

Investor Presentation

Czech Gas Networks Investments S.à r.l.

June 2022
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Today’s Presenters

Thomas Merker

Chief Financial Officer of Czech Grid Holding

- Previously: CFO of innogy Czech
- With innogy / RWE since 2000

Pavel Dočekal

Head of Regulatory, Legal & Internal audit in GasNet

- With innogy / RWE since 2000
- Previously: Head of Regulatory Affairs/innogy Czech
- 24 years of experience in energy sector

Jiří Steklý

Head of Finance and Controlling in GasNet

- With GasNet since September 2020
- Previously: Head of Treasury in Pražská energetika
- 10 years of experience in energy sector

Agenda

1.	Key events 2021/2022 YtD	2021 and H1/2022 at a glance
2.	Financial Results	2021 Consolidated Financial Results
3.	Gas market update	European and Czech gas market , supply gas storage filling, Czech Government and Sector initiatives
4.	Impact on CGNI and its response	Key non-financials and financials 1-5/22, emergency plans, financial preventive and reactive measures, Liquidity Forecast 22-23, mid-term outlook incl. regulatory outlook
5.	Future of Gas and ESG Update	ESG | WHS achievements Future of Gas | Transformation NG to hydrogen distributor 2030-2050 | Retrofit of Network
6.	Q&A	
7.	Appendix	

1

Key events 2021 and H1/2022

January 2021
Completion of separation process with iCR

March 2021
Future of Gas project starts

CGNI issues EUR 500 mil. conventional bond

May 2021
New SFA with banks signed

June 2021
First ESG rating from Sustainalytics obtained – score 19.4

August 2021
First Sustainability report and Green Finance framework published

September 2021
CGNI issues EUR 500 mil. inaugural Green Bond

October 2021
Retailer turbulences On Czech and EU Energy Markets

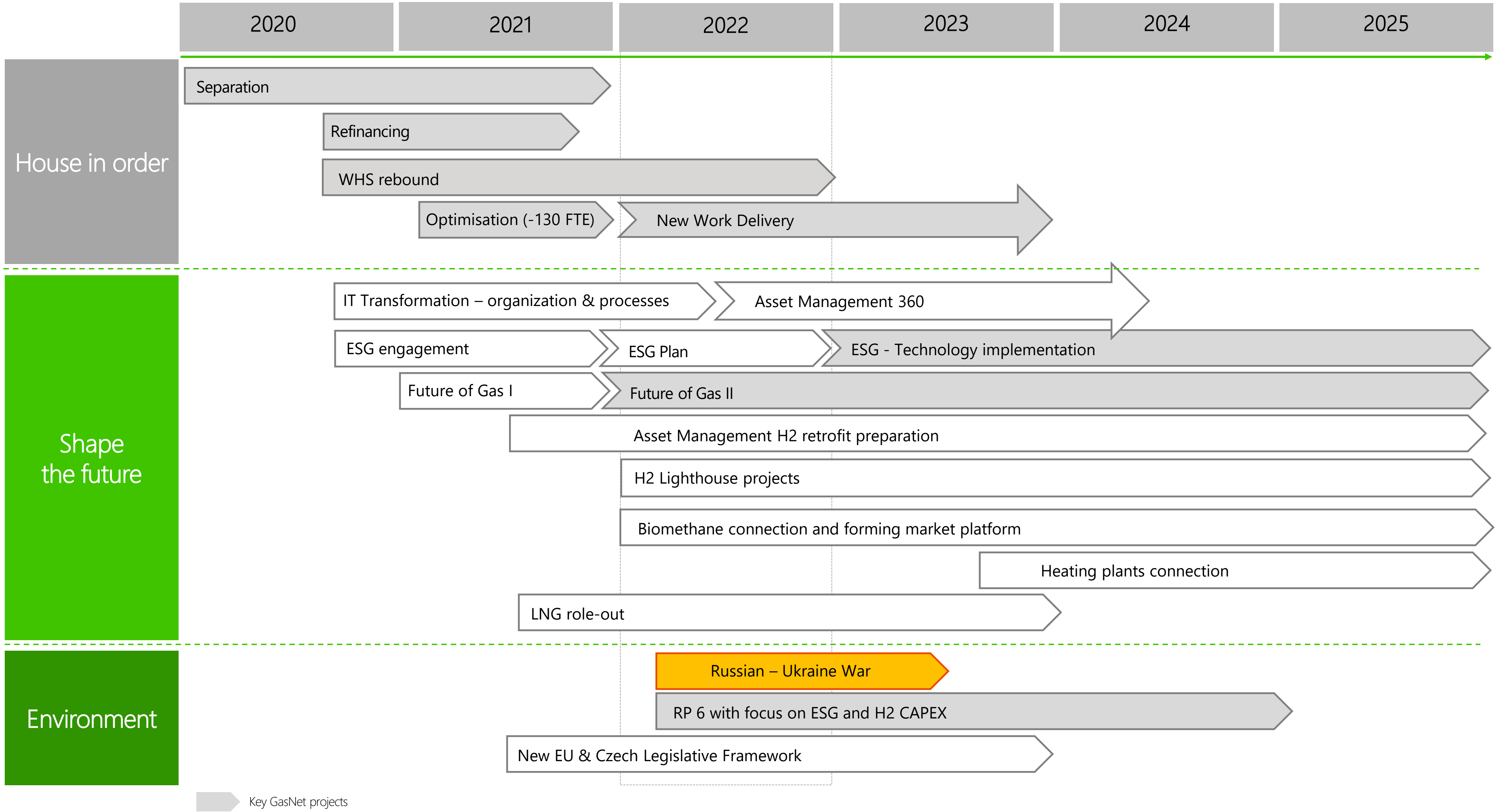
November 2021
New SAP ERP and Work Force Management systems go live

January
Reduction of -130 FTE

February 2022
Beginning of Russia vs. Ukraine war

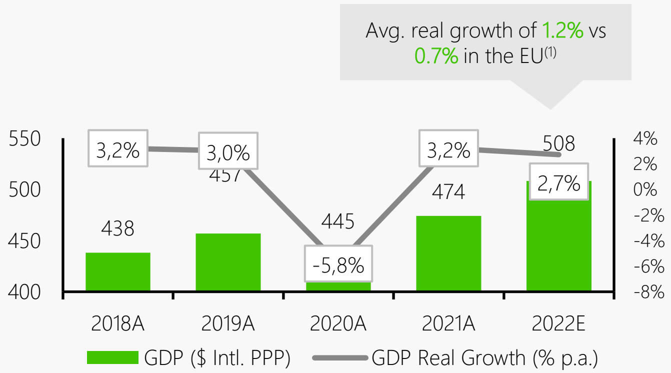
April 2022
Preventive crisis measures adopted & reactive measures prepared

1 2020-25 Strategic Goal Overview

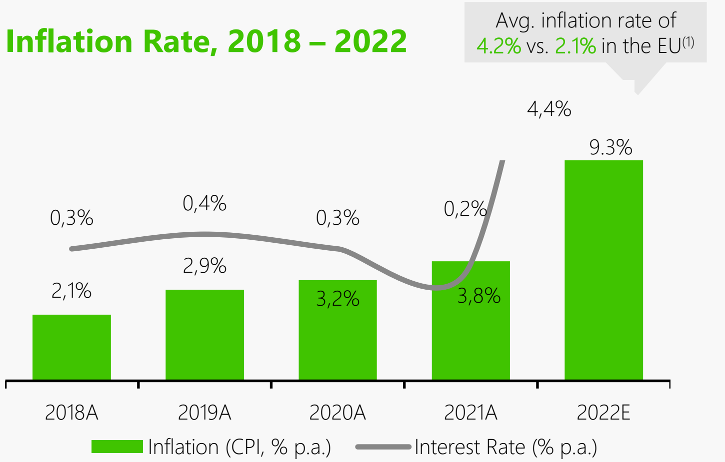


1 A resilient economy with below average indebtedness as % of GDP, substantial foreign currency reserves and unemployment among the lowest in the EU, rated Aa3 / AA- / AA-

GDP & GDP Real Growth, 2018 – 2022



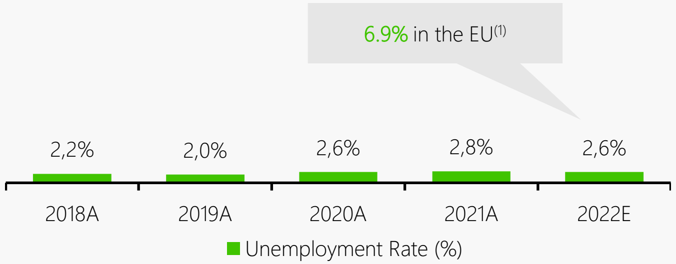
Inflation Rate, 2018 – 2022



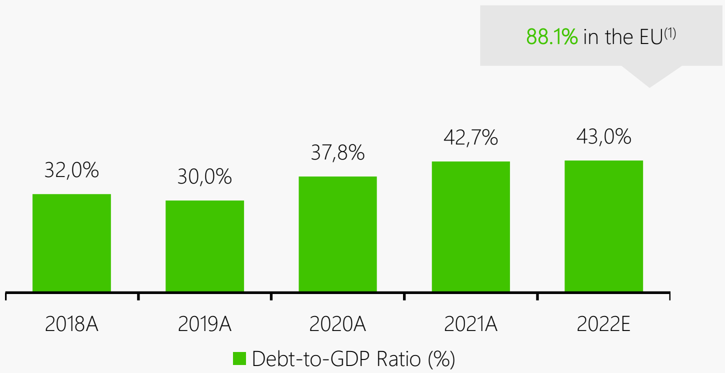
Czech Macro Developments

- Robust medium-term growth dynamics and broad economic resilience in the midst of current geopolitical crisis
- Record levels of employment, labour market cushioned by the wage-subsidy scheme introduced during the pandemic
- Liquid and well capitalised banking system
- Central bank reacted to rising inflation figures by a sharp tightening of its monetary policy
- Rating agencies have reaffirmed their views on the Czech economy

