



NET4GAS, s.r.o.

Up to CZK 7,000,000,000 Fixed Rate Bonds due July 2025

This document constitutes the prospectus (the **Prospectus**) in respect of bonds (*in Czech: dluhopisy*) in accordance with Czech Act No. 190/2004 Coll., Czech Act on Bonds, as amended (the **Czech Bonds Act**) up to the aggregate nominal amount of CZK 7,000,000,000 (*in words: seven billion Czech Koruna*) (the **Bonds** or the **Issue**) issued by NET4GAS, s.r.o., a limited liability incorporated company 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**). The issue date of the Bonds is 17 July 2018 (the **Issue Date**). The ISIN of the Bonds assigned by the Central Depository (*in Czech: Centrální depozitář cenných papírů, a.s.*) is CZ0003519472.

The issue price of the Bonds issued on the Issue Date is equal to 99.95 per cent. of nominal amount. In accordance with the terms and subject to conditions of the Exchange and Tender Offer (as defined in section *Subscription and Sale* of the Prospectus), the issuance of the Bonds on the Issue Date is to be in part, in respect of the Exchanged Bonds (as defined in section *Subscription and Sale* of the Prospectus), settled free of payment of any issue price or other amount or amounts, but in exchange for consideration comprising certain Existing Notes (as defined in section *Subscription and Sale* of the Prospectus). Specifically, each holder of the Existing Notes, whose Existing Notes are accepted for exchange pursuant to the Exchange and Tender Offer, will receive, on the Issue Date, an aggregate nominal amount of the Bonds (rounded down to the nearest CZK 3,000,000) equal to the product of (i) the aggregate nominal amount of Existing Notes accepted for exchange and (ii) 1.011186, and any cash payments to be made by the Issuer pursuant to the terms and subject to conditions of the Exchange and Tender Offer. The issue price of any Bonds 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 Bonds issued after the Issue Date.

Unless previously redeemed or purchased by the Issuer and cancelled, the Bonds will be redeemed at their outstanding principal amount on 17 July 2025 (the **Maturity Date**) (see Condition 6.1 (Redemption at Maturity)). The Issuer may, at its option, redeem all of the Bonds at their nominal amount plus accrued and outstanding interest and subject to other conditions as provided in the Terms and Conditions (as defined in this Prospectus), in the event of certain tax changes as described under Condition 6.3 (*Redemption for Taxation Reasons*). The Bonds will bear fixed interest payable annually on 17 July each year, commencing on 17 July 2019.

This Prospectus constitutes a prospectus for the purposes of Article 3 of EU Directive 2003/71/EC of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading and amending Directive 2001/34/EC, as amended and implemented in each Member State (the **Prospectus Directive**) and Section 35 *et seq.* of Czech Act No. 256/2004 Coll., on conducting business in capital markets, as amended (the **Czech Capital Markets Act**) and has been prepared in accordance with, and including the information required by, Annexes IX and XIII of EU Regulation (EC) No. 809/2004 of 29 April 2004 implementing the Prospectus Directive (the **Prospectus Regulation**) as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, as amended. The Prospectus, which includes the text of the Terms and Conditions (as defined in this Prospectus), has been approved by the Czech National Bank (the **CNB**) in its decision on 3 July 2018, ref. no. 2018/084636/CNB/570, file no. S-Sp-2018/00035/CNB/572, which became final and effective on 5 July 2018. By approving the Prospectus the Czech National Bank certifies that the Prospectus contains all information necessary for the investor to take an investment decision. The Czech National Bank assesses neither the financial results nor the financial situation of the Issuer and by approving the Prospectus it does not guarantee Issuer's future profitability or its ability to pay the yields and the principal value of the Bonds.

Application has been made for the Bonds to be admitted to trading on the regulated market (*in Czech: Regulovaný trh*) of Burza cenných papírů Praha, a.s. (the **Prague Stock Exchange** or the **PSE**). The Bonds are expected to be admitted to trading on the PSE on or around the Issue Date. The date of this Prospectus is 29 June 2018.

If required, the Issuer will update this Prospectus in the form of supplements. Each such supplement will be approved by the CNB and published in the required manner. For the purpose of listing the Bonds on the regulated market, this Prospectus will be valid for twelve months from the date on which its approval by the CNB became final and effective. The persons interested in the purchase of any Bonds should make their investment decision on the basis of information provided not only in this Prospectus, but also in its supplements (if any).

An investment in Bonds issued under this Prospectus involves certain risks. For a discussion of these risks see *Risk Factors*.

The Bonds 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 Bonds are being offered outside the United States by the Lead Manager (as defined below) in accordance with Regulation S under the Securities Act (**Regulation S**), and may not be offered, sold or delivered within the United States 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 with stable outlook by Fitch Ratings Limited (**Fitch**) and BBB with stable outlook by Standard & Poor's Credit Market Services Europe Limited (**S&P**). The Bonds to be issued are expected to be rated BBB by both S&P and Fitch.

Each of S&P and Fitch is established in the European Union and registered according to the EU regulation 1060/2009 of 16 September 2009 on credit rating agencies (the **CRA Regulation**). As such, each of S&P and Fitch 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) 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.

Lead Manager

Česká spořitelna, a.s.

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IMPORTANT INFORMATION

The Issuer accepts the responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case) the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

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 confirms that where information has been sourced from a third party, this information has been accurately reproduced, and so far as the Issuer is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the Bonds 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 Lead Manager.

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 Bonds 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 Bonds 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 Lead Manager nor any of its 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 Lead Manager nor any of its affiliates accepts 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 Lead Manager expressly does not undertake to review the financial condition or affairs of the Issuer or to advise any investor in the Bonds of any information coming to its attention.

Neither this Prospectus nor any other information supplied in connection with the Bonds (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 Lead Manager that any recipient of this Prospectus or any other information supplied in connection with the Bonds should purchase any Bonds. Each investor contemplating purchasing any Bonds 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 Bonds constitutes an offer or invitation by or on behalf of the Issuer or the Lead Manager to any person to subscribe for or to purchase any Bonds. None of the Issuer or the Lead Manager or any of their affiliates makes any representation to any investor in the Bonds 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 Bonds 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 Bonds may be restricted by law in certain jurisdictions. The Issuer and the Lead Manager do not represent that this Prospectus may be lawfully distributed, or that any Bonds 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 Lead Manager which is intended to permit a public offering of any Bonds or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Bonds 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 Bonds may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Bonds. In particular, there are restrictions on the distribution of this Prospectus and the offering or sale of Bonds in the United States and the EEA (including the Czech Republic and the United Kingdom). In particular, the Bonds 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 Bonds and on distribution of this Prospectus and other offering material relating to the Bonds, see *Subscription and Sale*.

This Prospectus has been prepared on a basis that would permit an offer of the Bonds with a denomination of at least CZK 3,000,000 (or its equivalent in any other currency), i.e. only in circumstances where there is an exemption from the obligation under the Prospectus Directive to publish a prospectus. As a result, any offer of the Bonds in any Member State of the EEA which has implemented the Prospectus Directive (each, a **Relevant Member State**) must be made pursuant to an exemption under the Prospectus Directive, as implemented in that Relevant Member State, from the requirement to publish a prospectus for offers of the Bonds. Accordingly any person making or intending to make an offer of the Bonds in that Relevant Member State may only do so in circumstances in which no obligation arises for the Issuer or the Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive, in each case, in relation to such offer. Neither the Issuer nor the Lead Manager have authorised, nor do they authorise, the making of any offer of the Bonds in circumstances in which an obligation arises for the Issuer or the Lead Manager to publish or supplement a prospectus for such offer. This Prospectus does not include a prospectus summary within the meaning of the Prospectus Directive in accordance with Section 36(2) of the Czech Capital Markets Act.

The language of this Prospectus is English. Certain legislative references and technical terms have been cited in their original language so that the correct technical meaning may be ascribed to them under applicable law.

This Prospectus will be available free of charge upon request 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. This Prospectus will also be published and made available in electronic form on the Issuer's website: www.net4gas.cz by selecting the following sections: Investors – Bonds.

PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Presentation of Financial Information

Unless otherwise indicated, the financial information in this Prospectus relating to the Issuer has been derived from the audited consolidated financial statements of the Issuer as of and for the year ended 31 December 2017 (the **2017 Financial Statements**) and the audited consolidated financial statements of the Issuer as of and for the year ended 31 December 2016 (the **2016 Financial Statements** and together with the 2017 Financial Statements, the **Financial Statements**). Due to a change in presentation of certain liabilities line items in 2017, current accrued employee benefits and current other non-financial liabilities as of 31 December 2016 are disclosed in this Prospectus on a revised presentation basis (derived from the 2017 Financial Statements).

PricewaterhouseCoopers Audit, s.r.o., with its registered office at Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, audited the Financial Statements and issued unqualified auditor's opinions on the Financial Statements.

The Issuer's financial year ends on 31 December, and references in this Prospectus to any specific year are to the 12-month period ended on 31 December of such year. The Financial Statements have been prepared in accordance with International Financial Reporting as adopted by the European Union (**IFRS**).

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 Bonds" 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 80-81 of this Prospectus.

Third Party Information

The Issuer has obtained certain statistical and market information that is presented in this Prospectus, in particular in sections "Risk Factors" and "Description of the Issuer" on such topics as the European gas sector and market and, in some instances, the Issuer's and BRAWA, a.s.'s (collectively 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. The Lead Manager has not independently verified the figures, market data or other information on which third parties have based their studies.

SUITABILITY OF INVESTMENT

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 should consult its legal advisers to determine whether and to what extent (1) Bonds are legal investments for it, (2) Bonds can be used as collateral for various types of borrowing and (3) other restrictions apply to its purchase or pledge of any Bonds. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Bonds under any applicable risk-based capital or similar rules.

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Bonds. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. In addition, factors which are material for the purpose of assessing the market risks associated with the Bonds are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the Bonds, but its inability to pay interest, principal or other amounts on or in connection with the Bonds may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which the Issuer may not currently be able to anticipate. The risks and uncertainties the Issuer describes below are not the only ones the Issuer may face. Additional risks not currently known to the Issuer or that the Issuer now deems immaterial may also harm the Issuer and affect their businesses, results of operations, financial condition and your investment. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and in the terms of the Bonds offer and reach their own conclusions prior to making any investment decision.

The risk factors described below are not stated in order of priority reflecting their significance or probability of occurrence.

1. Risks related to the Group's business and its ability to fulfil its obligations under the Bonds

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

The majority of gas transmitted by the Group is contracted under two material contracts with Gazprom Export LLC (the **Major Shipper**) and three other long-term transit contracts (the **Material Contracts**), which are due to expire gradually between 2019 and 2021, with the exception of the Gazelle Contract (as defined below), which is due to expire on 1 January 2035. The Material Contracts represent long-term relationships with four shippers. The Group derives the majority of its revenues from the Material Contracts, with the contracts with the Major Shipper being of particular importance. For the years ended 31 December 2017 and 2016, revenues from the Material Contracts accounted for 70 per cent. and 67 per cent., respectively, of the Group's total revenues.

Further, as a result of the capacity allocation procedure for the Capacity4Gas project (the **C4G Project**) which took place in March 2017, the Issuer concluded a new gas transmission contract with the Major Shipper (the **C4G Contract**). The Issuer is exposed to a certain risk that no revenues will be derived from the C4G Contract as it may be terminated in certain circumstances by 1 August 2019. In such a case, however, the Issuer shall generally be compensated by the Major Shipper for reasonably incurred expenses.

In the event that the relevant shipper stops making payments under the applicable Material Contract and it turns out that the Issuer is unable to enforce the contract or the enforcement takes unreasonably long time, this may have a material adverse effect on the Group's business, financial condition, results of operations, cash flows, prospects and the Group's ability to make full and timely payments on the Bonds. The risk of an adverse effect of such ability to pay on the Bonds is significantly increased if such non-payment or termination relates to the contracts with the Major Shipper. Reservation of capacities now contracted under the Material Contracts will after their expiry be subject to then applicable rules (whereas now this would result in a capacity auction under the Commission Regulation establishing a network code on capacity allocation mechanisms in gas transmission systems ((EU) No 459/2017). Therefore, there can be no assurance that the Group will be able to allocate the capacities at terms comparable to the terms contained in the Material Contracts. The risks summarized in this paragraph apply also to the C4G Contract.

The Material Contracts as well as the C4G Contract 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:

- (a) 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; and

- (b) "hardship clauses" where 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 are obliged in good faith (a) to enter into discussions to restore the initially envisaged economic balance for both parties and/or (b) appropriately adjust the contract terms to reflect the new situation.

1.2 The Group's revenue from its gas transmission network is partially derived from regulated tariffs, the changes in which may have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

Revenues of the Group for its transit business, which provides gas deliveries across the Czech Republic to customers outside of the Czech Republic (**Transit**), are dependent on transmission tariffs and subject to price caps imposed by the Czech Energy Regulatory Office (**ERO**). The charges are determined by the entry and exit tariffs applicable at the relevant entry and exit border points. As of the date of this Prospectus, the Issuer is a party to over one hundred thirty contracts for gas transmission (with a duration of one month and longer), including the Material Contracts.

Revenues of the Group for its transport business, which serves the needs of the Czech Republic and transports gas into the domestic distribution grid, gas storages and to large industrial customers (**Transport**), are subject to price regulation by the ERO which takes the form of a revenue cap on a cost plus basis, with certain incentives. While adjustments to the tariff are reviewed annually, an inadequate allowed cost of capital 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.

