czech Holder acquiring the Notes through a permanent establishment in the Czech Republic, will be exempt from taxation in the Czech Republic, if the selling Non-Czech Holder is an individual who has held the Notes for more than three years prior to their sale or his/her (gross) worldwide income from the sale of securities (including the Notes) in a given calendar year does not exceed the amount of CZK 100,000, provided, in each case, that the Notes have not been held in connection with the business activities of the Non-Czech Holder, or if so, the Notes are sold more than three years following the termination of such business activities.

Taxable gain realised by a Non-Czech Holder from the sale of the Notes is generally subject to Czech corporate income tax of 19 per cent. or progressive personal income tax of 15 and 23 per cent. depending on the individual's applicable tax bracket (the threshold, calculated including this and most other types of income, for the higher bracket is 48 times the average wage, which amounts to CZK 1,701,168 in 2021).

The above rules apply equivalently if the Notes are sold to the Issuer.

Permanent establishments of Non-Czech Holders who are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions may be required to re-measure the Notes to fair value for accounting purposes, whereby the unrealised gains and losses would be accounted for as revenue or expense, respectively. Such revenue is generally taxable and the corresponding expense is generally tax deductible for Czech tax purposes.

#### *Czech Holders*

Any gains upon the sale of the Notes will generally be taxable, unless exempt from tax, at the standard tax rates (as stated below) and in the case of Czech Holders who keep accounting books and hold the Notes as part of their business property (in principle, all legal entities and certain individuals), any losses will generally be tax deductible. By contrast, a loss realised by a Czech Holder who is an individual other than that mentioned in the preceding sentence is generally non-deductible, except where such loss is compensated by taxable gains on sales of other securities realised in the same calendar year and the income from the sale of the Notes is not exempt from tax.

In the case of Czech Holders who are individuals, any gain derived from the sale of the Notes is exempt from Czech personal income tax if the individual has held the Notes for more than three years prior to their sale or if his/her (gross) worldwide income from the sale of securities (including the Notes) in a given calendar year does not exceed the amount of CZK 100,000, provided, in each case, that the Notes have not been held in connection with the business activities of the Czech Holder or if so, the Notes are sold more than three years following the termination of such business activities.

Taxable gain realised by a Czech Holder from the sale of the Notes is generally subject to Czech corporate income tax of 19 per cent. or progressive personal income tax of 15 and 23 per cent. depending on the individual's applicable tax bracket (the threshold for, calculated including this and most other types of income, for the higher bracket is 48 times the average wage, which amounts to CZK 1,701,168 in 2021). In the specific case of a Czech Holder who is an individual and holds the Notes as part of its business property, the respective income is also subject to social security and health insurance levies. Czech Holders are generally obliged to declare such income in their annual tax returns on a self-assessment basis.

The above rules apply equivalently if the Notes are sold to the Issuer.

Czech Holders who are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions and hold the Notes for the purposes of trading may be, under certain conditions, required to re-measure the Notes to fair value for accounting purposes, whereby the unrealised gains or losses would be

accounted for as revenues or expenses, respectively. Such revenues are generally taxable and the corresponding expenses are generally tax deductible for Czech tax purposes.

### **Discount**

In this section, “discount” refers to the excess of the amount payable by the Issuer to the noteholders upon the maturity of the Notes (or upon their early redemption) over the acquisition value of the Notes in the hands of the holder. This would include, but not be limited to, an issue of the Notes at less than their nominal value.

Czech and Non-Czech Holders who keep accounting books may be required to recognize the discount on accrual basis.

#### *Non-Czech Holders*

If the Notes were acquired with a discount, income realised by a Non-Czech Holder upon the Note’s maturity will be subject to taxation in the Czech Republic, unless the Non-Czech Holder is resident for tax purposes in a country within the meaning of a double taxation treaty between that country and the Czech Republic, pursuant to the terms of which the right to tax that income is conferred exclusively to the former country and the Non-Czech Holder is entitled to enjoy the benefits of that double taxation treaty.