Unemployment Rate, 2018 – 2022



Public Debt as % of GDP, 2018 – 2022



Rating Agencies' Views

MOODY'S
Aa3 (Stable)

"Czech Republic's credit profile is supported by a strong government balance sheet … and track record of economic resilience…"
Moody's, April 2022

S&P Global Ratings
AA- (Stable)

"… several years of strong economic growth before the pandemic; strong external balance sheet; tight fiscal management…"
S&P Global Ratings, April 2022

FitchRatings
AA- (Negative)

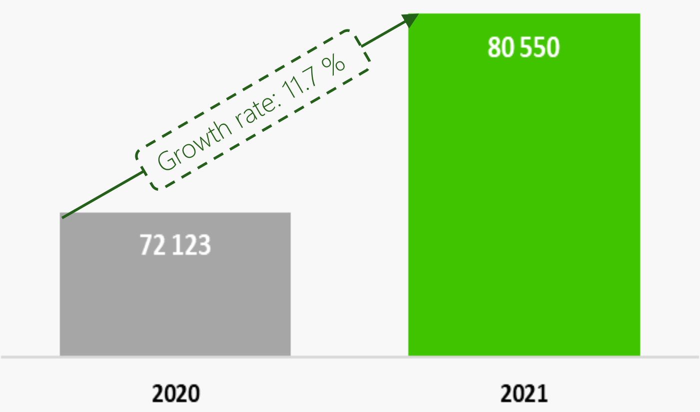
"…balances its record of credible macroeconomic and monetary policies … very strong external finances…"
Fitch Ratings, May 2022

Source: Rating Agency reports, EIU.
Note: (1) EU considers EU-27 as of 2020.

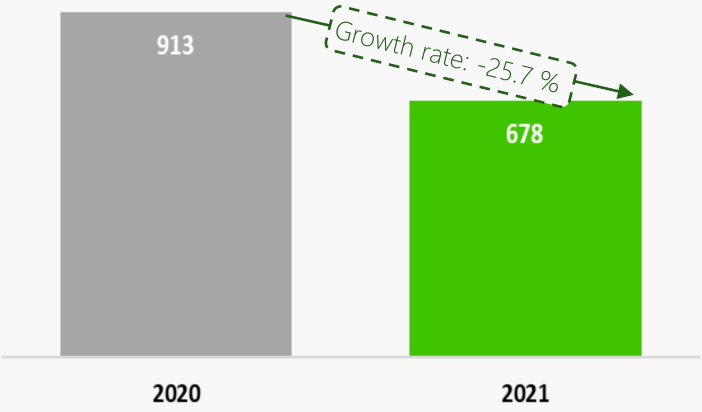
Agenda

2 Very strong financial performance in 2021 and significant increase in gas distribution.

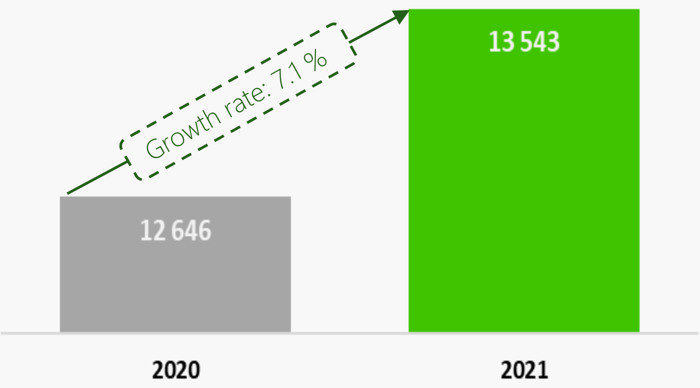
Distribution Volume
GWh



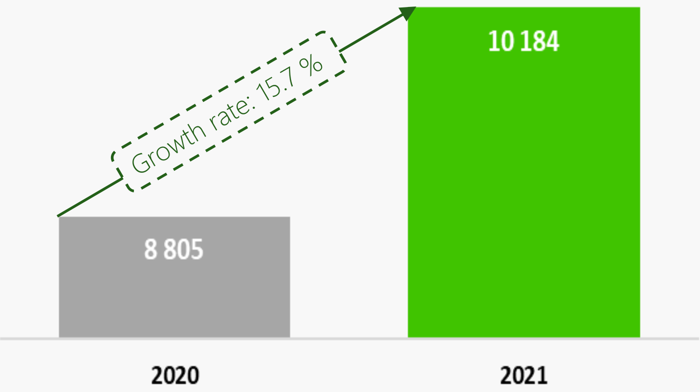
Technical Losses
GWh



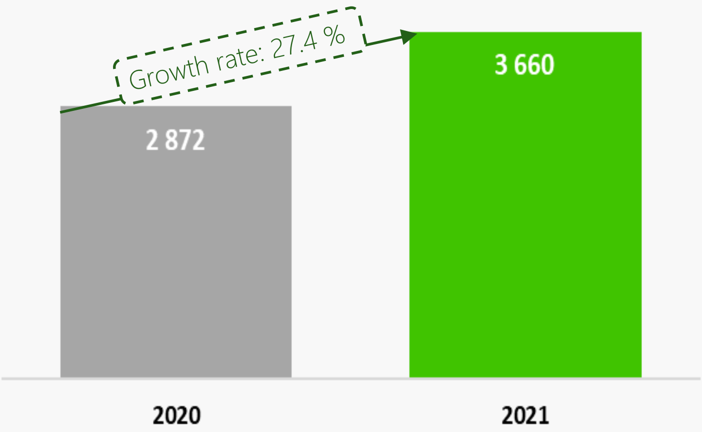
Distribution margin
CZK mn



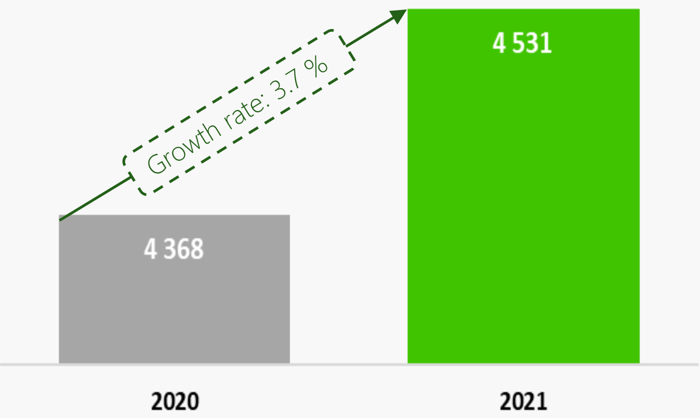
EBITDA
CZK mn



FCF before financing a SHL int.
CZK mn



CAPEX CF
CZK mn



2 2021 CGNI Consolidated Statement of Profit or Loss and Other Comprehensive Income with EBITDA ca. CZK 10.2 bn and the Profit for the period ca. 4.5 bn.

In millions of CZK	**2021**	**2020**
Revenue	15 069	14 594
Other income	102	65
Work performed by the Group and capitalised	456	449
Net impairment reversals on financial assets	-3	-
Raw materials and consumables used	-220	-202
Employee benefits expense	-2 152	-1 880
Depreciation and amortisation	-7 173	-7 700
Services	-2 373	-3 344
Other operating expenses	-695	-877
Operating profit	**3 011**	**1 105**
Finance income	3 486	9
Finance costs	-1 725	-3 236
Profit / (loss) before income tax	**4 772**	**-2 122**
Income tax expense	-255	-12
Profit / (loss) for the period	**4 517**	**-2 134**
Other comprehensive income for the period	-	-
TOTAL COMPREHENSIVE PRIFIT / (LOSS) FOR THE PERIOD	**4 517**	**-2 134**

- Consolidated revenues of the Group exceeded CZK 15 bn in 2021 as a result of large distribution volume (80.5 TWh).
- Increase in personnel costs by CZK 272 million driven by substantial increase in FTEs as 239 employees were transferred to the Group during separation process in the years 2020 and 2021; with 2,401 employees as of December 31, 2021. Nonetheless, the number of employees has been reduced by ca. 130 at the beginning of 2022. The Group currently employs 2 298 employees.
- Decrease in costs of services by almost CZK 1 bn is associated mainly with the absence of separation costs, termination of SLAs and rental contracts with the innogy group.
- The EBITDA of the company amounted to exceptional CZK 10,184 million for the year 2021.
- Profit for the period in the amount of CZK 4,517 million was (on contrary with the previous year) positively affected by mark-to-market revaluation of derivatives and FX differences on borrowings denominated in EUR, as the company has not adopted hedge accounting.
- In case of derivatives the positive impact of mark-to-market revaluation of interest rate swaps (IRS) significantly outperformed negative mark-to-market revaluation of cross-currency swaps (CCS).
  - IRS CZK 5,482 million
  - CCS (CZK 3,732 million)
- In case of borrowings denominated in EUR, the unrealized FX gain amounted to CZK 1,730 million.