The Group cannot guarantee that future tariffs will be set at a level that would allow it to improve or maintain its profitability margins or maintain or improve its infrastructure in line with current expectations or future potential competition. Future changes in the tariff structure applicable to the Group's gas transmission network could have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

In addition, the Commission Regulation establishing a network code on harmonised transmission tariff structures for gas ((EU) 2017/460) entered into force in April 2017, with the majority of its provisions entering into force in May 2019. It sets out a new EU-wide system of determining transmission tariffs which will replace the regime outlined above. The new system should generally be cost reflective. The impact of its actual implementation on the Group is not yet clear and it cannot be ruled out that it may have an adverse effect on the Group's revenues under contracts concluded after these tariffs enter into force, and, in turn, on its business, financial condition and results of operations.

However, these risks related to changes in future tariffs and to the network code do not apply to the existing long-term contracts (i.e. the Material Contracts and the C4G Contract) which will not be affected by such changes.

1.3 Revocation of certain exemptions relating to the Gazelle Pipeline could affect the Group's performance and results of operations.

In respect of the Gazelle transit pipeline (the **Gazelle Pipeline**), the Group has been granted exemptions by the ERO 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 the 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.s., 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.

1.4 **Potential sanctions with respect to, for example, certain pipeline projects.**

On 2 August 2017, the United States adopted the Countering America's Enemies 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 excludes from sanctions those projects that were initiated before 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 C4G Project. In addition, the C4G 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, the broad discretion given to the relevant United States authorities, and the potential view that the C4G Project relevantly relates to the Nord Stream 2 project, which, however, as indicated in the above mentioned guidance, should not fall within the scope of the Sanctions Act as it was arguably initiated before 2 August 2017. Further, the Group cannot rule out that, in future, more specific sanctions will be imposed in relation to the Nord Stream 2 project or the C4G Project. The aforementioned risks may lead to, among other things, the abandonment of the C4G Project or inability of the Group to obtain third party funding (should such funding be needed) for the C4G Project which, in turn, may have an adverse effect on the Group's business, financial condition, results of operations, cash flow and prospects.

1.5 **Recent or future changes to applicable regulations could create uncertainty in matters that are significant to the Group's business and have an adverse impact on its financial condition or results of operations.**

The Group operates in a highly-regulated industry. The laws, regulations, directives, decisions and policies of the EU and the Czech Republic determine the scope of the Group's activities and affect matters such as procedures for allocation of capacities and tariffs, permitting and licensing requirements and limitations on land use, employee health and safety, unbundling requirements in the gas transmission businesses or the EU's policies with respect to gas transmission infrastructure. Changes to EU law or their Czech implementation (including new legal requirements) may create new legal risks for the Group's operations and affect the Group's business and income in ways it cannot predict. Such legislation or regulation may be directly applicable to the Group in its role as a transmission system operator (**TSO**), or indirectly (such as environmental regulation relating to carbon emissions, competition regulation given the Group's position).

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 licenses, permits and other enforcement measures that could have the effect of limiting the Group's operations

1.6 **Upcoming developments in European and national regulation of the gas sector could give rise to additional expenditure for the Group.**

The Third Energy Package sets out areas in which European network codes for cross-border network and market integration are to be developed. The European Commission amended Annex 1 to Regulation (EC) No 715/2009 relating to congestion management procedures and transparency requirements in 2015 and has recently adopted two European network codes relating to capacity allocation mechanisms (Regulation (EU) No 459/2017) and tariffs (Regulation (EU) No 460/2017). In addition, there are currently ongoing developments regarding the amendment of Directive 2009/73/EC concerning common rules for the internal market in natural gas which could indirectly affect the Group and its operations by affecting projects such as Nord Stream 2. This amendment could potentially increase the risk of termination or inability to perform the C4G Project. Such a development could affect the Group's business, financial condition, results of operations, cash flow and prospects.

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.

At the national level, the current regulatory period (the **fourth regulatory period**) which commenced in 2016 was prolonged until the end of 2020. The fifth regulatory period is currently being prepared and the ERO is reflecting the public consultation which took place in 2017. The regulatory model is expected to be based on the cost-plus method (in line with the tariff network code mentioned above). However, the discussions regarding the fifth regulatory period are currently in their early stages and the final parameters of the fifth regulatory period cannot be presumed. There is therefore a risk that the new regulatory requirements within the fifth regulatory period might have an adverse impact on the Group's business, financial condition, results of operations, cash flow and prospects.

1.7 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/or exemptions and dispensations (the **Authorisations**) in the Czech Republic. In particular, the Issuer holds an exclusive gas transmission licence issued by the 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 subject to the possibility of revocation by the ERO if the Issuer were to be declared insolvent. The issuance of these Authorisations may be subject to conditions, requirements and/or restrictions which the Group is obliged to meet continually. Failure to meet such conditions, requirements and/or restrictions may give grounds for imposition of a penalty and/or remedial measures or a revocation of such Authorisation by the relevant authority.

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 be required to pay significant amounts to comply with the requirements associated with obtaining or renewing these Authorisations (for example, 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 and/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's business, operations, financial condition or results as the Group will not be able to carry on its current activities as it currently is. 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 and/or other requirements for receiving such Authorisations.

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

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.

As the Group's transmission network is primarily powered by gas turbine-driven compressors, it emits carbon dioxide which may result in costs in the form of emission allowances.

The emission allowance consumption depends on the level of utilisation under the Group's Transit and Transport contracts. The Group participates in the European emissions trading system under which producers and operators, which meet the yearly benchmarks, receive a share of allowances for free until 2020. If the amount of free allowances is not sufficient, additional allowances may be purchased

in the market. The cost of such extra emission allowances purchased in the market and any change in the emission allowance prices may have an impact on the Group's financial condition.

Compliance with environmental regulations in the Czech Republic and abroad may materially increase the Group's costs of operations. Recent 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 (which may change over time).

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. 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.

1.9 Risks related to operating activities.

Risks related to natural disasters, equipment malfunction and human error.

The Group's transmission operations are conducted on the basis of high-pressure pipelines. The transmission of natural gas carries high risk and is exposed to increased costs as a result of damage from disruptions, system or equipment breakdowns, accidents, natural disasters (for example heavy storms, thunderstorms, earthquakes or landslides), operational hazards, equipment malfunction, human error, failure to maintain the transmission network, processes resulting from unexpected material defects or fatigue, major system or network imbalances, IT system and processes failures (including system hardware and software failures, viruses, accidents or security breaches), performance below expected levels of capacity and efficiency and/or other unforeseen 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 natural environment. By operation of law, the Group is not liable towards the shippers for failure to provide gas transmission services in emergency situations. Any such failure of the Group's gas transmission network may be costly to repair and any outages may cause the Group to lose revenues due to its inability to transmit gas or to provide services in accordance with the contracts with its customers, which, in turn, may adversely affect its business, financial condition, results of operations or reputation and expose it to liability, including class action litigation.

Risks related to third party action.

The operations of the Group may be disrupted by unforeseen events such as terrorist attacks, sabotage, breaches of security or other intentional acts or crimes which may cause damage to the Group's assets or harm key employees and/or otherwise negatively affect the Group's network or operations and may cause network failures or system breakdowns. Such acts may adversely affect the Group's business, its financial condition, the results of its operations its reputation,. Unforeseen events may also cause additional operating costs such as higher insurance premiums. They may also result in the Group's inability to obtain insurance protection against certain types of risks. These risks may have an adverse effect on the business, financial condition or results of operations of the Group or the ability of the Group to meet its obligations under the Bonds.

In addition, accidents that may occur at the Group's facilities in connection with the use of certain of the Group's assets may result in the harm and death of humans and other serious consequences and expose the Group to potential claims resulting in significant liability, use of financial and management resources and possible reputational damage.

The Group's infrastructure investments could be subject to delays.

As a TSO, the Issuer 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. 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, such assumptions may prove not to be correct and the investment projects may not develop as planned or issues relating to such investment projects may put the Group in a position of noncompliance with legislation. Furthermore, the Group may not be able to raise sufficient capital to finance such investment plans at rates that are economically viable. In summary, such investments may not yield the projected returns, if any, or may not be completed as expected.

In particular, the Group is currently contemplating the following (interlinked) projects: Project STORK II (which is to further develop the interconnection between the Czech Republic and Poland) and Project Moravia (which is to ensure sufficient exit capacity for the regions of Central and North Moravia, to increase reliability of gas transmission in the Moravia region and to strengthen the security of supply in the Czech Republic generally). A positive decision has been received on the investment request for cross-border cost allocation which was submitted by the Group and the Polish TSO (GAZ-SYSTEM S.A.) to the ERO and the Polish regulator (URE) in line with the Regulation of the European Parliament and the Council No. 347/2013/EU on guidelines for trans-European energy infrastructure. The implementation of both of these projects now depends mainly on the final investment decision of the Group and the Polish transmission system operator.

Further, as of the date of this Prospectus, the Group is developing the C4G Project, which is to connect the gas infrastructure operated by the Group to the planned EUGAL pipeline in Germany and to increase its capacity for the needs of gas transit in the Czech Republic. Currently, the Group is in the process of obtaining the necessary public permits while simultaneously being engaged in multiple procurement procedures for the C4G Project.

Any postponement or failure to complete the contemplated projects may have an adverse effect on the generation of the Group's expected revenues, may lead to claims of damages and, as a result, on the Group's business, financial condition, results of operations, cash flows and prospects.

1.10 The Group's results of operations may be adversely affected by the development of alternative gas transmission routes.

The Group faces competition risk from the development of alternative gas transmission routes to the areas where the Group currently delivers gas. Some projects have been announced or are currently under construction. Several gas pipelines are designed to transport gas to Europe, for example the TAP and TANAP pipelines, which are planned to import gas from the Caspian region, TESLA, which, if connected to the intended Turkish Stream, would carry gas from Russia and pipelines connecting outlets of the TANAP or TAP pipelines or Turkish Stream, which are designed to transport gas through the Balkan peninsula to the Central Europe. In addition, new interconnectors and removal of capacity bottlenecks between neighbouring markets in Central Europe, in particular between Poland and Slovakia, are expected to facilitate further market integration.

Whilst these projects are in the early stages of implementation and their implementation is uncertain (TESLA, pipelines through the Balkan peninsula), scheduled for construction (the interconnector between Poland and Slovakia) or under construction (TAP and TANAP projects), if they were to be completed, the Group could face competition, which could adversely impact the Group's ability to negotiate and conclude new transmission contracts and renew existing contracts. In addition, the global developments, among others, relating to the demand for shale gas and liquefied natural gas may have an adverse impact on the Group's business.

1.11 **Risks related to network development and expansion requirements.**

Under 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, it may be subject to remedial measures imposed by the ERO, which could have an adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects.

1.12 **Risk of expropriation of the gas infrastructure.**

As the technical infrastructure and equipment which the Group owns or has right to use is of paramount importance to the Czech Republic's national security, the risk of expropriation of the infrastructure in the event of a crisis situation cannot be entirely ruled out. Nevertheless, 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 Sb. on Crisis Management) expropriation or mandatory limitation of ownership, in principle, can 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/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.

1.13 **Risks related to political and governmental instability in the region.**

The vast majority of 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 Germany, Slovakia, Poland and Russia. Any future political and governmental instability and/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 TSOs could close their transmission grids thereby cutting off the supply of gas. 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. Such risks may have a material adverse impact on the business, financial condition or results of operations of the Group. In certain circumstances, the Group may also be exposed to emergency legislation and/or implementation of international sanctions. At the same time, production disruption in gas producing countries other than Russia could lead to a material positive effect on the financial performance of the Group as increased quantities of Russian gas could be transported through the Group's network to European consumers of Russian gas.

1.14 **Risks relating to the Group's reliance on service providers and subcontractors.**

While the Group is solely responsible for carrying out the gas transmission service, in several areas of its operation it is also exposed to risks relating to its reliance on service providers and subcontractors.

Although the Group is careful in the choice of its partners, it cannot guarantee the performance and quality of services carried out by external parties or their compliance with applicable regulations. 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 Issuer's business, financial condition, and results of operations. Although the Group has back-up service providers and subcontractors, it cannot guarantee the performance of such providers and subcontractors.

1.15 Risks related to the ERO's wide scope of competence.

The Group and its business operations are subject to the regulatory decisions of the ERO. It is out of the Group's control how the ERO's scope of influence will develop and what impact it may have on the Group's operations. The ERO's approach to regulation of the gas sector may change from time to time, which may adversely impact the Group.

1.16 Risks related to legal and regulatory proceedings.

In the ordinary course of business, legal claims and to various civil, administrative and arbitration proceedings arise or may be threatened against the Group. The amounts claimed may be substantial and the Group is not generally able to predict the ultimate outcome of such claims and proceedings. The adverse determination of such claims and proceedings could have a material adverse impact on the financial condition or reputation of the Group and no assurance can be given that litigation or regulatory proceedings will not arise in the future and will not have a material adverse impact on its business, financial condition or results of operations.

As of the date of this Prospectus, the Issuer is a party to an ongoing case before the Arbitration Court in Prague regarding one of the Material Contracts concluded with a European shipper. Management of the Group believes that the position of the Issuer in these arbitration proceedings is relatively strong and the Issuer is likely to prevail. However, in case the Issuer is not successful in these proceedings, the sums to be paid until the expiration of this Material Contract may not be paid by the shipper and the Group may incur additional costs which could have a material adverse effect on its business, financial condition or results of operations.