If such income realised by a Non-Czech Holder upon the Note’s maturity (or upon its early redemption) is subject to taxation in the Czech Republic (as discussed in the foregoing paragraph), the Issuer will be obliged to withhold an amount of 1 per cent. on a gross basis of the whole amount paid by the Issuer (not only the discount, but also including the principal) representing the securing tax, unless the Non-Czech Holder is a tax resident in an EU/EEA-member state or the obligation to withhold is waived based on a tax authority’s decision. Such income recipient is, irrespective whether or not being a tax resident in an EU/EEA-member state and whether the obligation to withhold is waived based on a tax authority’s decision, obliged to file a tax return and therein declare the income (and claim expenses, in particular the purchase price of the Notes). The tax securing will be credited against the final tax liability of the Non-Czech Holder with any overpayment being refunded subject to standard rules.

Taxable discount realised by a Non-Czech Holder upon the Note’s maturity (or upon its early redemption) is generally subject to Czech corporate income tax of 19 per cent. or progressive personal income tax of 15 and 23 per cent. depending on the individual’s applicable tax bracket (the threshold for, calculated including this and most other types of income, for the higher bracket is 48 times the average wage, which amounts to CZK 1,701,168 in 2021).

#### *Czech Holders*

The discount realised by a Czech Holder upon the Note’s maturity (or upon its early redemption) is generally subject to Czech corporate income tax of 19 per cent. or progressive personal income tax of 15 and 23 per cent. depending on the individual’s applicable tax bracket (the threshold for, calculated including this and most other types of income, for the higher bracket is 48 times the average wage, which amounts to CZK 1,701,168 in 2021).

### **Notification of Individuals’ Exempt Income**

In respect of each occasion at which individuals receive income exempt from Czech personal income taxation exceeding CZK 5,000,000, they are obliged to notify the Czech tax authorities of the amount of such tax-exempt income (and certain details of it) within the deadline for Czech personal income tax filing for the relevant year.

### **Foreign exchange regulation**

Under Czech Constitutional Act no. 110/1998 Coll., on security of the Czech Republic, the Czech Government or its prime minister respectively may declare an emergency (in Czech: *nouzový stav*). If the Czech Government declares an emergency, payments in foreign currency or abroad generally, interbank transfers of monies from abroad to the Czech Republic and/or sale of securities (including the Notes) abroad may be suspended in accordance with the Crisis Management Act for the duration of such emergency. Such an emergency may be declared for a maximum period of 30 days unless prolonged by the approval of the Chambers of Deputies of the Parliament of the Czech Republic. Recently, the Czech Government declared an emergency in connection with the COVID-19 pandemic from March to May 2020 and from October 2020 up to the date of this Prospectus.

## ENFORCEMENT OF CIVIL LIABILITIES AGAINST THE ISSUER

*This chapter contains only general information and relies on information obtained from publicly available sources. The Issuer or its advisers make no representation as to the accuracy or completeness of the information included herein. Any prospective purchasers of the Notes should therefore not rely upon the information included herein and are recommended to contact their legal advisers for consultation about the enforcement of claims in respect of the Issuer's private law liabilities within any relevant jurisdiction.*

The Terms and Conditions provide, among other things, that the courts of the Czech Republic shall have jurisdiction to settle any disputes, which may arise out of or in connection with the Notes (including a dispute relating to any non-contractual obligations arising out of or in connection with the Notes).

The recognition and enforcement of foreign judgments in civil and commercial matters in the Czech Republic is governed by EU law, public international treaties and Czech law. EU Regulation 1215/2012 of 12 December 2012 on jurisdiction and the recognition and enforcement of judgments in civil and commercial matters (the “**Regulation 1215/2012**”) is directly applicable in the Czech Republic. Based on this regulation, court rulings issued by any court authority in the EU member states with regard to civil and commercial matters are enforceable in the Czech Republic, subject to the rules set forth in the Regulation 1215/2012 and, conversely, court rulings issued by court authorities in the Czech Republic with regard to civil and commercial matters are reciprocally enforceable in the EU member states.