2 CGNI Consolidated Statement of financial position as of December 31, 2021 with Total Assets exceeding CZK 113 bn.

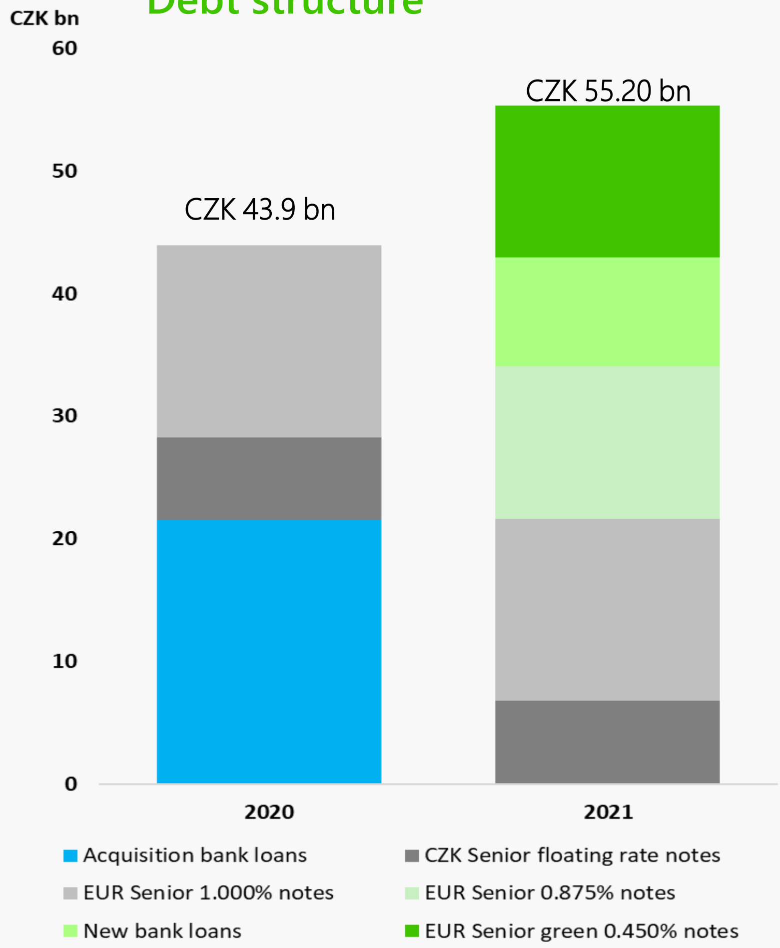
In millions of CZK	31 December 2021	31 December 2020
ASSETS		
Non-current assets		
Property, plant and equipment	102 195	105 250
Right-of-use assets	3 046	2 206
Intangible assets	826	743
Derivative financial assets	4 622	307
Other non-current assets	1	1
Total non-current assets	**110 690**	**108 507**
Current assets		
Inventories	5	5
Trade and other receivables	616	575
Other taxes receivable	-	62
Cash and cash equivalents	1 376	1 741
Derivative financial assets	795	-
Total current assets	**2 792**	**2 383**
TOTAL ASSETS	**113 482**	**110 890**

In millions of CZK	31 December 2021	31 December 2020
EQUITY		
Share capital	1	1
Share premium	27 219	27 219
Accumulated deficit	-6 667	-3 388
Total equity	**20 553**	**23 832**
LIABILITIES		
Non-current liabilities		
Borrowings	69 204	65 620
Lease liabilities	1 983	1 215
Deferred income tax liabilities	14 729	15 453
Provisions	52	17
Other non-current liabilities	339	292
Derivative financial liabilities	3 533	742
Total non-current liabilities	**89 840**	**83 339**
Current liabilities		
Borrowings	343	384
Lease liabilities	190	165
Trade and other payables	1 911	2 110
Contract liabilities	200	573
Current income tax payable	70	122
Other taxes payable	180	267
Provisions	168	98
Derivative financial liabilities	27	-
Total current liabilities	**3 089**	**3 719**
Total liabilities	**92 929**	**87 058**
TOTAL LIABILITIES AND EQUITY	**113 482**	**110 890**

- CGNI non-current assets worth over CZK 110 bn.
- Derivative financial assets and liabilities arose as a result of fair value changes of financial derivatives
- Borrowings of the company consists of both senior unsecured notes and bank financing as well as of subordinated shareholder loans (ca. CZK 14bn)
- Significant balance of deferred income tax liabilities relates mainly to the difference between accounting and tax value of non-current assets
- Increase in accumulated deficit as a result of PY loss caused mainly by non-cash items of depreciation charges and M2M revaluation of derivatives

2 CGNI reached its target debt structure in 2021.

Debt structure



KPIs*

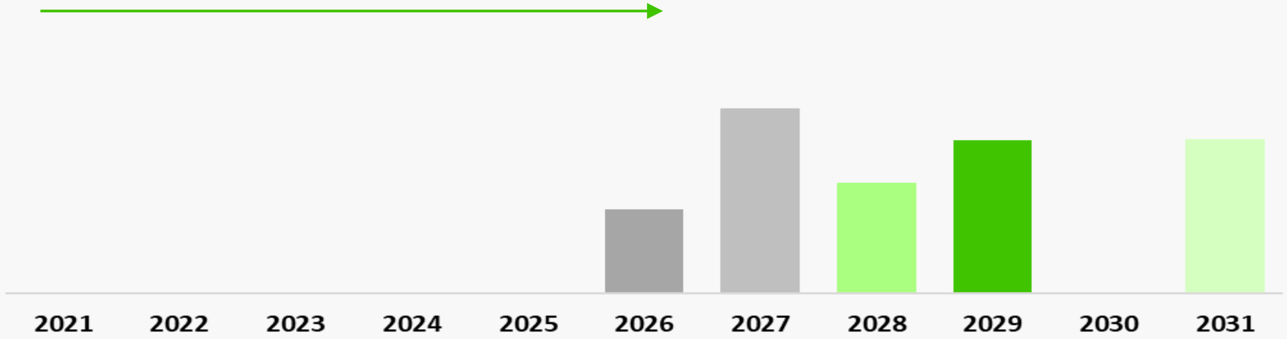
- Net debt / RAB = 95%
- Net debt / EBITDA = 5.28x
- FFO net leverage = 6.18x
- No financial covenants unless being downgraded to SubIG**
- Subordinated shareholder loans maturing in 2044 amounted to ca. 14 bn CZK as of December 31, 2021.

* Calculated based on accounting figures.

** The covenants imposed by banks require the Company to be assigned the credit rating corresponding the investment grade. If the rating would be below the investment one and the amount of net debt is less than RAB the Group shall repay its bank borrowings immediately.

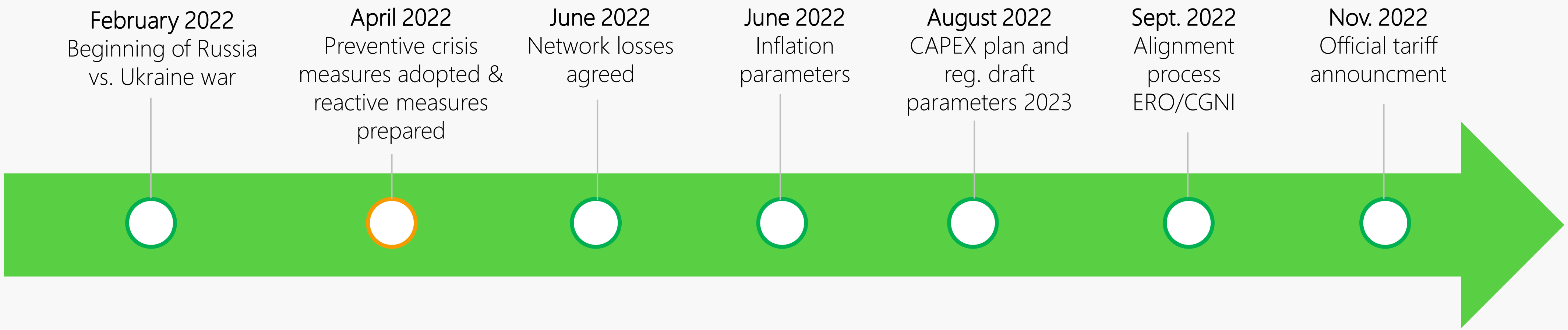
Maturity profile

Interest rate and FX rate hedge ratios ≥ 85% as of December 31, 2021.