Additionally, the Issuer is currently seeking a court review of the ERO's decision concerning the Bidirectional Austrian-Czech Interconnection project (the **BACI Project**). This project is classified as a Project of Common Interest by the European Commission and its implementation is conditional upon the outcome of the testing phase of the Trading Region Upgrade (the **TRU**) option designed to facilitate market integration of Czech and Austrian gas markets, which entails a capacity upgrade service in Slovakia. The ERO ordered the Issuer to remove the BACI Project from the 2017-2026 Czech ten-year network development plan. While the Issuer complied with the order, it initiated a court review of the order. The court proceedings are currently pending. The inclusion of the BACI Project in the 2018-2027 Czech ten-year network development plan was also challenged by the ERO and is currently the subject matter of appeal administrative proceedings. In case the Issuer is unsuccessful in these proceedings (and also depending on the outcome of the TRU option), the BACI Project, which could generate revenues for the Group in the future, may not be realized.

1.17 Possible changes in law, including retroactive changes, or different interpretations of applicable laws, may have a negative impact on the Group.

The structure of the transaction and, among other things, the issue of the Bonds is based on law (including tax law) and administrative practice in effect at the date hereof, and having due regard to the expected tax treatment of all relevant entities under such law and administrative practice. No assurance can be given that there will not be any change to such law, tax or administrative practice after the date of this Prospectus which might have an impact on the Bonds and the expected payments of interest and repayment of principal.

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, tax laws and their interpretation by the tax authorities and courts are subject to change, potentially with retroactive effect. Such changes and/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.

Tax audits may result in a higher taxable income or in a lower amount of carried forward tax losses being available to the Group.

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

1.18 The inability to attract, train or retain key managers, senior executives and other qualified personnel could have a material adverse impact on the Group's business, operations, financial condition, results and prospects.

The Group's ability to implement its long-term strategy is supported by the capabilities and performance of its personnel. Loss of key managers, senior executives and other qualified personnel or an inability to attract, train or retain highly-qualified staff required to support its obligations, implement its investment programme and develop new business fields, could temporarily affect the Group's ability to implement its long-term strategy and could have a material adverse impact on the Group's expertise, business, knowhow, operations financial condition, prospects and on the ability to maintain or operate the network or complete infrastructure projects on time or meet strategic objectives.

1.19 Risks related to changes in the demand for 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'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. However, the Group's revenues are predominantly a function of capacity purchased under long-term ship-or-pay contracts as opposed to volumes actually transmitted or stored, which mitigates their exposure to temporary fluctuations in economic conditions to a certain extent.

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 effected.

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 contact to transmit.

1.20 Risks relating to the balancing of the gas transmission network.

Under Czech law, the Group is obliged to maintain sufficient volume of balancing gas to create or maintain the required minimum volume within the network. There is a risk that the level of gas in the Group's network becomes insufficient. In such a case, additional volumes of gas may need to be purchased in the market, which may, in turn, cause additional expenditure for the Group. For this purpose, the Group is entitled to purchase and sell the gas to cover its own losses, for its own consumption, or to create or maintain the required minimum volume within the network.

1.21 The Group's customers may fail to perform their payment obligations, which could adversely impact the Group's financial condition.

The Group is exposed to the risk that some or all of its customers may be unable, or may refuse, to perform their contractual financial obligations, whether as a result of a deterioration in their financial situation or in the general economic or political conditions or otherwise. Such failure or refusal of a customer to perform its contractual obligations may have a significant adverse impact on the Group's business, financial condition, results of operations and cash flows.

1.22 Risks related to insurance.

The Group's pipelines are a decentralised system of assets and insuring them is not economical. Accordingly, the Group does not have the benefit of any insurance against damage to the pipelines it owns or for business interruption. Any material damage to its pipelines could have an adverse impact on the Group's investment plan, business, financial condition, results of operations, cash flows and prospects. However, the other assets of the Group (other gas transmission assets, the compression stations and the pipeline located within compression stations) are covered by insurance against damage.

1.23 Risks relating to information systems.

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. The Group has also been implementing measures to ensure compliance with the General Data Protection Regulation ((EU) 2016/679). Although the Group continuously takes measures to improve its IT Systems and processes, there is no guarantee that hardware and software failures, viruses, accidents or security breaches will not occur. These could impair the Group's ability to provide all or part of the services it is required to provide by law or under the contracts to which it is a party or could lead to imposition of fines or corrective measures which could, in turn, have a material adverse impact on the Group's business, financial condition and results of operations.

1.24 The Group's access to financing may be adversely affected by changes to its credit ratings.

Downgrades of the Group's credit ratings may affect the Group's borrowing capacity and the cost of any future borrowing or refinancing. Failure by the Group to secure financing in the future may have a material adverse impact on the Group's business, financial condition and results of operations.

1.25 Risks related to insolvency proceedings.

The assets of the Group may be subject to attachment in the event of insolvency proceedings. Any such attachment could disrupt the operations of the Group, reduce efficiency and/or be costly and time consuming to defend and therefore could adversely impact the Group's business, financial condition and results of operations.

1.26 Fluctuations in foreign currency exchange could adversely affect the Group's business, financial condition and results of operations.

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. 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 table below presents the Group's exposure to foreign currency exchange rate risk based on denomination translated to Czech Koruna as of 31 December 2017:

As of 31 December 2017					
U.S. Dollars	Euros	Total exposed to currency risk	Czech Koruna	Total	
<i>(in CZK millions)</i>					
Monetary financial assets.....	160	815	975	670	1,645
Monetary financial liabilities.....	4	13,149	13,153	14,649	27,802
Derivatives (assets).....	-	-	-	-	-
Derivatives (liabilities).....	10,300	(10,471)	(171)	1,397	1,226
Net position.....	(10,144)	(1,863)	(12,007)	(15,376)	(27,383)

The table below presents the Group's exposure to foreign currency exchange rate risk based on denomination translated to Czech Koruna as of 31 December 2016:

As of 31 December 2016					
U.S. Dollars	Euros	Total exposed to currency risk	Czech Koruna	Total	
<i>(in CZK millions)</i>					
Monetary financial assets.....	2	691	693	413	1,106
Monetary financial liabilities.....	1,383	13,868	15,251	13,054	28,305
Derivatives (assets).....	-	108	108	(108)	-
Derivatives (liabilities).....	12,404	(11,078)	1,326	1,397	2,723
Net position.....	(13,785)	(1,991)	(15,776)	(14,146)	(29,922)

The following table shows sensitivities of profit (loss) and equity to possible changes in exchange rates as of 31 December 2017 and 2016 relative to the functional currency, with all other variables held constant:

	As of 31 December			
	2017		2016	
	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.	16	(955)	10	(1,284)
U.S. Dollar weakening by 10 per cent.	(16)	955	(10)	1,284
Euro strengthening by 10 per cent.	76	(62)	77	(31)
Euro weakening by 10 per cent.	(76)	62	(77)	31

1.27 The Group is exposed to interest rate risk that could have a material adverse effect on its business, financial condition, results of operations, cash flows and prospects.

The Group utilises external financing that bears floating or fixed interest rates, including bank loans and Eurobonds. Any changes in floating interest rates or any changes in fixed interest rates of contracts to be entered into, or the Group's limited ability to enter into such contracts bearing or resulting in fixed interest rates, could have a material adverse effect on the Group's business, results of operations or financial position.

The following table shows sensitivities of profit (loss) to possible changes in short term interest rates applied as of 31 December 2017 and 2016, with all other variables held constant:

	As of 31 December	
	2017	2016
	<i>(in CZK millions)</i>	
1M Czech Koruna PRIBOR increase by 25 bps.	(18)	(14)
1M Czech Koruna PRIBOR decrease by 25 bps.....	18	14
1M U.S. Dollar LIBOR increase by 25 bps.....	-	(3)
1M U.S. Dollar LIBOR decrease by 25 bps.....	-	3
Overnight PRIBOR/EURIBOR increase by 25 bps.....	-	(1)
Overnight PRIBOR/EURIBOR decrease by 25 bps.....	-	1

1.28 The Group has a substantial amount of outstanding indebtedness that contains certain restrictive covenants that could adversely limit its ability to finance its future operations and capital needs.

The Group has a substantial amount of outstanding indebtedness. As of 31 December 2017, the Group had total loans and borrowings of CZK 27,287 million. Further, 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 or engage in certain other transactions. These restrictions are subject to exceptions and qualifications. Such restrictive provisions could limit 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.

2. Risks related to the Bonds generally

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

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

2.2 Return on investment in the Bonds may be affected by tax burden.

Potential investors in or sellers of the Bonds should realise that they may be subject to tax or other claims or charges imposed by the laws and customs of the country in which the Bonds are being transferred, or in some other relevant country under the circumstances. In certain countries, it may happen that no official position of tax authorities or a court decision related to financial instruments such as bonds will be available. When acquiring, selling or redeeming the Bonds, the potential investors should not rely on the brief summary of the tax issues contained in this Prospectus; they should also consult a tax advisor.

2.3 Return on investment in the Bonds may be affected by the inflation rate.

Potential investors in or sellers of the Bonds should realise that the fair value of the investment may diminish concurrently with inflation, reducing the currency value. Inflation also reduces the yields on the Bonds. If the inflation rate exceeds the nominal yield on the Bonds, the value of the yield on the Bonds will be negative.

2.4 The Bonds may be redeemed prior to maturity for taxation reasons, subject to certain conditions.

In the event of an early redemption of the Bonds in accordance with the Terms and Conditions, the value of the yield on the Bonds could be lower than anticipated. Also, there can be no assurance that at the relevant time the Bondholders 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 Bonds had they not been redeemed. Potential investors should consider such reinvestment risk in light of other investments available at that time.

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

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

2.6 Legal investment considerations may pose restrictions for certain investors.

The investment activities of certain investors are regulated by laws and orders and/or are subject to inspection or regulation by certain authorities. Potential investors in the Bonds (foreign investors, in particular) should consult their legal advisers to determine whether and to what extent the Bonds are legal investments for them. The Issuer shall not bear any responsibility for the legality of investment in the Bonds 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.

2.7 The Bonds may not be a suitable investment for all investors.

The Bonds may not be a suitable investment for all investors. Each potential investor in the Bonds must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor in the Bonds 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 Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Prospectus or any applicable supplement. Each potential investor in the Bonds 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 Bonds and the impact the Bonds 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 Bonds, including Bonds where the currency for principal or interest payments is different from the potential investor's currency. In addition, each potential investor in the Bonds may also wish to consider whether it understands thoroughly the terms of the Bonds 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.

2.8 Return on investment in Bonds may be affected by various fees.

The overall return on investment in the Bonds may be affected by the fees charged by the agent for the sale/purchase of the Bonds (such as the Lead Manager) and/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 Bonds familiarise themselves with the materials that will serve as the basis for charging fees related to the Bonds.

2.9 Risks related to the insolvency laws of the Czech Republic which may not be as favourable to the holders of Bonds as the insolvency laws of jurisdictions with which they may be familiar and may preclude holders of the Bonds from recovering payments due on the Bonds.

The Issuer is incorporated in, and has its centre of main interests in, the Czech Republic. Accordingly, insolvency proceedings with respect to the Issuer may proceed under, and be governed by, Czech insolvency laws. The insolvency laws of the Czech Republic may not be as favourable to Bondholders' interests as those of other jurisdictions with which investors may be familiar and may limit the ability of Bondholders to enforce the terms of the Bonds. Insolvency proceedings may have a material adverse effect on the Issuer's business and assets and its obligations under the Bonds as Issuer.

2.10 The value of the Bonds could be adversely affected by a change in Czech law or administrative practice.

The Terms and Conditions of the Bonds are governed by and shall be construed in accordance with Czech law in effect as of the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to Czech law or administrative practice after the date of this Prospectus. In addition, the Czech private law effective as of 1 January 2014, represented primarily by the Czech Civil Code (Act No. 89/2012 Coll., as amended) and the Business Corporations Act (Act No. 90/2012 Coll., as amended), continues to be subject to uncertainty. Further, Czech securities laws are not clear in all respects and Czech courts do not have a substantial history of interpreting complex commercial arrangements and instruments, including without limitation, certain aspects of issues of securities such as the Bonds. The result of any Czech judicial interpretation in relation to these concepts is therefore uncertain. Any of these risks could materially adversely impact the value of any Bonds affected by it.

Risks related to the market generally

2.11 An active secondary market in respect of the Bonds may never be established or may be illiquid and this could adversely affect the value at which an investor could sell its Bonds.

Although an application has been made for the Bonds to be admitted to trading on the regulated market of the Prague Stock Exchange, 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 Bonds. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

2.12 Interest Rate Risk

Investment in the Bonds, which bear interest at a fixed rate, involves the risk that subsequent changes in market interest rates may adversely affect the value of the Bonds. For instance, in general, in case that the market interest rates rise, prices of fixed-rate bonds fall.

2.13 If an investor holds Bonds which are not denominated in the investor's home currency, that investor will be exposed to movements in exchange rates adversely affecting the value of its holding. In addition, the imposition of exchange controls in relation to any Bonds could result in an investor not receiving payments on those Bonds.

The Issuer will pay interest on the Bonds 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 devaluation of Czech Koruna or revaluation 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 Bonds, (ii) the Investor's Currency-equivalent value of the principal payable on the Bonds and (iii) the Investor's Currency-equivalent market value of the Bonds.

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 Bonds. As a result, investors may receive less interest or principal than expected, or no interest or principal.

2.14 Credit ratings assigned to the Bonds may not reflect all the risks associated with an investment in them.

The Bonds to be issued are expected to be rated BBB by both S&P and Fitch. Each of S&P and Fitch is established in the European Union and registered according to the CRA Regulation. Each of S&P and Fitch 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) in accordance with the CRA Regulation.