As from 1 January 2021, the Regulation 1215/2012 no longer applies in the UK. As a result, persons enforcing a judgment obtained before English courts no longer benefit from the recognition of such judgment in EU courts (including the Czech Republic) under the Regulation 1215/2012. However, on 28 September 2020, the UK deposited an instrument of accession to the Hague Convention on Choice of Court Agreements 2005 (the “**Hague Convention**”). The Hague Convention is an international convention which requires contracting states to recognise and respect exclusive jurisdiction clauses in favour of other contracting states and to enforce related judgments. As the Czech Republic already is a party to the Hague Convention by virtue of being a member state of the EU, judgments handed down by a UK court should be recognised and enforced under the Hague Convention in the Czech Republic. However, the scope of the Hague Convention is limited to contracts containing exclusive jurisdiction clauses and there is no assurance that such judgments will be recognised on exactly the same terms and in the same conditions as under the Regulation 1215/2012.

According to the EC Regulation No. 593/2008 of 17 June 2008 on the law applicable to contractual obligations, parties to a contract may, subject to the terms set out therein, select the law which will govern their contractual relations in civil and commercial matters and Czech courts will give effect to such choice of law. In addition, EC Regulation No. 864/2007 on the law applicable to non-contractual obligations of 11 July 2007 allows parties to make a choice with respect to governing law of their non-contractual obligations in civil and commercial matters, subject to the terms set out therein. Unless parties to the dispute agreed otherwise, or unless courts of a different member state have an exclusive jurisdiction, foreign entities are able to bring civil proceedings before Czech courts against individuals and legal entities domiciled therein. In court proceedings, Czech courts apply their respective national procedural rules and their judgments are enforceable in their respective jurisdictions, subject to certain statutory limitations on the ability of creditors to enforce judgments against certain assets.

Any person bringing an action in the Czech Republic may be required to: (i) submit to the court a translation in the Czech language (apostilled if applicable pursuant to respective international treaties) of any relevant document prepared by a sworn translator authorised by such court; and (ii) pay a court filing fee.

In the event that court judgments against the Issuer are issued by court bodies of non-EU member states, the following rules shall apply:

- (a) In cases where the Czech Republic concluded an international treaty with a specific country on the recognition and enforcement of court rulings, the recognition and enforcement of court rulings issued in such country is processed in accordance with the provisions of the applicable international treaty.
- (b) If no international treaty on the recognition and enforcement of court rulings exists, then the rulings of foreign courts shall be recognised and enforced in the Czech Republic in accordance with Czech Act No. 91/2012 Coll., on private international law, as amended (the “**Czech Private International Law Act**”) and other relevant legislation. In the event of a foreign ruling against a Czech individual or legal entity, such a foreign ruling shall be recognised and enforced if, among other things, actual reciprocity has been

established regarding the recognition and enforcement of judgments rendered by Czech courts in the relevant country.

The Czech Ministry of Justice may, upon agreement with the Czech Ministry of Foreign Affairs and other ministries, declare that reciprocity has been established with respect to a particular foreign country. Such declaration is binding on the Czech courts and other state authorities. If such declaration of reciprocity has not been issued with regard to a particular country, however, this does not automatically mean that reciprocity cannot be established in a given case. In such cases, the recognition of reciprocity would be assessed as part of the proceedings by the Czech court based on the actual situation in a given country with regard to the recognition of judgments of Czech authorities.

On the other hand, even if reciprocity has been established and declared by the Ministry of Justice with respect to judgments issued by judicial bodies of a particular foreign country, such judgments may not be recognised and enforced under applicable provisions of Czech law if, for example: (i) the matter falls within the exclusive jurisdiction of the courts of the Czech Republic, or in the event that the proceedings could not have been conducted by any authority of a foreign state, should the provisions on the jurisdiction of Czech courts be applied for considering the jurisdiction of the foreign authority (unless the party against whom the decision was issued voluntarily submitted to the authority of the foreign body); (ii) proceedings are underway before a Czech court with regard to the same legal relations and if said proceedings commenced prior to the proceedings abroad, in which the judgement whose recognition has been proposed was issued; (iii) a Czech court has issued or recognised a final judgment in the same matter, or proceedings regarding the same matter are pending before a Czech court; (iv) the foreign authority deprived the party to the proceedings against whom the judgment was made of the opportunity to properly participate in the proceedings (i.e., in particular, if such party had not been duly served for the purposes of the initiation of the proceedings); or (v) the recognition of a foreign judgment would be contrary to the public order in the Czech Republic.