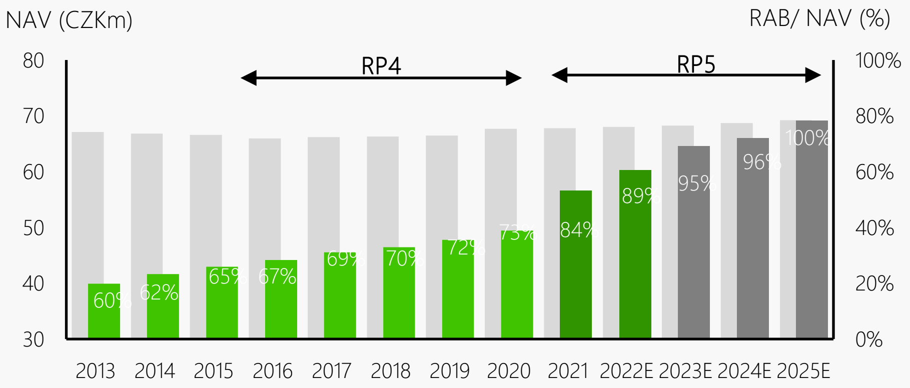


As of December 31, 2021, outstanding, not used Capex and RC commitments amounted to CZK 1bn resp. CZK 0.5bn

2 Outlook 2022



RAB and NAV Reconciliation Schedule



- **Upward reconciliation of RAB** to match the higher underlying net book value in motion until 2025, with non-binding Capex plans for period 2021-2025 and 2025-2030

✓ Agreement with the regulator ERO on coverage of network losses for 2023: cost neutral

✓ OPEX inflation vs. Actual cost increases neutral to wide extent

✓ CAPEX & D&A plan not expected to change

- Accumulated K-factor allocation from previous years decisive element for tariff increase and revenue level in 2023
- Expected tariff increase in absolute terms relatively high , but lower than electricity

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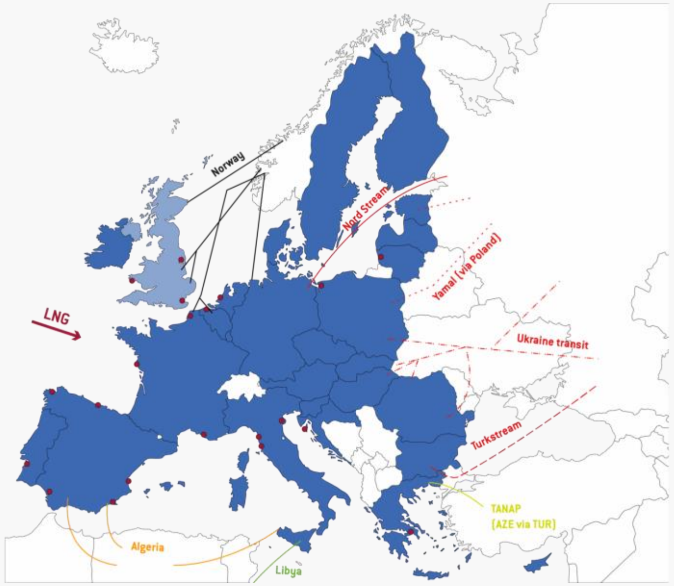
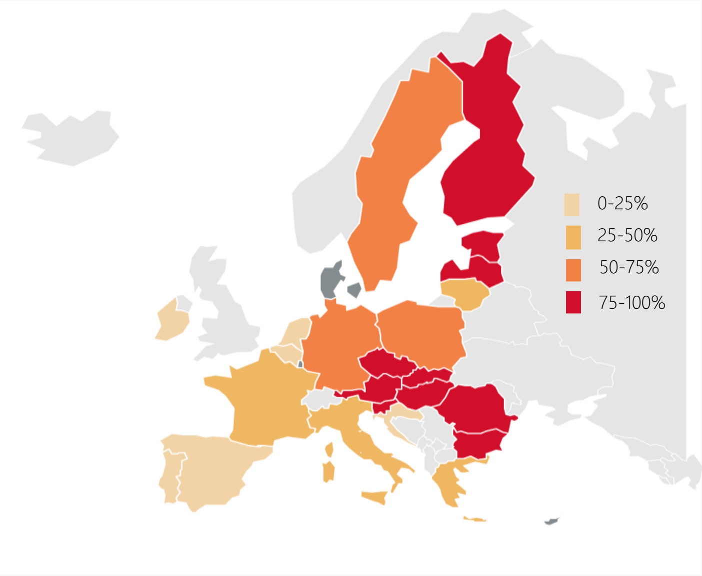
3 More than 40% of gas consumption in EU (cca 4,000 TWh/year) is covered by supplies from Russia.

Various import routes and gas sources are used to cover gas consumption in EU



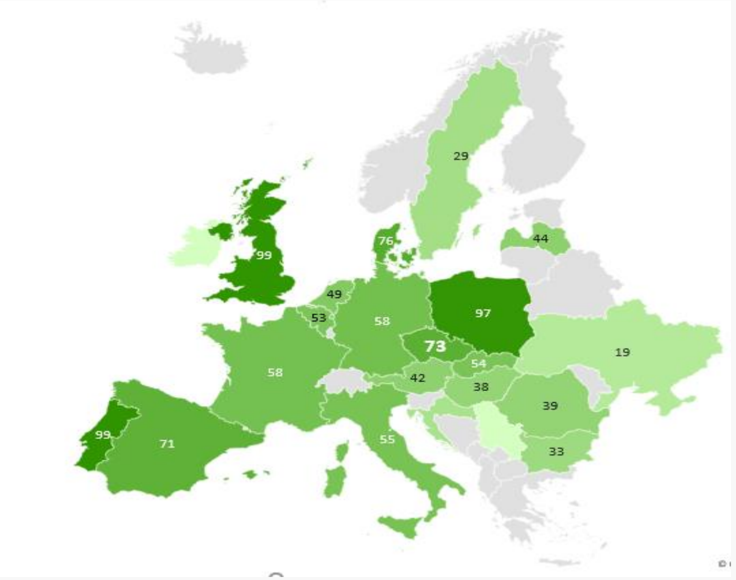
[1]

Dependency on import from Russia varies across EU countries



[2]

Current storage filling above 50% across Europe, with 73% in the Czech Republic

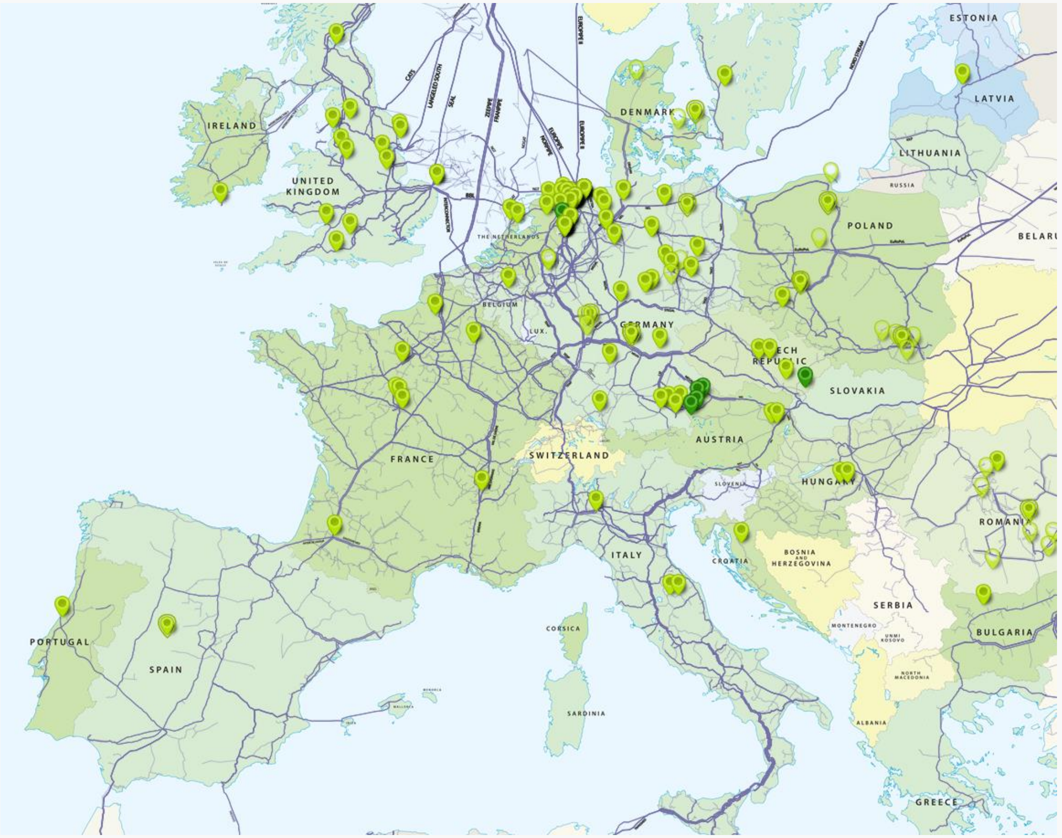


[3]

[1] https://www.bruegel.org/publications/datasets/european-natural-gas-imports/
[2] EU takes steps toward energy independence from Russia | Global Risk Insights
[3] Gas Infrastructure Europe - AGSI+ (gie.eu)