A rating assigned to the Bonds may not reflect the potential impact of all risks related to the structure, market, additional factors discussed above, and other factors that may affect the value of the Bonds. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

The Bonds may also be evaluated by other rating agencies on an unsolicited basis and if their unsolicited rating is lower than the comparable reports prepared by the designated rating agencies, these informal ratings may adversely affect the value of the Bonds.

In general, European regulated investors are restricted under the CRA Regulation from using credit ratings for regulatory purposes, unless such ratings are issued by a credit rating agency established in the EU and registered under the CRA Regulation (and such registration has not been withdrawn or suspended), subject to transitional provisions that apply in certain circumstances whilst the registration application is pending. Such general restriction will also apply in the case of credit ratings issued by non-EU credit rating agencies, unless the relevant credit ratings are endorsed by an EU-registered credit rating agency or the relevant non-EU 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). The list of registered and certified rating agencies published by ESMA on its website (<http://www.esma.europa.eu/page/List-registered-and-certified-CRAs>) 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.


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 does not omit anything likely to affect the import of such information, and the Issuer has taken all reasonable care to ensure that this is the case.

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 29 June 2018

NET4GAS, s.r.o.


Name: AUDREAS RAUH
Title: Director (*jednatel*)


Name: VACLAV HRACH
Title: Director (*jednatel*)

INFORMATION INCORPORATED BY REFERENCE

The following documents which have previously been published on the Issuer's website 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 2017	NET4GAS Group Consolidated Annual Report 2017	36-93	https://www.net4gas.cz/files/hospodarske-vysledky/n4g_annual_report_2017.pdf
Independent auditor's report relating to the audited consolidated financial statements of the Group as of and for the year ended 31 December 2017	NET4GAS Group Consolidated Annual Report 2017	160-165	https://www.net4gas.cz/files/hospodarske-vysledky/n4g_annual_report_2017.pdf
Audited consolidated financial statements of the Group as of and for the year ended 31 December 2016	NET4GAS Group Consolidated Annual Report 2016	48-105	https://www.net4gas.cz/files/hospodarske-vysledky/n4g_annual_report_2016.pdf
Independent auditor's report relating to the audited consolidated financial statements of the Group as of and for the year ended 31 December 2016	NET4GAS Group Consolidated Annual Report 2016	169-175	https://www.net4gas.cz/files/hospodarske-vysledky/n4g_annual_report_2016.pdf

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.

TERMS AND CONDITIONS OF THE BONDS

The Bonds 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 7,000,000,000 (*in words: seven billion Czech Koruna*), bearing fixed interest rate, due in July 2025 (the **Issue** and the **Bonds**), are governed by these Terms and Conditions of the Bonds (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 Directors dated 20 June 2018 and by the resolution of the Issuer's Supervisory Board dated 19 June 2018.

The ISIN of the Bonds allocated by the Central Depository is CZ0003519472. The title of the Bonds is NET4GAS 2,75/25.

Services of the fiscal and paying agent related to interest payments and Bonds redemption will be provided by Česká spořitelna, a.s., with its registered office in Prague 4, Olbrachtova 1929/62, Postal Code 140 00, the Czech Republic, 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 Bondholders (as this term is defined below) and some other administrative services related to the Issue is governed by an agreement between the Issuer, the Delivery Agent (as defined therein) 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 Bondholders during regular business hours at the Specified Office of the Fiscal and Paying Agent set out in Condition 11.1.

Services of the listing agent related to the listing of the Bonds comprising the Issue on the regulated market of the Prague Stock Exchange (in Czech: *Burza cenných papírů Praha, a.s.*) will be provided by Česká spořitelna, a.s. (the **Listing Agent**) under the terms of the Fiscal and Paying Agency Agreement.

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 Bonds

1.1 Form, Nominal Amount, Anticipated Volume of the Issue

The Bonds will be issued on the Issue Date (as defined in Condition 2.1) as book-entered securities. The nominal amount of each Bond is CZK 3,000,000 (*in words: three million Czech Koruna*). The anticipated aggregate nominal amount of the Issue is up to CZK 7,000,000,000 (*in words: seven billion Czech Koruna*). In accordance with the Czech Bonds Act the Issuer is entitled to issue the Bonds in a lower aggregate nominal amount than the anticipated aggregate nominal amount. The Issuer is not entitled to issue the Bonds 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 Bonds through an issue of coupons as separate securities or otherwise.

1.3 Bondholders

For the purpose of these Terms and Conditions, an owner of the Bond (the **Bondholder**) 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 Bond 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 Bondholder for all purposes as the owner of the nominal amount of the Bonds 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 Bondholder in accordance with these Terms and Conditions. Persons who are owners of the Bonds 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 Bonds.

1.4 **Transfer of the Bonds**

Transferability of the Bonds is not restricted.

The transfer of the Bonds 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 Bonds are recorded in the client's securities account (*in Czech: účet zákazníka*) in the Central Depository, the transfer of the Bonds will be effective (i) upon crediting of the transferred Bond 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 Bondholders 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 information about the rating or expected rating of the Bonds is contained in the Prospectus (see cover page of the Prospectus).

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

2.1 **Issue Date**

The issue date of the Bonds is scheduled to be 17 July 2018 (the **Issue Date**). The Bonds 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 Bonds are not issued during the Issue Period, the Bonds 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 Bondholders, 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 Bondholders, in the same manner as used for publication of these Terms and Conditions, of the aggregate nominal amount of all issued Bonds comprising the Issue.

2.2 **Issue Price**

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

2.3 **Method and Place of Bonds Subscription**

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

3. **Status of the Bonds**

The Bonds (and all payment obligations of the Issuer vis-à-vis the Bondholders under the Bonds) 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 Bonds or any other subscription rights in relation to the Bonds.

4. **Negative Pledge**

So long as any payment obligations from the Bonds 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 Bonds are equally and rateably secured therewith or secured by such other security as may be approved by the meeting of the Bondholders in accordance with Condition 13, or (ii) such Security Interests are approved by the meeting of the Bondholders 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 and (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 bonds, 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 Bonds will bear a fixed interest rate 2.750 per cent. (the **Interest Rate**). The interest will be paid annually in arrears, on 17 July each year (each the **Interest Payment Date**) in accordance with these Terms and Conditions. The first Interest Payment Date will be 17 July 2019.

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 Bonds (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 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.

5.2 **End of Interest Accrual**

The Bonds 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 Bonds 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 Bonds pursuant to Condition 6.3 of these Terms and Conditions have been complied with. In such 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 Bondholders or (ii) the date on which the Fiscal and Paying Agent notifies the Bondholders that it has received all amounts payable in connection with the Bonds, 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 Bonds for a period of less than one year will be calculated on the basis of an BCK Standard 30E/360 day count fraction, i.e., a year shall be deemed to consist of 360 (three hundred sixty) days divided into 12 months whereas in the event of an incomplete month, the number of days actually expired will apply.

5.4 **Calculation of Interest**

The amount of interest accrued on one Bond over any period of one current year will be calculated as a multiple of the nominal value of such Bond and the relevant interest rate (expressed in decimal form). The amount of interest accrued on one Bond over any period shorter than one current year will be calculated as a multiple of the nominal value of such Bond, 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 Bond will be redeemed by the Issuer at its outstanding nominal amount in a single payment on 17 July 2025 (the **Maturity Date**).

6.2 **Early Redemption at the Option of the Bondholders**

The Bondholders are not entitled to require early redemption of the Bonds 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 Bonds plus accrued and outstanding interest in accordance with these Terms and Conditions.

6.3 **Redemption for Taxation Reasons**

The Bonds may be redeemed at the option of the Issuer in whole, but not in part, at any time on giving not less than 30 and not more than 60 days' notice to the Fiscal and Paying Agent and, in accordance with Condition 14, the Bondholders (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 Bonds 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 Bonds 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 Bondholders 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.

Bonds 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 Bondholders upon a Change of Control**

If a Change of Control Put Event occurs, then any Bondholder 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 Bonds under Condition 6.3) to require the Issuer to redeem or, at the Issuer's option, to purchase or procure the purchase of Bonds held by such Bondholder 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 Bondholders 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 Bondholders to exercise the Change of Control Put Option.

To exercise the Change of Control Put Option, any holder of the Bonds 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 Bonds then outstanding have been redeemed or purchased pursuant to this Condition 6.4, the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Bondholders (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 Bonds 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 Bonds 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 Bonds 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 Bonds, 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 Bonds 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) Standard & Poor's Credit Market Services Europe Limited or Fitch Ratings Limited; 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 Bonds 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 Bonds 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 Bondholders upon Loss of Licence**

If Loss of Licence Put Event occurs, then any Bondholder 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 Bonds under Condition 6.3) to require the Issuer to redeem or, at the Issuer's option, to purchase or procure the purchase of Bonds held by such Bondholder 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 Bondholders 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 Bondholders to exercise the Loss of Licence Put Option.

To exercise the Loss of Licence Put Option, any holder of the Bonds 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 Bonds then outstanding have been redeemed or purchased pursuant to this Condition 6.5, the Issuer may, on giving not less than 30 nor more than 60 days' notice to the Bondholders (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 Bonds 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 **Purchases**

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

6.7 Cancellation of the Bonds

The Bonds 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 Bonds purchased by it, it will be entitled to dispose of such Bonds at its sole discretion.

6.8 Applicability of the Payment Terms

The provisions of Condition 7 of these Terms and Conditions also apply to the redemption and purchase of the Bonds 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 Bonds 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 Bondholders and the nominal amount of the Bonds 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 Bonds are denominated and in which the payments relating to the Bonds should be made in compliance with these Terms and Conditions ceases to exist and is replaced by euro, (i) the denomination of such Bonds will be changed to Euro in conformity with the applicable laws, and (ii) all monetary liabilities arising from such Bonds will automatically and without any further notice to the Bondholders 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 Bonds, 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 Bonds 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 Bonds

The authorised persons to whom the Issuer will pay interest or other amounts on the Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds, neither the Issuer nor the Fiscal and Paying Agent will take into account any transfer of any Bonds 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 Bonds 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 Bonds, unless (i) it is evident that a person authorised to receive the payments of interest or other amounts attached to the pledged Bonds is the respective Bondholder and/or (ii) it is proven to the Fiscal and Paying Agent in other satisfactory manner that the respective Bondholder has the right to receive the payments of interest or other amounts attached to the pledged Bonds by virtue of an agreement between such Bondholder 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 Bonds 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 Bondholders. The Bondholders 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 Bondholders, the Issuer will be obliged to promptly convene the Meeting (as defined in Condition 13) and request the Bondholders to provide their opinion on the Issuer's proposal for any amendment to these Terms and Conditions that requires the Bondholders' consent under applicable laws as set out in Condition 13.

8. **Taxation**

All payments of nominal and interest in respect of the Bonds 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 Bonds 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 Bondholders any additional amounts.

9. **Early Redemption of the Bonds 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 Bonds;

(b) Breach of Other Obligations

the Issuer fails to fulfil or to comply with any obligation relating to the Bonds 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 Bondholder 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 (*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 Bonds from the Regulated Market

the Bonds cease to be admitted to trading on the regulated market of the Prague Stock Exchange (in Czech: *Burza cenných papírů Praha, a.s.*) or any European regulated market that would supersede the regulated market of the Prague Stock Exchange; or

(j) Illegality

The Issuer's obligations under the Bonds 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 Bondholders holding the Bonds representing at least 10 per cent. of the nominal amount of the Bonds 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 Bonds held by such Bondholders which the Bondholders undertake not to dispose (this prohibition does not apply if the request of a Bondholder to early redeem the bonds 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 Bonds 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 Bondholder individually; or
- (b) with respect to the Events of Default in paragraphs (a) and (f) through (j) above, any Bondholder, 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 Bonds held by such Bondholder which such Bondholder undertakes not to dispose (this prohibition does not apply if the request of a Bondholder to early redeem the bonds 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 Bonds 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 Bonds

Any and all amounts payable by the Issuer to any Bondholder 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 Bondholder 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 Bondholder may, with the consent of the Issuer, withdraw, in writing, the Early Redemption Notice but only with respect to the Bonds held by such Bondholder 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 Bondholders.

9.4 Other Conditions for Early Redemption of the Bonds

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

10. **Statute of Limitations**

All rights connected with the Bonds 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 Bondholders 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 Bonds will become effective on the 30th day following such Payment Date.

11.3 **Relationship between the Fiscal and Paying Agent and the Bondholders**

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 Bonds, and will be in no legal relationship with the Bondholders.

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 Bondholders' status or interests. If a change of the Listing Agent occurs, the Issuer will notify the Bondholders 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 Bondholders

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

13. **Bondholders' Meeting**

13.1 **Authority and Convocation of the Meeting**

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

The Issuer or any Bondholder(s) may convene a meeting of the Bondholders (the **Meeting**) in accordance with these Terms and Conditions and applicable laws if so required to decide on common interests of the Bondholders. 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 Bondholders, 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 Bonds within the Issue entitling the holder(s) to attend the Meeting convened by a Bondholder or the Bondholders, 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 Bondholders to provide their opinion on the Issuer's proposal for any amendment to these Terms and Conditions that requires the Bondholders' consent under applicable laws (the **Material Change**). Notwithstanding anything to the contrary in these Terms and Conditions, the Issuer is not obliged to convene the Meeting to consider and decide on matters set out in Section 21(b) through (f) of the Czech Bonds Act.