## GENERAL INFORMATION

### Corporate Information

The Issuer is a limited liability company established under the laws of the Czech Republic and registered in the Commercial Register maintained by the Municipal Court in Prague, File No. C 108316, with company identification number 272 60 364. Its registered seat is Na Hřebenech II, 1718/8 140 21, Prague 4 - Nusle, its telephone number is +420 220 221 111 and its website is [www.net4gas.cz](http://www.net4gas.cz).

### Authorisation

The creation and issue of the Notes has been authorised by the resolution of the Issuer's Executive Directors dated 5 January 2021 and by the resolution of the Issuer's Supervisory Board dated 5 January 2021.

### Legislation Under Which Notes have been Created

The Notes are to be issued in accordance with the Czech Bonds Act, Czech Act No. 89/2012 Coll., Civil Code, and the Prospectus Regulation.

### Expenses Related to Admission to Trading

Application has been made for the Notes to be admitted to trading on the Regulated Market. It is expected that the admission of the Notes to trading on the Regulated Market will be granted on or around the Issue Date. The estimated amount of fees associated with the admission of the Notes to trading on the Regulated Market is CZK 50,000 as the listing fee and CZK 10,000 as the annual trading fee.

### Events Specific to the Issuer

The Issuer is not aware of any event specific to it or to the Group which would have a material impact on the assessment of the Issuer's solvency.

### Significant/Material Change

Since 31 December 2019 there has been no material adverse change in the prospects of the Group.

Since 30 September 2020, there has been no significant change in the financial or trading position of the Group.

### Legal or Arbitration Proceedings

There are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Group.

### Auditors

Deloitte Audit s.r.o., with its registered office at Italská 2581/67, Vinohrady, 120 00 Praha 2, Czech Republic, member of the Chamber of Auditors of the Czech Republic, registration number 79, audited the Annual Financial Statements and issued unqualified auditor's opinions on the Annual Financial Statements. The statutory auditor responsible for the audit of the Issuer's accounts is Mr. Václav Loubek, registration number 2037.

The Issuer declares that neither Deloitte Audit s.r.o. nor any of its members, employees or agents has any material interest in the Issuer. In connection with this statement, the Issuer especially took into account the Auditors' potential ownership of securities issued by the Issuer, potential prior participation in any governing bodies of the Issuer, or potential affiliation with other entities involved in the Issue.

### Documents on Display

For as long as the Notes are admitted to trading on the Regulated Market, copies of the following documents are available electronically on the website of the Issuer [www.net4gas.cz](http://www.net4gas.cz) in section *Investors – Bonds* and also for inspection during regular business hours from 9 a.m. to 4 p.m. CET at the Issuer's registered office at Prague 4 –

Nusle, Na Hřebenech II 1718/8, Post Code: 140 21, the Czech Republic, and at the Specified Office of the Fiscal and Paying Agent:

- (a) the constitutional documents of the Issuer;
- (b) the Fiscal and Paying Agency Agreement.

In addition, the Annual Financial Statements, this Prospectus and any supplements to the Prospectus will be available, in electronic format, on the website of the Issuer [www.net4gas.cz](http://www.net4gas.cz) in section *Investors – Bonds*.

#### **Interest of Persons Involved in Issuance and Offering of Notes**

The Issuer is not aware of any interest of persons involved in the issuance and offering of the Notes which would be material for the Issue, except for any fees payable to ČS acting as coordinator, joint lead manager, fiscal and paying agent, the listing agent and the calculation agent, and ČSOB and KB, acting as joint lead managers, in connection with the offering and subscription and sale of the Notes.



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