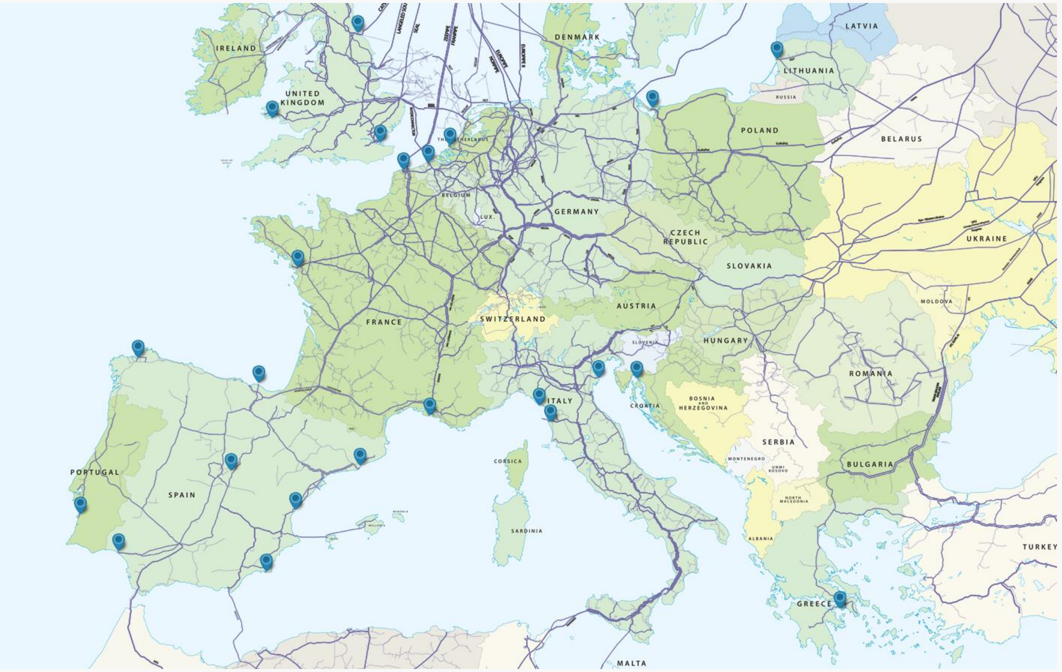
3 Diversification of supply through non-Russian LNG, strengthening of European‘s gas infrastructure, launch of hydrogen supplies and H2 network readiness & increase in local biomethane production are the priorities.

Storage market largely developed, but commodity supply for filling not sufficiently diversified



[1] ENTSOG | ENTSOG

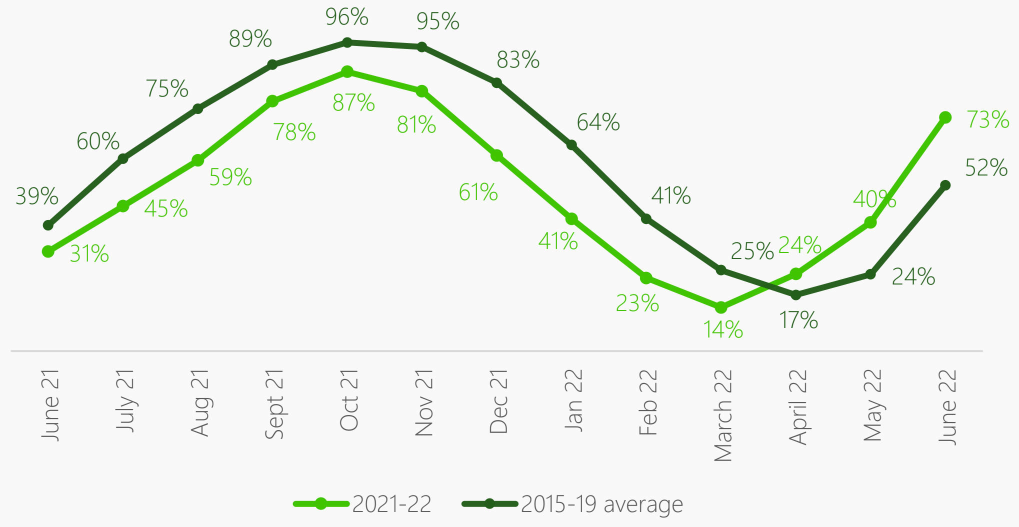
LNG terminals to be built, with lead time 2-3 years



[1] ENTSOG | ENTSOG

3 Gas storage located in CZ with capacity to cover 40% of yearly demand has been filled faster than in previous years to contribute to security of supply.

Storage filling above LT average, after intense negotiations with Retailers and the Czech Government.



- Latest gas flow into the Czech national distribution system is stable
- Total inflow covering full consumption , remaining part used to fill storage facilities.
- Current filling rate cca. 0,5% per day, which is lower than the possible technical max. injection capacity.
- 100% storage filling expected in cca. 115 days

There is a Czech Emergency Plan in place, which would be activated by the Czech Government.

Currently, standard offtake level is being applied.

Expected gas savings		
	Offtake levels	%
Winter season	Standard offtake level	0%
Gas deliveries curtailed (B2B not critical)	1.	1%
	2.	5%
	3.	11%
	4.	15%
	5.	20%
Gas deliveries interrupted (B2B critical)	6.	25%
	7.	28%
	8.	30%
	9.	48%
	10.	51%

now

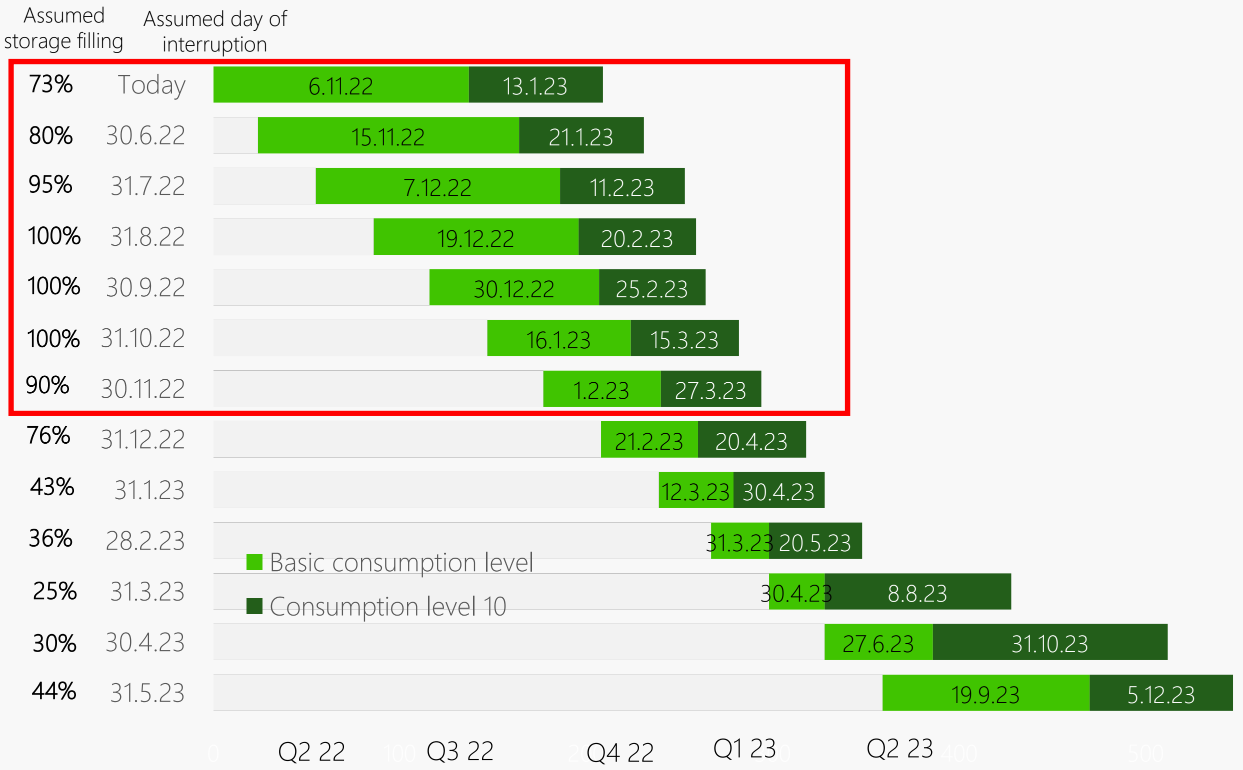
B2C customers to be disconnected at level 11. 100%

3

Gas storage level already reached 73%, with increasing security of supply for next winter season.

Remaining days of gas flow

assuming complete interruption

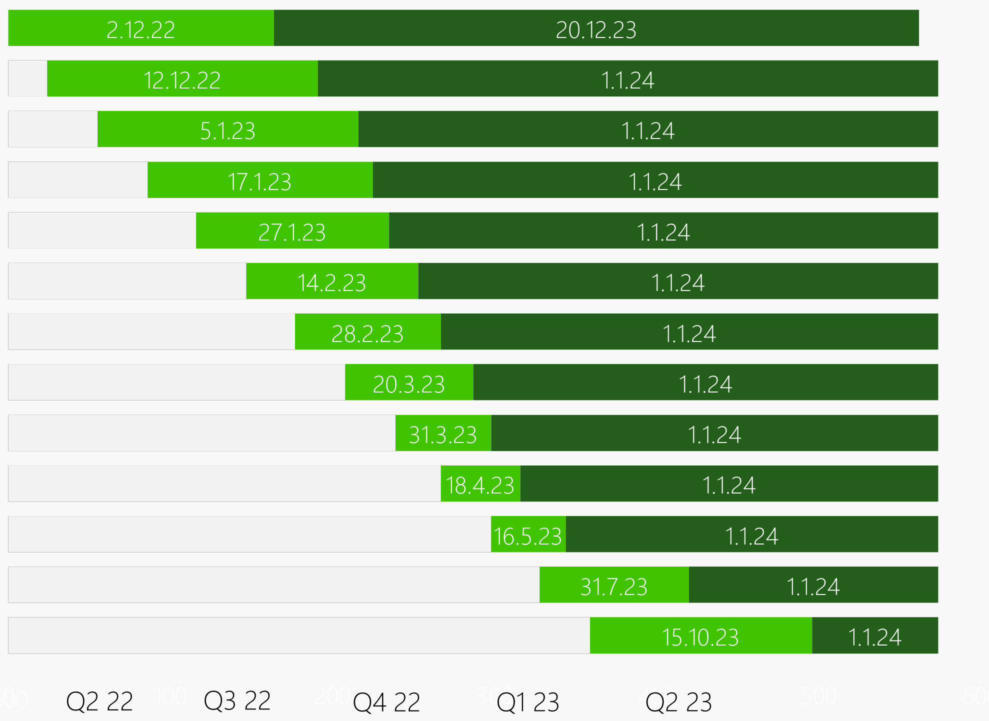


Example: in case of complete interruption as of today, the gas flow would last till 6. 11. 2022 in basic consumption level and and till 13.11.2023 in 10th consumption level.