(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 Bondholder (or the Bondholders), such Bondholder(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 Bondholder 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 Bonds, at least the Bond title, the Issue Date and the ISIN (or other Bond 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 Bondholders. 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 Bondholder recorded as a Bondholder 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 Bonds was recorded as of the Meeting Attendance Record Date certifying that such person was a Bondholder as at the Meeting Attendance Record Date and that the Bonds 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 Bonds 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 Bonds 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 Bonds held by the Issuer as of the Meeting Attendance Record Date that have not been cancelled by the Issuer within the meaning of Condition 6.7, and no such Bonds will be taken into account when determining the presence of a quorum at the Meeting. 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 Bondholders, proxies of the Bondholders, proxies of the Fiscal and Paying Agent, the common proxy of the Bondholders 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 Bondholder to any proxy must be in writing with a notarised signature of the Bondholder. In the case of a Bondholder being a legal entity, the Fiscal and Paying Agent may, at its own discretion, require from an individual entitled to represent such Bondholder 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 Bondholder 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 Bonds the nominal amount of which represents more than 30 per cent. of the aggregate nominal amount of the issued and outstanding Bonds. 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 Bonds 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 Bondholder or the Bondholders 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 Bondholder(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 Bondholders, any rights associated with the Bonds 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 Bondholders, any other acts or protect the Bondholders' 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.

(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 Bondholders' 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 Bondholders 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 Bondholders**

(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 Bonds, which such Bondholder 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 Bonds 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 Bonds upon Bondholders' 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 Bonds and any pro-rata interest accrued thereon (if relevant) to any Bondholder 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 Bonds 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 Bondholder or the Bondholders, 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 Bonds expire under the statute of limitations. The minutes of the Meeting will be available for inspection by the Bondholders 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 Bondholders will be valid and effective if published in the English language on the Issuer's website: 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 Bonds 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 Bonds, 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 Bonds (a **Dispute**) and accordingly each of the Issuer and any Bondholders 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 Bonds 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 Bonds.

INTEREST OF PERSONS INVOLVED IN ISSUANCE AND OFFERING OF BONDS

The Issuer is not aware of any interest of persons involved in the issuance and offering of the Bonds which would be material for the Issue, except for any fees payable to Česká spořitelna, a.s., acting as the Lead Manager, the Fiscal and Paying Agent and the Listing Agent in connection with the offering and subscription and sale of the Bonds, and any fees payable to Česká spořitelna, a.s. acting as the Dealer Manager, and Citigroup N.A., London Branch, acting as the exchange and tender agent in connection with the Exchange and Tender Offer (as defined in this Prospectus).

USE OF PROCEEDS

The Issuer will use the net proceeds from the issue of the Bonds for general corporate purposes.

SELECTED FINANCIAL INFORMATION

The following tables present selected historical consolidated financial information of the Group as of and for the years ended 31 December 2017 and 2016 which has been derived from the 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 Financial Statements incorporated by reference into this Prospectus.

Consolidated statements of profit or loss and other comprehensive income

	Year ended 31 December	
	2017	2016
	<i>(in CZK millions)</i>	
Revenue.....	7,397	9,280
Raw materials consumed.....	(302)	(450)
Services purchased and lease charges.....	(307)	(510)
Employee benefits.....	(440)	(510)
Depreciation and amortisation.....	(2,013)	(2,080)
Gains less losses on disposal of property, plant and equipment.....	-	3
Changes in fair value of derivatives (net).....	(37)	31
Foreign exchange differences (net).....	(100)	1
Other operating income.....	39	27
Other operating expenses.....	(41)	(36)
Operating profit	4,196	5,756
Finance income.....	4	8
Finance costs.....	(947)	(1,339)
Finance result (net).....	(943)	(1,331)
Profit before income tax	3,253	4,425
Income tax expense.....	(619)	(3,008)
Profit for the year	2,634	1,417
Other comprehensive income (loss)		
<i>Items that may be subsequently reclassified to profit or loss</i>		
Cash flow hedge.....	2,813	274
Income tax recognised directly in other comprehensive income – cash flow hedge.....	(535)	(52)
Total other comprehensive income for the year	2,278	222
Total comprehensive income for the year	4,912	1,639

Consolidated balance sheets

	As of 31 December	
	2017	2016
	<i>(in CZK millions)</i>	
Assets		
Property, plant and equipment.....	43,147	44,383
Intangible assets.....	78	89
Other non-current assets.....	25	9
Total non-current assets	43,250	44,481
Inventories.....	61	63
Trade and other receivables.....	324	303
Currents income tax prepayments.....	248	11
Loans to related parties.....	5	652
Other non-financial assets.....	32	27
Other financial assets.....	683	-
Cash and cash equivalents.....	631	415
Total current assets	1,984	1,471
Total assets	45,234	45,952

	As of 31 December	
	2017	2016
	<i>(in CZK millions)</i>	
Equity and liabilities		
Equity attributable to shareholders of the parent company		
Registered capital.....	2,750	2,750
Capital contributions outside registered capital.....	3,364	6,631
Cash flow hedge reserve.....	465	(1,813)
Retained earnings.....	2,651	38
Total equity	9,230	7,606
Other payables.....	13	8
Borrowings.....	26,988	27,761
Derivative financial instruments.....	835	2,478
Deferred income tax liability.....	6,789	6,330
Provisions.....	-	167
Accrued employee benefits.....	101	100
Other non-financial liabilities.....	7	15
Total non-current liabilities	34,733	36,859
Borrowings.....	299	286
Trade and other payables.....	517	524
Derivative financial instruments.....	209	292
Current income tax payable.....	-	176
Other taxes payable.....	18	20
Provisions.....	2	-
Accrued employee benefits.....	44	15
Other non-financial liabilities.....	182	174
Total current liabilities	1,271	1,487
Total liabilities	36,004	38,346
Equity and liabilities	45,234	45,952

Consolidated statements of cash flows

	Year ended 31 December	
	2017	2016
	<i>(in CZK millions)</i>	
Net cash flows from operating activities.....	4,282	5,701
Net cash flows used in investing activities.....	(1,422)	(1,370)
Net cash flows from financing activities.....	(2,644)	(5,666)
Cash and cash equivalents at the beginning of the period.....	415	1,750
Cash and cash equivalents at the end of the period.....	631	415

DESCRIPTION OF THE ISSUER

General Information about the Issuer

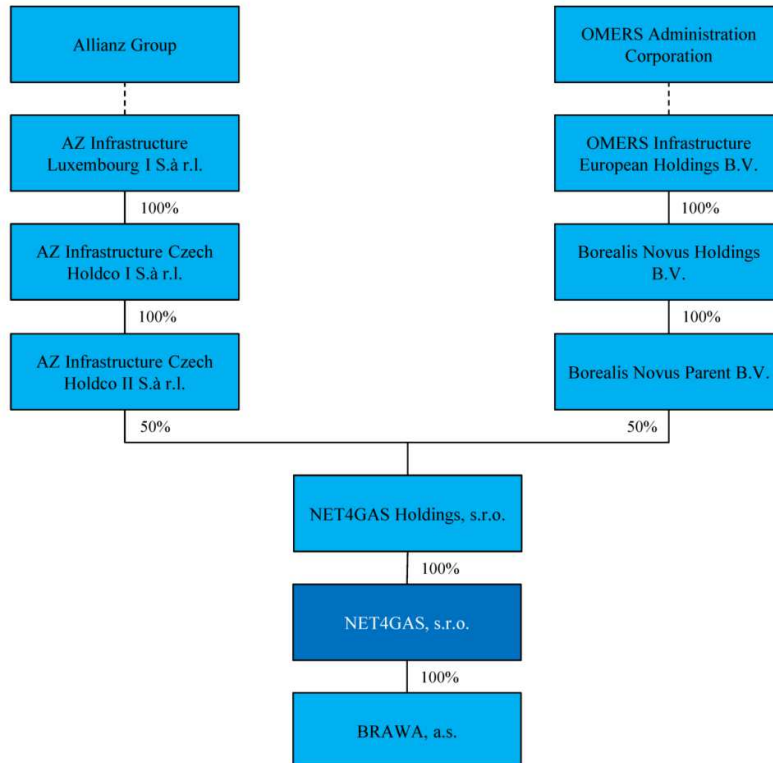
NET4GAS, s.r.o. (the Issuer) was incorporated in the Czech Republic on 29 June 2005 and is registered in the Commercial Register maintained by the Municipal Court in Prague, File No. C 108316, with company identification number 272 60 364. The Issuer is a limited liability company (*společnost s ručením omezeným*) governed by (i) the laws and regulations applicable to commercial companies in the Czech Republic, in particular act on business corporations (No. 90/2012 Coll.) and (ii) specific provisions of Czech law in relation to natural gas transmission networks, including the energy act (Act No. 458/2000 Coll.) (the **Energy Act**). 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.

Major Shareholders and Organisational Structure of the Group

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.á r.l., a subsidiary of 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. Management of the Issuer believes that the relations between the Issuer and its controlling entities and other entities controlled by them are beneficial for the Issuer in terms of the increased financial stability of the Issuer. Management of the Issuer is not aware of any arrangements, the operation of which could result in a change in control of the Issuer.

The Issuer owns the entire share and holds all votes in BRAWA, a.s., which owns the Gazelle Pipeline (the Issuer and BRAWA, a.s. collectively the **Group**). Except for the funding agreement described in the sub-section "*Financial indebtedness and hedging*", the Issuer is not dependent upon other Group members or its parent companies.

Set out below is the corporate structure of the Group and its parent companies:



History and Development of the Group

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 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 by 1973. On 1 January 1993, the federal country of 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.

On 4 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 (the **Allianz/OMERS Consortium**).

Strategy of the Group

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

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 (see "Infrastructure Investments and Capital Expenditures" below).

The strategy is implemented through demand-driven management of its gas transmission grid 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 ("ENTSO-G"), 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.

Key Credit Strengths of the Group

The Group's revenues are considered by management to have been stable and predictable due to its ship-or-pay contracts (i.e. whereby the Group receives the transmission fees even if the booked capacity is not utilised)

entered into for a definite period of time (see "*Customers and Long-Term Contracts*" below) in respect of its transit business providing gas deliveries across the Czech Republic to customers outside the Czech Republic (**Transit**) and due to fully regulated price tariffs in its transmission business, which delivers gas domestically within the Czech Republic (**Transport**). 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. 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 well-known gas supply and trading companies.

The Group's core business has been cash generative, underpinned by long-term ship-or-pay Transit contracts (see "*Customers and Long-Term Contracts*" below) and a highly-regulated domestic 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 in order to maintain a stable leverage ratio does the Issuer distribute excess cash to its shareholders.

According to the Group's management, 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. The Issuer is the sole TSO in the Czech Republic with an exclusive gas transmission licence and its networks connect to all three corridors for delivery of gas from Russia to North-Western Europe. Additional new European pipeline projects could create demand for additional Transit capacity. Projections outlined in the World Energy Outlook 2017 published by the International Energy Agency suggest a decrease in indigenous gas production in Europe combined with an increase of imports of gas from non-European sources, which could also increase demand for additional Transit capacity.

Price regulation of Transit is by way of a price cap and price regulation of Transport is on a revenue cap basis, which have so far allowed for stable revenue generation.

The Group has been able to attract and employ high calibre professionals with solid experience of the energy industry.

Business Overview and Principal Activities of the Group

The Group's Business

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.s., a wholly-owned subsidiary of the Issuer, and is operated by the Issuer on the basis of a lease.

The Issuer has been granted a certificate of independence (*certifikát nezávislosti*) by the ERO (which is granted following a successful completion of the certification procedure under the Energy Act, Directive 2009/73/EC and Regulation EC 715/2009 and holds the exclusive licence for gas transmission as a gas TSO in the Czech Republic, which includes the regulated activities of Transit and Transport (as defined above).

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, which aims 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. The Gazelle Pipeline has a daily capacity of approximately 968 GWh. The fully reversible transit system allows the Group to provide capacity for gas from alternative sources (e.g. Norway, liquefied natural gas 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).

Gas Transmission

General

The maximum technical daily capacity at the border points of the transmission system operated and maintained by the Group is more than 3,600 GWh. In the financial years ended 31 December 2017 and 2016, the Group transported across the territory of the Czech Republic and delivered to its customers in the Czech Republic, 444 and 459 TWh of gas, respectively. All major cross-border entry and exit points for gas transmission support physical reverse flow so that gas can be transported both from east to west and from west to east through the Czech Republic.

The following map sets out the Group's gas transmission network and its connection to the gas transmission networks of other TSOs:

Overview of N4G's Transmission System



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

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 Gazelle Pipeline (in respect of which the Gazelle Contract (as defined below) has been entered into) has been exempted from the regulated tariff requirements until 1 January 2035.

In respect of Transit, the Group is a party to five Material Contracts which are being performed as of the date of this Prospectus. The Material Contracts in existence as of the date of this Prospectus (with the exception of the Gazelle Contract which is exempt from the regulated tariff requirements until 1 January 2035) were amended due to implementation of the Third Energy Package to comply with the applicable regulatory regime, but the actual level of the fee remained unchanged. One of the Material Contracts is subject to a dispute between the Issuer and a European shipper (see "Risk Factors – 1.16 Risks related to legal and regulatory proceeding").

In addition, the Group concluded a contract for gas Transit related to the Capacity4Gas Project (as defined below) in 2017 and is taking actions to complete the Capacity4Gas Project (see "Infrastructure Investments and Capital Expenditures" below).

The contractual partners of the Group include major energy companies from EU and non-EU member states. Revenues from the Transit business represented 75 and 78 per cent. of the Group's total revenue for the financial years ended 31 December 2017 and 2016, respectively. Revenues from the Transit business are collected in USD, EUR and CZK.

The Group's Transport tariffs are regulated by the ERO. Such regulation has provided for stable and predictable tariffs which have allowed the Group to recover operating costs, depreciation and regulated profit on its investments. The combination of Transit contracts and regulated Transport tariffs has allowed for a relatively

predictable return on investments. (see "*Tariffs for Using the Gas Transmission Network*" and "*Customers and Long-Term Contracts*" below).

The Group's Gas Transmission Network

The Group's main assets, including the assets of the Issuer's wholly owned subsidiary BRAWA, a.s., consist of gas transmission pipelines running across the Czech Republic with a total length of approximately 3,800 kilometers. 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 "*Infrastructure Investments and Capital Expenditures*" below). In each major flow direction (east-west, west-east and north-south) the capacity of the Group's transmissions system is several hundred GWh per day. The Group also operates three border transfer stations, four compressor stations and other infrastructure for the purpose of gas transmission.

Response to Gas Supply Emergencies

The Group aims to address interruptions in gas supply by taking the following measures:

- (a) 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.
- (b) To the extent reasonably possible, the Group seeks to continuously improve the effectiveness of the gas network in co-operation with other European TSOs, 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, which 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 full-flow interruption and it fully meets the EU "N-1" security of supply criterion. Given the excess Transit capacity in the Group's system, which is required to fulfil the EU security of supply requirements, the Group has significant flexibility in offering additional capacity for booking by shippers when gas trading opportunities arise or during peak demand periods.

Evolution of Gas Flow in Europe

The choice of supply routes from Russia to Europe has expanded since 2011 when the Nord Stream 1 pipeline was completed and shippers have obtained a greater choice of gas transit routes into Europe. The current pipeline capacity for the export of Russian gas to the EU is approximately 2,800 TWh per year. Future projects, in particular the Nord Stream 2 pipeline and the Turkish Stream project could increase this export capacity by approximately 750 TWh per year, starting from the end of 2019. 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 1-2 pipelines have led to increased opportunities for west to east supply. The Group is a party to a number of such reverse flow contracts (see "*Customers and Long-Term Contracts*" below). The total flows through Slovakia to the Czech Republic have reduced dramatically since 2009 and the direction of flow through the Group's network has generally reversed as flows of gas through Ukraine have been replaced with those from Nord Stream through the Gazelle Pipeline.

The Group expects the traditional suppliers of gas to compete with new market entrants, in particular the suppliers of liquefied natural gas, 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.

As to Russian gas, the Group believes that there is potential for stabilisation of the traditional transit route through Ukraine, Slovakia and the Czech Republic or the proposed Nord Stream 2 to deliver gas to North-West

Europe. According to the press release of the Nord Stream 2 consortium, the Nord Stream 2 pipeline obtained the necessary approvals from the German and Finnish authorities in March and April 2018, respectively. As of the date of this Prospectus, approvals from the authorities of Denmark, Sweden and Russia are still pending.

Construction of the Trans-Anatolian gas pipeline (**TANAP**) from Azerbaijan through Georgia to Turkey commenced in 2015 and is expected to be completed in July 2018. Construction of the Trans Adriatic Pipeline (**TAP**) connected to TANAP, which transit gas to Southern Italy from Greece through Albania and the Adriatic Sea, commenced in 2015 and is expected to be completed in 2020.

Construction of the Turkish Stream pipeline from Russia through the Black Sea to Turkey commenced in 2017 and is expected to be completed in 2019, with line 1 completed in April 2018.

Several projects to transit gas from the Turkish Stream pipeline further into Europe are being considered, but neither of these projects has been finally approved as of the date of this Prospectus. Most prominent among these are the Tesla pipeline, which is to connect Greece, Macedonia, Serbia and Hungary, ending at the Baumgarten gas hub in Austria and the Easting pipeline which is to connect Slovakia, Hungary, Romania, Bulgaria and Turkey.

The following pipeline projects 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 Central European countries and facilitate further integration of their markets and benefit the Group's business:

- (a) Completion of a transmission pipeline connecting the outlets of TANAP/TAP or Turkish Stream pipelines in Greece through the Balkan peninsula with the Central Europe in order to reduce the dependency on Russian gas by Germany, a part of CEE and Austria.
- (b) Construction of missing interconnectors or removing capacity bottlenecks between neighbouring markets in Central Europe to facilitate further market integration. This is supported by the European Commission and the Agency for the Cooperation of Energy Regulators (ACER):
- (c) 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. The interconnector between Slovakia and Hungary has been built, the interconnector between Poland and the Czech Republic received a positive decision for cross-border cost allocation from the Czech and Polish regulators in the context of the EU Energy Infrastructure Package (which is a fundamental precondition to the implementation of this project) and the European Commission placed it on the List of Projects of Common Interest (PCI) introduced under Regulation (EU) No 347/2013 and it awaits a final investment decision at the discretion of the Issuer, and other projects are at earlier planning stages. The competing project of the interconnector between Poland and Slovakia reportedly received final investment decision in May 2018 and the construction works are scheduled to begin in the second half of 2018 and to be completed by the end of 2021. 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.
- (d) Interconnector between the Czech Republic and Austria and the expansion of capacity between Austria and Hungary, including the introduction of reverse flow capacity. The Bidirectional Austrian-Czech Interconnector (BACI) was also repeatedly placed on the List of Projects of Common Interest (PCI) by the European Commission and awaits a final investment decision at the discretion of the Issuer. The implementation of this project is conditional upon the outcome of the testing phase of the Trading Region Upgrade option designed to facilitate market integration of Czech and Austrian gas markets, which includes a technical service to be provided by the Slovak gas TSO eustream, a.s. (see "*Risk Factors – 1.16 Risks related to legal and regulatory proceedings*").

Third Party Access to the 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 gas TSOs, such as the Issuer, to grant the right of access to the transmission network and ancillary services to all gas market participants who meet certain non-discriminatory access requirements predefined by the ERO. Under the Energy Act, the Group is required to take measures to ensure adequate capacity in the network to meet the stipulated requirements for security of supply. Pursuant to the Energy Act and the Third Energy Package regulations, 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 threat to the secure and reliable operation of the network, the Group is not permitted to refuse 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 the ERO on the basis of serious economic difficulties of gas traders with take-or-pay contracts.

Operation of the Group's Network

The Group's service to its customers comprises taking 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 a contract. Subject to capacity limitations, the Group's grid is designed in such a way as to be able to transport natural gas between any combination of entry/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.

Tariffs for the Transit business 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 the ERO. Transit entry tariffs are equal to the entry tariffs for Transport and which are paid by importers of gas into the Czech Republic. Capacity sales to the gas importers are classified as a part of the Transport business. Transit exit tariffs are calculated on the basis of transit tariffs charged by neighbouring TSOs by way of 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.

The Commission Regulation establishing a network code on harmonised transmission tariff structures for gas ((EU) 2017/460) entered into force in April 2017, with the majority of its provisions entering into force in May 2019. It sets out a new EU-wide system of determining transmission tariffs. The new system should generally be based on the cost plus principle. The impact of its actual implementation on the Group is not yet clear.

Tariffs for the Transport business are calculated on the basis of the regulatory determination by the ERO for each five-year period, unless the duration of the regulatory period is adjusted. The regulation is currently in its fourth period. Under the Energy Act, through Transport tariffs, the Issuer is allowed to recover (i) depreciation, (ii) reasonably incurred operating costs and (iii) profit calculated as a product of the regulatory asset base and the weighted average cost of capital. During the regulatory determination process, the 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, the ERO

determines input parameters and confirms the allowed revenue for that year on the basis of the regulatory formula. In particular, the 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. The current regulatory period has been extended by the ERO by another two years and is now expected to end in 2020 (inclusive), with the fifth regulatory period planned from the year 2021.

For the purposes of calculating these allowed revenues, depreciation is calculated under the applicable Czech GAAP standards. Allowed operating costs are fixed by the ERO at the start of each regulatory period, which are increased each year for inflation based on the Czech retail 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 the ERO at the start of each regulatory period. Throughout the current regulatory period RAB has been based on the 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 Transport network assets and a pro-rata allocation of Transit network assets which are jointly used for Transit and domestic Transport. 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.

WACC is firmly set for the whole fourth regulatory period (except if the corporate income tax rate changes) and is based on a given capital structure which envisages an equity to debt ratio of 61,52:38,48. The elements of the calculation include a cost of equity based on risk free rate of return based on the ten years median of daily yields from 10 year Czech government bonds and a market-related equity risk premium, which is set at a fixed value of 5 per cent. plus a default spread for the Czech Republic and cost of debt (post-tax) based on risk free rate of return, credit risk margin, cost of debt (pre-tax) and corporate income tax rate.

The majority of 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.

Compliance Programme relating to Third Party Access to the 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.

Crisis Management in the Gas Industry

According to the act on crisis management (No. 240/2000 Coll.) (the **Crisis Management Act**), the regional governor (*hejtman*) or the mayor (*primátor*) of Prague are authorized 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 on security of the Czech Republic (No. 110/1998 Coll.), 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 it 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.

Technical Standards for the Gas Transmission Network

The Group's operation and maintenance activities are based on the relevant technical standards of the European Union as well as on Czech national technical gas standards TPG (see also "*Environmental and Safety Policies*" below).

Property and Equipment

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, a.s., and has the legal right of usage of the land underlying these assets. The Group's transmission assets are mainly comprised of pipelines, compression stations, delivery stations and administrative buildings.

Infrastructure Investments and Capital Expenditures

In line with the Regulation (EC) No 715/2009, ENTSOG must publish both a European Community-wide Ten Year Network Development Plan (the **ENTSOG TYNDP**) and 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 a GRIP is to show a regional gas infrastructure outlook, consistent with the wider ENTSOG TYNDP, assessing and identifying potential future infrastructure investments.

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 10-year network development plan (**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 10 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. 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.

As of the date of this Prospectus, the Group is planning or developing three material capital projects:

- (a) The objective of the Capacity4Gas Project is to build new gas infrastructure, most of which is to be located in the Ústí and Pilsen regions and which shall include 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 **Capacity4Gas Project**). The aim of the project is to connect the gas infrastructure operated by the Group to the planned EUGAL pipeline in Germany and to increase the capacities for the needs of gas supplies in the Czech Republic and for further transit through Slovakia. The Capacity4Gas Project is in progress and is scheduled to be completed in 2021.
- (b) The planned Czech-Polish Gas Interconnector (CPI) project consists of the construction of a DN 1000 / PN 73.5 pipeline that would interconnect the existing transmission systems of the Czech Republic and Poland. The Group expects that the project will strengthen the flexibility of natural gas transport in Central and Eastern Europe and contribute to the integration of gas markets in the region as well as to improving the security of gas supply for the Moravia region, including connections to the gas storage facilities, and the Czech Republic generally. The European Commission classified the project as Project of Common Interest.
- (c) The projected length of the pipeline in the territory of the Czech Republic is approximately 207 km. The Group has not taken a final investment decision yet.

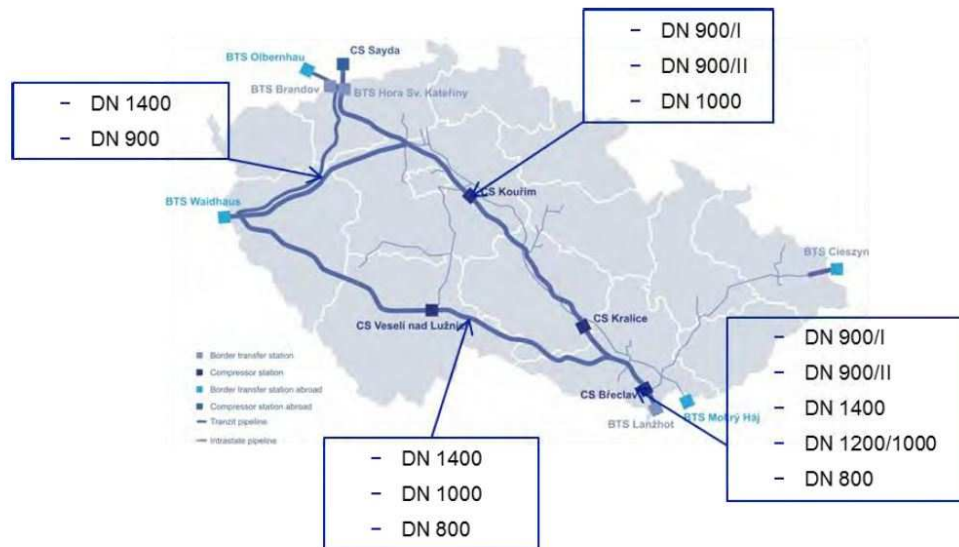
- (d) The Bidirectional Austrian-Czech Interconnection (BACI) is a planned pipeline connection of the Austrian and Czech gas transmission networks between the compressor stations Břeclav in the Czech Republic and Baumgarten in Austria. The pipeline is to establish the first direct gas pipeline connection between the two countries. Its purpose is 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 European Commission classified the project as Project of Common Interest. The implementation of this project is conditional upon the outcome of the testing phase of the Trading Region Upgrade option designed to facilitate market integration of Czech and Austrian gas markets, which includes a technical service to be provided by the Slovak gas TSO eustream, a.s.

The projected length of the pipeline in the Czech Republic is 12 km. The Group has not taken a final investment decision yet.

The ERO removed the Bidirectional Austrian-Czech Interconnection project from the 2017-2026 Czech ten-year network development plan. The Group initiated a court review of the removal which is pending as of the date of this Prospectus (see "Risk Factors – 1.16 Risks related to legal and regulatory proceedings").

Maintenance and Safety

The map below sets out properties comprising the Group's gas transmission network.



Source: Company

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

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 provide full capacity.