Note: model is based on assumption that no gas supplier re-exports abroad; consumption @ level 10 shows the situation, where the gas is being delivered only to B2C customers.

Remaining days of gas flow

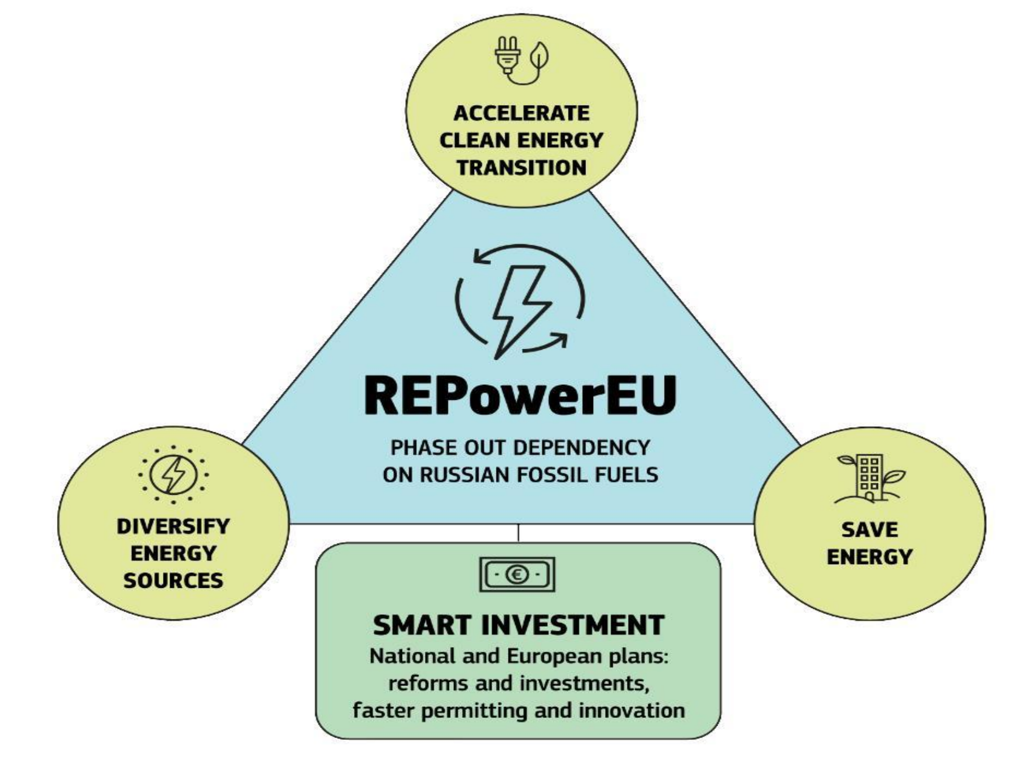
Assuming reduction of gas flows to 30%



Example: in case of reduction of gas flows to 30% from today, the gas flow would last till 2. 12. 2022 in basic consumption level and till 20.12.2023 in 10th consumption level.

3 REPowerEU: The response of the European Commission to the hardships and global energy market disruption caused by Russia's invasion of Ukraine

REPowerEU actions proposed to phase out Russian fossil fuels go beyond plans presented in the FF55 Package



CZ government has initiated measures to mitigate impact of possible gas interruption

Measures executed

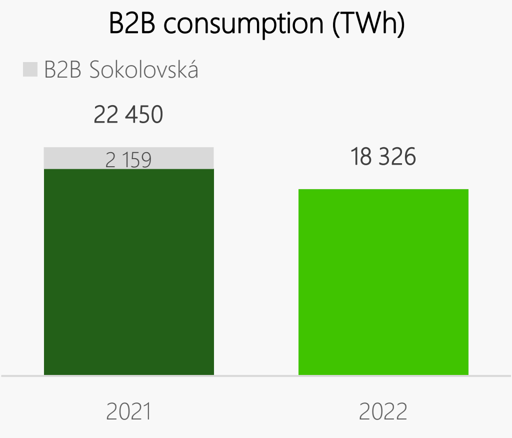
- Strategic reserves controlled by the CZ government
- Financial motivation for storage users to inject gas into gas storage in CZ in keep it under defined conditions
  - Storage to be filled at least by 80% by November 1
- Use it or lose it („UIOLI") implemented in the Energy Act
- Social Energy tariff approved by Czech Government on June 22.

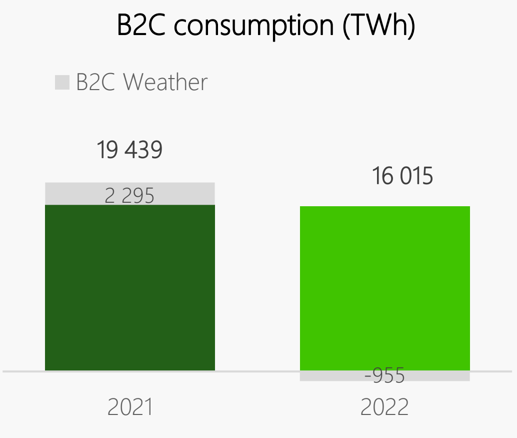
Measures planned/discussed

- „Solidarity agreements" with neighbouring states
- Interruption of gas flows to neighbouring states and obligation for suppliers provide gas to TSO in order to secure gas for „protected customers"
- State financial support to TSO/DSOs in case of gas interruption

Agenda

4 Demand: We did not observe a significant drop in consumption in the period 1-5/2022.

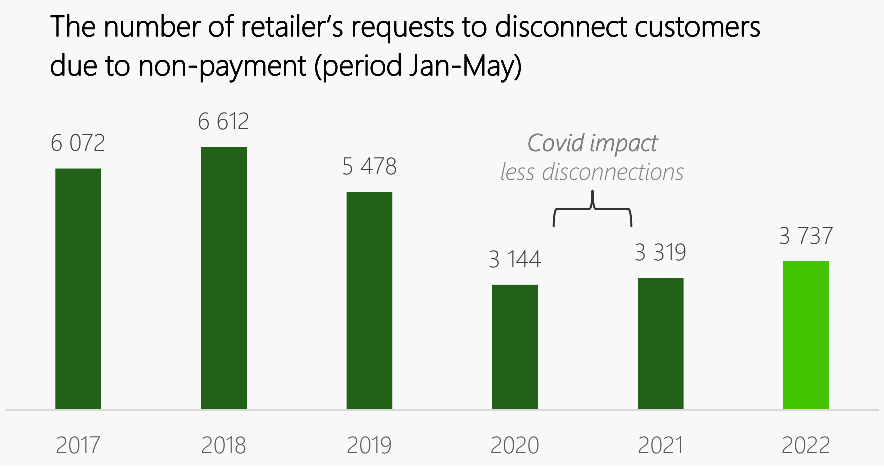




B2B: Decrease mainly caused by Sokolovska Uhelna Power Plant and cold weather in 2021.

B2C: Decrease of B2C segment mainly caused by cold weather in 2021 , resp. warm wather in Jan-Feb 2022

In both segments crisis impact for period 1-5.2022 is limited:
B2C 2,4%, B2B 2,5%



The number of requests by **Retailers** for disconnection due to non-payment does not exceed the levels in previous years. So far, no change in bad debt y/y.

The number of requests by **end customers** for disconnection
- B2C off-take points disconnections **0,4 %** (9k from 2,3 mil)
- B2B off-take points disconnections **1%** (52 from 5,8k), less than other years

4 CGNI adopted several preventive measures – both operational and financial - to prepare well for potential disruption in gas flows. Further reactive measures have been prepared which will be activated if needed.