The Group's Pipeline Integrity Management System (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 PIMS are 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 internal inspections, the active corrosion protection system and the geographic information system (GIS). The data are evaluated using a risk index. The risk index reflects the technical condition of a pipeline, the environment, e.g. soil and geology, the pipeline is situated in and the 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, sufficient back-up capacity thanks to parallel transit pipelines and an independent external power supply.

Annual maintenance plans are also based on PIMS. The Group's pipelines are subject to internal 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 analysed and assessed. 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 RBM/CBM (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.

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 estimates that the expected technical lifetime of gas pipelines is around 70 years from 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.

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

Based on the above, the Group's network system is, in the Group's assessment, of high quality and in excellent technical condition.

Customers and Long-Term Contracts

The Group is one of the largest carriers 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 2,446 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 payments in a timely fashion. There have been no incidences of payment default by customers with whom the Group has a Material Contract, except for one Material Contract which is a subject of a dispute before the Arbitration Court in Prague (see "*Risk Factors – 1.16 Risks related to legal and regulatory proceeding*").

The profitability of the Group's business has primarily been driven by bookings for Transit of gas, which are primarily made under the long-term contracts. All the Material Contracts, regardless of duration, are based on a ship-or-pay principle, whereby the Group receives the contracted Transit tariffs even if the booked capacity is not utilised. Transit tariffs depend on pre-defined entry and exit points and contracted capacity. The quality of natural gas is materially the same across all shippers.

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 Group is a party to the Material Contracts described below which represent long-term relationships with four shippers. For the years ended 31 December 2017 and 2016, revenues from the Material Contracts accounted for 70 per cent. and 67 per cent., respectively, of the Group's total revenues. The Material Contracts are:

- (a) a contract for gas Transit from Eastern Europe to Western Europe with a single shipper, expiring in 2021;
- (b) a contract for Transit of Russian gas through the Gazelle Pipeline North to South expiring 1 January 2035 (the Gazelle Contract);
- (c) a contract for gas Transit from Western Europe to Eastern Europe with a single shipper, expiring in 2019;
- (d) a contract for gas Transit from Western Europe to Eastern Europe with a single shipper, expiring in 2021; and
- (e) a contract for gas Transit from Western Europe to Eastern Europe with a single shipper, expiring in 2020.

Further the Group entered into a contract for gas Transit with a single shipper related to the Capacity4Gas Project. The performance of this contract is scheduled to commence in the gas year 2019/2020 and to expire in 2039.

With the exception of the Gazelle Contract, all of these contracts are on a fully ship-or-pay basis. For the financial years ended 31 December 2017 and 2016, the contracts with the Major Shipper accounted for 66 and 61 per cent. of the Group's total revenues (including Transit and Transport).

In terms of the total number of contracts, the Group concluded almost 4,200 and 4,300 gas transmission contracts in the financial years ended 31 December 2017 and 2016, respectively, with the majority of them being contracts concluded for one year or a shorter period.

Other than the Material Contracts, the C4G Contract and the financial arrangements described in the sub-section "*Financial indebtedness and hedging*", there are no material contracts that are entered into outside of the ordinary course of the Issuer's business and could result in any member of the Group being under an obligation or entitlement that is material to the Issuer's ability to meet its obligations to the Bondholders in respect of the Bonds.

Competition

The Group faces competition from other pipeline routes that transit gas across Europe, both eastwards and westwards, namely, the Yamal/EuRoPol Gaz, the WAG/MEGAL and the Nord Stream/NEL pipelines. 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.

The Group faces potential competition from other planned pipelines that would transit gas across Europe from east to west and south through Europe (see "*Evolution of Gas Flow in Europe*" for more information).

Organisation, taxation and other matters

The Issuer is internally organised into the following departments:

- (a) Commercial Operations - The department is responsible for the sale and customer-facing delivery of gas Transport and Transit services.
- (b) Corporate Office - The 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.
- (c) Human Resources - The department is responsible for personnel planning, recruitment, education, development, remuneration, social dialogue, collective bargaining and other matters relating to the employees.

- (d) Internal Audit - 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.
- (e) Legal, Regulation and Communication - The department is responsible for the legislative agenda of the Group, public relations, external and internal communication, sponsorship and corporate design/corporate identity.
- (f) Strategy - The 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.
- (g) Asset Engineering - The 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.
- (h) Asset Maintenance - The 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 operation and 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.
- (i) Asset Operation - The 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.
- (j) Investment Projects – The department is responsible for project management of all new grid connections, as well as the realization of major construction and maintenance projects. Two major capital projects, Capacity4Gas and Czech-Polish Interconnector, are each managed within a separate organisational unit.
- (k) Procurement, Fleet and Facility - The department is responsible for procurement and logistics, car fleet and facility management.
- (l) Controlling, Accounting and Tax - The 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.
- (m) Treasury - The department is responsible for risk management functions (including enterprise risk management, financial risk management and insurance functions), funding of the company, relationships with banks, daily cash and liquidity management and other treasury activities; and
- (n) IT - the department is responsible for the provision of IT services across the Group.

Environmental and Safety Policies

Environmental protection, sustainable development and safety are key considerations for the Group (in accordance with its overall priority to ensure safe, reliable and efficient operation of its gas system). 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:

- (a) emergency preparedness;
- (b) air pollution prevention;
- (c) greenhouse gas emission reduction;
- (d) waste and water management;
- (e) handling chemical products and mixtures; and
- (f) nature conservation and countryside protection.

As of the date of this Prospectus, the Group has experienced no 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 compliance with current legislation on reporting, notification obligations and relevant permits and has not been subject to any sanctions or censure from competent authorities. In addition, the Group's "NET4GAS Closer to Nature" programme supports certain projects aimed at nature conservation and environmental protection.

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

The Group is committed to corporate social responsibility and is a major corporate donor in the field of nature conservation in the Czech Republic.

Licences, Permissions and Authorisations

As of the date of this Prospectus, the Issuer holds a certificate of independence (see "*The Issuer's Business*" above) and the exclusive gas transmission licence issued by the 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 subject to the possibility of revocation by the ERO if the Issuer were to be declared insolvent. In addition to this material licence, the Issuer holds all the necessary licences, permissions, exemptions and authorisations necessary for its ordinary business activities, such as installation, repair, maintenance, professional inspections and tests of gas and pressure facilities and technical testing, metering and analysing.

Regulatory Background

The gas industry sector in Europe has been governed mainly by three liberalisation directives. The first European 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 liquefied natural gas projects.

This First Gas Directive set out the following principles:

- (a) *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.
- (b) *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 the ERO.

- (c) *The gradual opening up of the energy markets, with the possibility in the long term for end- users to choose their gas supplier.* This possibility was limited, in the First Gas Directive, to industrial customers with consumption of more than 25 million cubic metres of gas per year.
- (d) *Creation of an independent supervisory authority in the Czech Republic.* The 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. The ERO is also the competent authority to decide upon disputes listed in the Energy Act that may arise between participants in the markets.
- (e) *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 European 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 provided for legal separation of gas transmission, storage and distribution activities had to take place by 1 January 2004 although combined operators were 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 enactment of the amendment to the Energy Act (Act No. 158/2009 Coll.). 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, company was rebranded to NET4GAS.

The final step in the series of the liberalisation directives of the EU was the Third Gas Directive. The Third Gas Directive was published in the EU's Official Journal on 14 August 2009, consisting, among other, of the new Directive 2009/73/EC and the new Regulation (EC) 715/2009 (which entered into force on 3 March 2011). 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.

Directive 2009/73/EC 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 Directive 2003/55/EC. However, exemptions to full ownership unbundling through certification of operators as independent transmission operators or independent system operators were enabled.

Regulation (EC) 715/2009 complements Directive 2009/73/EC 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 Regulation (EC) 715/2009 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 Issuer were issued within the framework of Regulation (EC) 715/2009. They are referred to as Network Codes and each of them sets out rules regarding a particular aspect of the Issuer's operations. The Network Codes issued thus far are the following:

- (a) Commission Regulation establishing a Network Code on interoperability and data exchange rules (703/2015/EU);
- (b) Commission Regulation establishing a Network Code on Gas Balancing of Transmission Networks (312/2014/EU);

- (c) 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);
- (d) Commission Decision (EU) 2015/715/EU amending Annex I to Regulation (EC) 715/2009 on conditions for access to the natural gas transmission networks (dealing with congestion management);
- (e) Commission Regulation (EU) 2017/460 establishing a network code on harmonised transmission tariff structures for gas, commonly referred to as "NC TAR".

Financial indebtedness and hedging

In 2014, the Issuer established EUR 5,000,000,000 Euro Medium Term Note Programme (the **EMTN Programme**). The following table provides a basic overview of outstanding bonds issued by the Issuer under the EMTN Programme as of the date of this Prospectus:

<u>Year of issue</u>	<u>Outstanding amount (in millions)</u>	<u>Maturity</u>	<u>Coupon</u>	<u>Rating of the Notes</u>
2014	CZK 7,000	28. 1. 2021	2.25 % p.a.	S&P: BBB Fitch: BBB
2014	EUR 300	28. 7. 2021	2.50 % p.a.	S&P: BBB Fitch: BBB
2014	EUR 160	28. 7. 2026	3.50 % p.a.	S&P: BBB Fitch: BBB
2015 ¹	EUR 50	28. 7. 2026	N/A	N/A

The Issuer is also a party to bank loan facility agreements with a group of credit institutions. The lenders under these unsecured loan facility agreements have agreed to provide term loans in an amount of approximately CZK 7 billion and a revolving credit facility and an overdraft credit facility in a total amount equivalent to EUR 100 million in order to facilitate the Issuer's access to liquidity. The Lead Manager may have participations in the term loans made available to the Issuer.

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 or engage in certain other transactions. These restrictions are subject to exceptions and qualifications.

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 C4G 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 CZK 355 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 Issuers 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.

Employees

As of 31 December 2017, the Group had 521 employees, of whom 18 per cent. were women. As of 31 December 2017, 212 employees of the Group had university degree (*vysokoškolské vzdělání*), 210 employees had full secondary education (*úplné středoškolské vzdělání*) and 99 had secondary education (*středoškolské*

¹ The issue was a part of a private placement of an offering of Notes.

vzdělání). The standard of working and social conditions for employees is defined in a collective agreement which remains valid until the end of 2020.

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 Hřebeněch 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 members 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 simple majority vote of all the Executive Directors. Each Executive Director has one vote. With the consent of all members, *per rollam* voting is also allowed.

The following table sets forth the Executive Directors 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>
Andreas Rau	1967	Executive Director and Chief Executive Officer	1 December 2013
Václav Hrach	1974	Executive Director and Chief Financial Officer	1 March 2014
Radek Benčík	1966	Executive Director and Chief Operating Officer	1 October 2016

Andreas Rau

Executive Director and Chief Executive Officer

Andreas Rau has been an Executive Director of the Issuer since December 2013.

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.s., a subsidiary company of the Issuer, and a member of the supervisory board of Bayernets GmbH. 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.

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.

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 Prunéřov 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.s., 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 six 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 all the Supervisory Board members. 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>
Kenton Edward Bradbury	1970	Chairman	1 July 2015	executive director of NET4GAS Holdings, s.r.o.,
Jaroslava Korpancová	1974	Member	2 August 2013	executive director of NET4GAS Holdings, s.r.o.
Lenka Kovačovská	1982	Member	26 March 2015	chairman of supervisory board of ČEPS, a.s.
Mikhail Nahorny	1979	Member	1 July 2016	executive director of NET4GAS Holdings, s.r.o.
Andrew Cox	1967	Member	11 May 2017	executive director of NET4GAS Holdings, s.r.o.

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 Petřman	1958	Chairman (Independent)	1 June 2017	Member of the audit committee of Allianz pojišťovna, a.s.
Igor Lukin	1983	Member	1 June 2016	Member of the audit committee of Autobahn Tank & Rast Gruppe GmbH & Co. KG
Mikhail Nahorny	1979	Member	1 June 2016	Executive director of NET4GAS Holdings, s.r.o.
Stanislav Staněk	1968	Member (Independent)	1 June 2017	Member of the audit committee of Raiffeisenbank a.s.

Pavel Závítkovský	1955	Member (Independent)	1 June 2017	Member of the audit committee of Česká spořitelna, a.s.
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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.

TAXATION AND FOREIGN EXCHANGE REGULATION IN THE CZECH REPUBLIC

This chapter summarises certain tax aspects of Czech laws regarding the acquisition, ownership and handling of the Bonds 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 Bonds. 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 holders of the Bonds.

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 special tax regime.

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

It is recommended that parties interested in acquiring the Bonds consult their legal and tax advisors with regard to the tax, foreign exchange and legal consequences of purchasing, selling or holding the Bonds 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 Bonds could be taxed.

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

Interest Income

Interest income on the Bonds (including also the difference between the nominal amount of the Bond and the value at which it is issued, payable upon the Bond's maturity) paid to (i) an individual or (ii) 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 Bonds 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 by an applicable double taxation treaty, if any (see below). The 15 per cent. is applicable with respect to (a) Czech resident individuals and (b) recipients, who are tax residents in (i) an EU/EEA-member state or (ii) a country or jurisdiction with which the Czech Republic has the effective double tax treaty or the effective double (or multilateral) treaty on the exchange of information. The 35 per cent. rate is applicable with respect to other recipients. The withholding tax represents final Czech tax liability in respect of the interest income on the Bond, 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 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 Bonds paid to the Non-Czech Holder, who is not an individual and holds the Bonds 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 unless the obligation to withhold is waived based on a tax authority decision. The rate of the securing tax is 10 per cent. 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 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 Bonds 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 Bonds 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 may be conditional upon meeting conditions specified in the relevant double tax treaty, 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. The 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, 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 Bonds through a permanent establishment in the Czech Republic, from the sale of the Bonds to another Non-Czech Holder, not purchasing the Bonds 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 Bonds through a permanent establishment in the Czech Republic or not, from the sale of the Bonds 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 Bonds through a permanent establishment in the Czech Republic, will be subject to taxation in the Czech Republic, unless:

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

Income realised by Non-Czech Holders holding the Bonds in connection with the business activities through a permanent establishment in the Czech Republic from the sale of the Bonds 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 Bonds 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 Bonds is a tax resident in an EU/EEA-member state or unless the obligation to withhold is waived based on a tax authority decision. The tax security will be credited against the final tax liability of the Non-Czech Holder selling the Bonds with any overpayment being refunded subject to standard rules.