Operational preventive measures

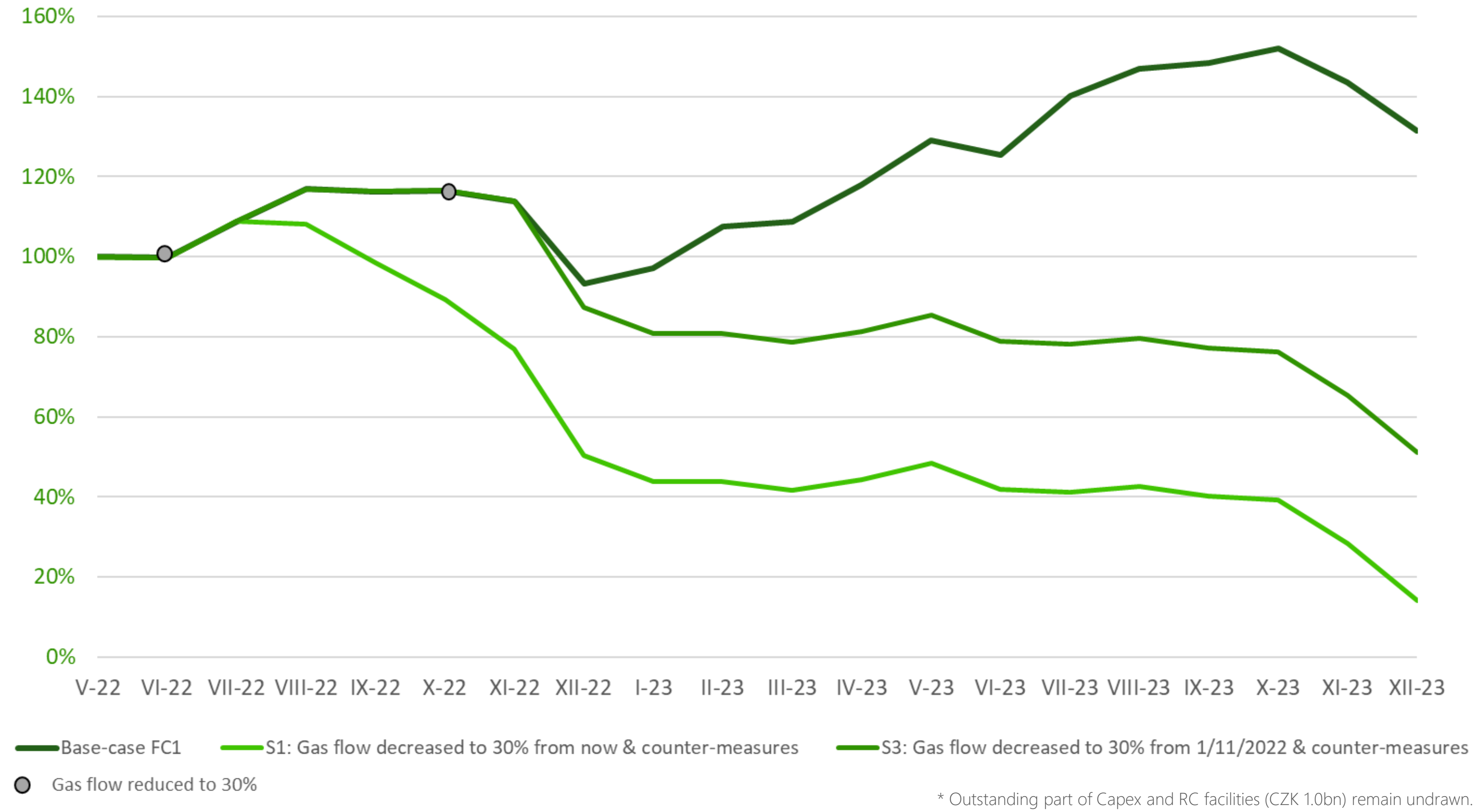
- Principles for the state of emergency and related procedures and activities refreshed in all operational departments
- Daily determination of NG savings according to individual consumption levels
- Procedures for disconnection of large urban agglomerations from the point of view of future commissioning checked – GN's Emergency Committee manages in non-standard cases
- One-way SCADA communication introduced in preparation for possible cyber attacks, remote PRS commands blocked, network control in manual mode

Financial preventive measures

- Stress scenario analysis performed
- Existing crisis and business continuity plans activated
- OPEX consumption delayed or reduced where reasonably possible
- CAPEX CF delayed where reasonably possible
- Reactive gradual countermeasures applicable in case of emergency prepared (CAPEX, OPEX, Tax, Liquidity)
- Already strong financial position of the company with measures improve taken to strengthen it further:
  - Decision of the shareholders to temporarily suspend dividend payments and interest on shareholder loans.
  - Utilisation of CZK 500 mil. from Capex Facility under the new SFA

4 This would allow the company to fulfill all its contractual liabilities in 2022 and 2023.

CGNI consolidated cash balance measured relatively against cash balance as of 31/5/2022*



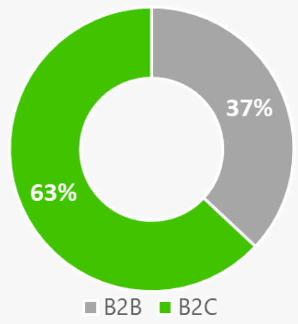
* Outstanding part of Capex and RC facilities (CZK 1.0bn) remain undrawn.

Note: Hypothetical scenarios based on various assumptions

Assumptions:

Current storage level:	73%
Gas flows:	30%
Consumption level:	10 (B2C only)
CF from B2B:	None & no compensations
Reactive measures since:	1/1/2023
Opex savings:	15%
Capex savings:	25%
Kurzarbeit:	20% empl.
Tax advances:	No
Distributions from CGNI:	No

Distribution Revenues



Agenda

Our ESG strategy is built on 4 pillars and is based on corporate values

GasNet ESG Strategy

	PILLARS	ESG	FOCUS AREAS
1	We believe in environmental sustainability and the future of gas	E – Environmental	▶ Methane emissions ▶ Energy consumption ▶ Air pollution, waste, biodiversity ▶ Future of Gas (green gas transition)
2	We embody safety standards and health protection	S – Social	▶ Employee & contractor safety ▶ Process safety ▶ Public safety & network reliability ▶ Employee health ▶ Safety culture
3	We care about our people and the communities around us	S – Social	▶ Employee and community development ▶ Support for schools and education ▶ Diversity, equity & inclusion ▶ Employee feedback
4	We conduct business in a responsible and considerate way	G – Governance	▶ Ethical conduct & internal documentation ▶ Risk management ▶ Cybersecurity & crisis mgt. ▶ Business model resilience ▶ Sustainable supply chain

Initial ESG Rating from 2021 positioned GasNet among leading companies with low ESG risk

SUSTAINALYTICS
19.4 Low Risk

5 ESG activities are managed through company-wide programs and business workstreams

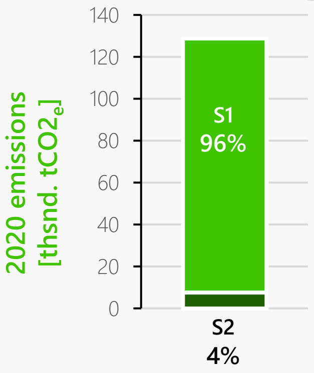
Green GasNet

Systematically manage environmental activities to decarbonize GasNet business through implementation of emission reduction and offset measures

FOCUS AREAS

- Technological losses & Fugitive leakages
- Energy consumption in operations & air pollution
- Energy consumption in office buildings
- Car fleet fuel consumption
- Resources
- Biodiversity & communities
- Future of Gas

Separate programme



Current activities:

- Audit of 2020 baseline Scope 1 & 2 emissions
- Development of emissions reduction model to plan measures and set targets
- Calculation of Scope 3 emissions

Safety Management System implementation

Improve safety culture at GasNet and among business partners, implement highest safety standards across the company and ensure long-term system sustainability based on ISO 45001

FOCUS AREAS

- Incident, nonconformity and corrective action
- Procurement
- Actions to address risks and opportunities
- Outsourcing
- Determining the scope of the OH&S mng. system
- Management of change
- Emergency preparedness and response

CSO | Asset mgt. | COO | Construvtion/Development

Current activities:

- Set up of workstreams based on gap analysis results and acceptance of ownership by business
- Development of work plans and goals for 2022

Last year, we disclosed ESG progress in our first Sustainability report, and we will publish our second report in September this year

5 WHS achievements and current status of KPIs

People

- ✓ TPG (legislative) **training** for all employees in operations completed (approx. 1 200 employees)
- ✓ Development and launch of new induction **safety training for GasNet newcomers**
- ✓ Safety training of **sub-contractors conducted**
- ✓ Organization of **Health days** for employees
- ✓ Safety **project management** training for project leads conducted

Safety Culture

- ✓ **Campaign „Safe Winter" accomplished**
- ✓ Organization and launch of live **Safety walks** for shareholders, MMB and top-level managers
- ✓ Implementation of „**Minute of Safety**" (awareness campaign) at the beginning of each department´s meeting across GasNet

Achievements

Systems & Processes

- ✓ Development of **action plan for implementation** of **ISO 45001**
- ✓ **Kick off-of all projects** for implementation of key ISO 45001 elements for 2022
- ✓ WHS and process safety **incorporation into business development projects**
- ✓ Review and update of internal **Safety Standards**

Digitalization

- ✓ Re-programming of **„GS Bezpecne" application due to preparation for connection to the Conclusion system** (safety suggestions work-flow)
- ✓ Bi-annual obligatory **safety training** for managers **digitalized**
- ✓ **Safety checks in field** digitalized (in ZOPS application)

LTIF

0,60

Target 1,6

Car accidents

0,39

Target 0,6

Days without an accident

124

*KPIs valid as of 23 6. 2022

5 Our Future of Gas project continues with focus on H2 readiness, adjusted renewal and H2-CAPEX strategy; and implementation of legal/market framework.