Taxable income realised by a Non-Czech Holder from the sale of the Bonds is generally subject to Czech corporate income tax of 19 per cent. or personal income tax of 15 per cent. Non-Czech Holders are generally obliged to declare such income in their annual tax returns on a self-assessment basis.

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

Bonds 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.

Furthermore, please note that the income realised by a Non-Czech Holder, who is an individual, might be subject to specific withholding tax regardless of the length of the holding period. For further details see *Taxation – Acquisition of own Bonds* below.

Czech Holders

Czech Holders who are subject to Czech accounting standards for entrepreneurs or to Czech accounting standards for financial institutions and hold the Bonds for the purposes of trading may be, under certain conditions, required to re-measure the Bonds 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.

Any gains upon the sale of the Bonds 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 Bonds 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 Bonds is not exempt from tax.

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

Taxable income realised by a Czech Holder from the sale of the Bonds is generally subject to Czech corporate income tax of 19 per cent. or personal income tax of 15 per cent. In the specific case of a Czech Holder who is an individual and holds the Bonds as part of its business property, the respective income is also subject to social security and health insurance levies. Furthermore, any positive excess of (i) the total sum of income included in the partial tax base from employment activities and the partial tax base from business activities over (ii) 48-times the average wage (CZK 1,438,992 for 2018) is additionally subject to a solidarity surcharge tax of 7 per cent. Czech Holders are generally obliged to declare such income in their annual tax returns on a self-assessment basis.

Furthermore, please note that the income realised by a Czech Holder, who is an individual, will be subject to specific withholding tax regardless of the length of the holding period. For further details see *Taxation – Acquisition of own Bonds* below.

Acquisition of own Bonds

Notwithstanding the above, Czech tax law is not straightforward with respect to tax treatment in situations when the Bonds are bought back by the Issuer and the seller of the Bonds is an individual: While in the case of a Czech Holder, the difference between the purchase price of the Bond and its issue price is subject to a withholding tax of 15 per cent., in the case of a Non-Czech Holder, the interplay of the relevant provisions is not clear as to whether such income is subject to Czech taxation or not. Accordingly, there is a risk that the purchase price payable by the Issuer for the Bonds to Non-Czech Holders who are individuals could be subject to Czech withholding tax at the rate of 15 per cent.

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 Bonds) abroad may be suspended in

accordance with Czech Act no. 240/2000 Coll., crisis act, as amended, 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.

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 Bonds 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 Bonds (including a dispute relating to any non-contractual obligations arising out of or in connection with the Bonds).

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, including United Kingdom, 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, including the United Kingdom.

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.

SUBSCRIPTION AND SALE

The Bonds will be offered for purchase to investors by the sole lead manager of the Issue, Česká spořitelna, a.s. (the **Lead Manager**) in accordance with the Czech Capital Markets Act and other applicable laws and regulations.

On 21 June 2018, the Issuer announced an invitation (the **Exchange and Tender Offer**) to holders of its CZK 7,000,000,000 2.25 per cent. Fixed Rate Notes due 2021, ISIN: XS1090620730, issued on 28 July 2014 under its EUR 5,000,000,000 Euro Medium Term Note Programme (the **Existing Notes**) to offer to exchange for the Bonds or tender for purchase by the Issuer for cash any or all of the Existing Notes, subject to the terms and conditions set out in the exchange and tender offer memorandum (the **Exchange and Tender Offer Memorandum**) dated 21 June 2018. The purpose of the issue of the Bonds and the Exchange and Tender Offer is to proactively manage the upcoming purchase of the Existing Notes and to extend the average debt maturity profile for the Issuer.

The Exchange and Tender Offer Memorandum does not constitute an offer to sell or buy or the solicitation of an offer to sell or buy the Existing Notes and/or the Bonds, as applicable, and offers of the Existing Notes for exchange or tender for cash pursuant to the Exchange and Tender Offer have not been and will not be accepted from persons in any circumstances in which such offer or solicitation is unlawful. No person in any jurisdiction in which, or from whom, it is unlawful to make an invitation to participate in the Exchange and Tender Offer or for there to be such participation under applicable securities laws may participate in the Exchange and Tender Offer. The distribution of the Exchange and Tender Offer Memorandum in certain jurisdictions may be restricted by law.

The Lead Manager has agreed with the Issuer, pursuant to the subscription agreement for the Additional Bonds (as defined below) (the **Subscription Agreement**), subject to the satisfaction of certain conditions, to subscribe for the Additional Bonds (as defined below) on the Issue Date (which is the settlement date agreed in the Subscription Agreement) at the issue price less any applicable commissions and expenses as agreed between the Issuer and the Lead Manager.

In accordance with the terms and subject to conditions of the Exchange and Tender Offer, the issuance of the Bonds is to be in part, where the Bonds are being issued in exchange for and for consideration comprising certain Existing Notes, settled free of payment of any issue price or other amount or amounts (the **Exchanged Bonds**). Pursuant to the terms and subject to conditions of the Exchange and Tender Offer, the Issuer is to receive CZK 2,523,000,000 in nominal amount of the Existing Notes (less any cash payments to be made by the Issuer pursuant to the terms and subject to conditions of the Exchange and Tender Offer) as consideration for, and in discharge of the issue price of, such Exchanged Bonds. Therefore the Issuer will not receive any cash proceeds for the Exchanged Bonds.

In accordance with the terms and subject to conditions of the Exchange and Tender Offer and the Subscription Agreement, the subscription of the Bonds is to be in part, where the Bonds are not Exchanged Bonds and are being issued for consideration comprising cash, settled against payment of issue price (less any applicable commissions and expenses) for such part of the Bonds (the **Additional Bonds**). Pursuant to the terms and subject to conditions of the Exchange and Tender Offer and the Subscription Agreement, the Issuer is to receive CZK 104,947,500 in cash (less any applicable commissions and expenses) from the Lead Manager as consideration for, and in discharge of the issue price of, such Additional Bonds.

The Issuer has also agreed, subject to certain limitations, to reimburse the Lead Manager for its expenses in connection with the issue of the Bonds. The Subscription Agreement entitles the Lead Manager to terminate it in certain circumstances prior to payment being made to the Issuer. The Issuer has agreed in the Subscription Agreement to indemnify the Lead Manager against certain liabilities incurred in connection with the issue of the Bonds.

On the Issue Date, the Bonds will be transferred through the facilities of the Central Depository by the Issuer (i) in the case of the Additional Bonds, to the Lead Manager against payment by the Lead Manager to the Issuer of the issue price of the Additional Bonds, and (ii) in the case of the Exchanged Bonds, to the Delivery Agent free of payment of the issue price of the Exchanged Bonds but subject to compliance with the terms and conditions of the Exchange and Tender Offer, including due and timely transfer and delivery of the corresponding part of the Existing Notes (which have been validly offered and accepted by

the Issuer for exchange) to the specific account of the Issuer or its agent(s). The Bonds will be distributed on the same day by the Lead Manager to the relevant investors or by the Delivery Agent to the holders of the Existing Notes (which have been validly offered and accepted by the Issuer for exchange) through the facilities of the Central Depository.

The Lead Manager and its affiliates 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 its affiliates in the ordinary course of business. In addition, in the ordinary course of their business activities, the Lead Manager and its 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 or the Issuer's affiliates. Typically, such Lead Manager and their affiliates would hedge such exposure by entering into positions in securities, including potentially the Bonds. Any such short positions could adversely affect future trading prices of the Bonds. The Lead Manager and its 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.

General

The distribution of this Prospectus as well as any offer, sale or purchase of the Bonds 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 other jurisdiction, the Bonds 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 CNB and, accordingly, in the absence of applicable exemption(s), no offering of the Bonds 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 Bonds and the possession and distribution of any documents relating to the Bonds in all relevant jurisdictions.

In addition to the above, the Issuer asks the subscribers of each Bond and the Bond acquirers to observe all relevant restrictions in each country (including the Czech Republic) where they would purchase, offer, sell or otherwise transfer the Bonds 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 Bonds, 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 Bonds is recorded in the printed form or in the electronic or any other intangible form.

Any offer of any Bonds made by the Issuer and the Lead Manager (including the distribution of this Prospectus to selected investors on a confidential basis in the Czech Republic prior to the approval of this Prospectus by the CNB and prior to its publication) will be made pursuant to Section 35(2)(c) and (d) of the Czech Capital Markets Act. Such offer does not require prior publication of a prospectus of the offered security. Accordingly, the Issuer notifies all potential investors and other persons of the fact that any Bonds may only be acquired by investors for an aggregate issue price equal to or in excess of the equivalent of EUR 100,000 per one investor. The Issuer will not be bound by any order of any potential investor for subscription or purchase of any Bonds if the aggregate issue price for the ordered Bonds is less than the equivalent of EUR 100,000.

Any person that acquires any Bonds will be deemed to have represented and agreed that (i) such person acknowledges all relevant restrictions on the offer, sale and purchase of the Bonds, 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 Bonds 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 Bonds, such person will inform the potential buyers that in certain jurisdictions, further offer or sale of the Bonds may be subject to legal restrictions, which must be observed.

United States

The Bonds have not been and will not be registered under the U.S. 1933 Securities Act, as amended (the **U.S. Securities Act**) or by any securities commission or any other authority of any State of the United States and therefore will not be offered, sold or transferred within the United States or to U.S. residents (as defined in

Regulation S implementing the U.S. Securities Act) except pursuant to an exemption from the registration duty under the U.S. Securities Act or in transactions not subject to registration under the U.S. Securities Act.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Relevant Member State, the Lead Manager has represented and agreed that, with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the **Relevant Implementation Date**), it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State, except that it may, with effect from and including the Relevant Implementation Date, make an offer of such Bonds to the public in that Relevant Member State:

- (a) at any time to any legal entity which is a qualified investor as defined in the Prospectus Directive;
- (b) at any time to fewer than 150 natural or legal persons (other than qualified investors as defined in the Prospectus Directive), subject to obtaining the prior consent of the Lead Manager; or
- (c) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of the Bonds referred to in (a) to (c) above shall require the Issuer or the Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive, or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an offer of Bonds to the public in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, the expression Prospectus Directive and includes any relevant implementing measure in the Relevant Member State.

United Kingdom

The Lead Manager has represented and agreed that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the **FSMA**) received by it in connection with the issue or sale of the Bonds in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

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, Czech Republic and its telephone number is +420 220 221 111.

Costs of Listing and Admission to Trading

The expenses related to the admission to trading of the Bonds on the regulated market of the PSE are expected to be CZK 50,000. The total costs related to the Issue, including the total costs related to the process of admission to trading of the Bonds on the regulated market of the PSE are expected to be approx. 0.75 per cent. of the nominal amount of the Bonds as of the Issue Date.

Applicable legal regulation

The Bonds are to be issued in accordance with the Czech Bonds Act, the Czech Capital Markets Act and the Prospectus Regulation.

No Material Change

Save as disclosed in this Prospectus, since 31 December 2017 until the date of this Prospectus there has been no material adverse change in the prospects of the Group nor any significant change in the financial or trading position of the Group.

Legal or Arbitration Proceedings

Save as disclosed in "*Risk Factors – 1.16 Risks related to legal and regulatory 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

PricewaterhouseCoopers Audit, s.r.o., with its registered office at Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, audited the Financial Statements and issued unqualified auditor's opinions on the Financial Statements. PricewaterhouseCoopers Audit, s.r.o. audited the separate financial statements of the Issuer as of and for the years ended 31 December 2017 and 2016 and issued unqualified opinions on such separate financial statements. The separate financial statements of the Issuer audited by PricewaterhouseCoopers Audit, s.r.o. are not included in or incorporated by reference into this Prospectus.

PricewaterhouseCoopers Audit, s.r.o. is registered in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Evidence No 021. On behalf of PricewaterhouseCoopers Audit, s.r.o, the 2017 Financial Statements were audited by Tomáš Bašta (certified auditor, evidence No. 1966) and the 2016 Financial Statements were audited by Václav Prýmek and Milan Zelený (certified auditor, evidence No. 2319).

The Issuer declares that neither PricewaterhouseCoopers Audit, s.r.o. nor any of its members, employees or agents has any material interest in the Issuer.

Documents on Display

Physical copies of the following documents may be inspected during normal business hours at the specified office of the Fiscal and Paying Agent for as long as the Bonds are listed on the official list, and admitted to trading on the regulated market of the PSE:

- (a) the constitutional documents of the Issuer;

- (b) the Financial Statements for the years ended 31 December 2017 and 2016 and the financial statements of BRAWA, a.s. for the years ended 30 November 2017 and 2016;
- (c) the Fiscal and Paying Agency Agreement.

In addition, this Prospectus will be available, in electronic format, on the website of the Issuer www.net4gas.cz by selecting the following sections: Investors – Bonds.

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