Future of Gas I 2021

- H2 Readiness Customer appliances
- Energy market structure Status vs. Future
- H2 Network Readiness
- Asset Managment Strategy adjustments torespond to H2
- Financial and regulatory impact analysis
- Legal framework and new EU initiatives Stakeholder management
- Innovative Technologies to reduce emissions

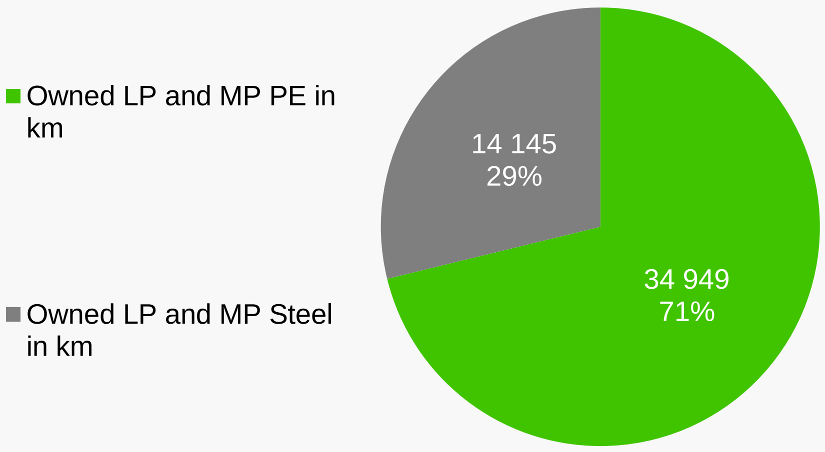
Link to GreenGasNet project

Future of Gas II 2022

- Sector Wide analysis on most critical appliances B2B and age structure of B2C boiler portfolio
- Further developed network readiness status (next two pages)
- Adjust renewal and develop H2 implementation strategy
- Identify bottlenecks (material / capacity)
- Regulatory and financial long-term implications from adjusted renewal and H2 strategy
- New EU guidelines
- New Czech Legislation
- Stakeholder management
- H2 production/ electrolysis to cover part of network losses
- Own PV vs. PPA, Negotiations with external partners on PV and PPA
- Upcoming discussions with the regulator ERO

5 Material wise, we are ready to distribute a 20% blend of hydrogen with NG. Specifically, pipeline components are prepared to a large extent for 100% H2 distribution (1)

Current Steel and PE Pipeline Breakdown



- PE mains are crucial for future distribution of blended gases and hydrogen
- CGNI is well-positioned with its current pipeline material mix
  - A significant proportion of ~71% of current, owned local network length are already in PE
  - 60% of municipalities have already a PE pipeline share higher than 99%
- By replacing legacy materials (steel) with modern materials (PE), the Company also expects to drive emission and cost savings

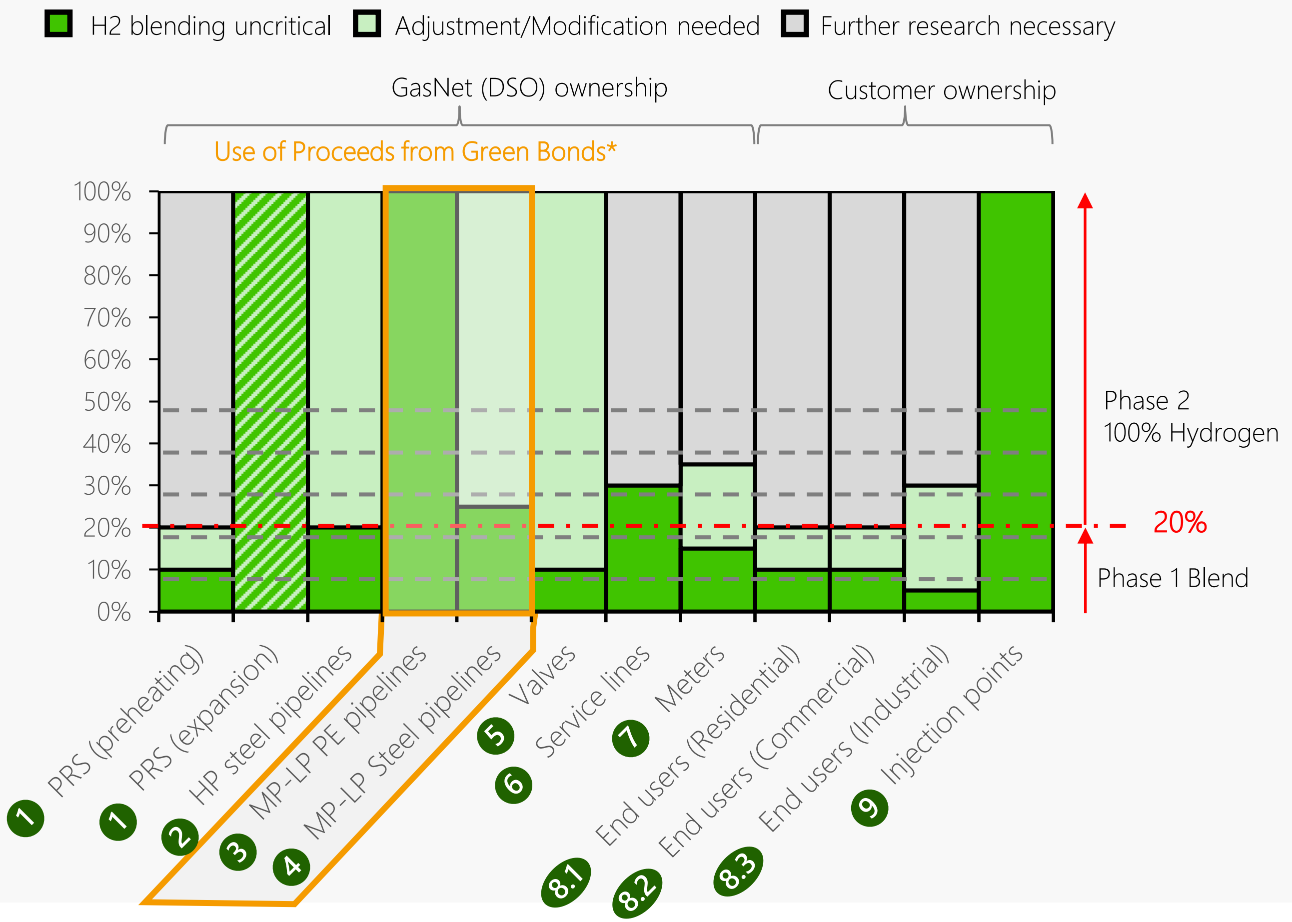
Source: GasNet; Marcogaz (EU); NREL (USA); GRTGaz (FR); HyDeploy (UK); Hy4Heat (UK); internal analysis.

5

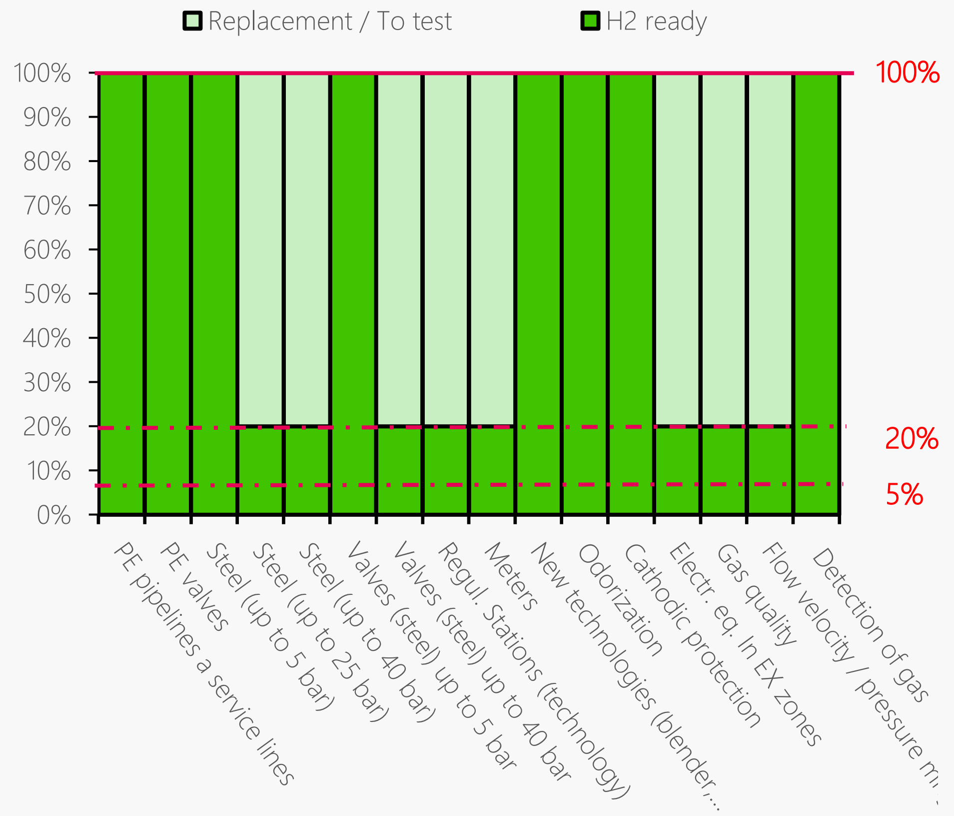
Material wise, we are ready to distribute a 20% blend of hydrogen with NG. Specifically, pipeline components are prepared to a large extent for 100% H2 distribution (2).

Overview of gas system components/properties and its tolerance to H2

Knowledge 2021



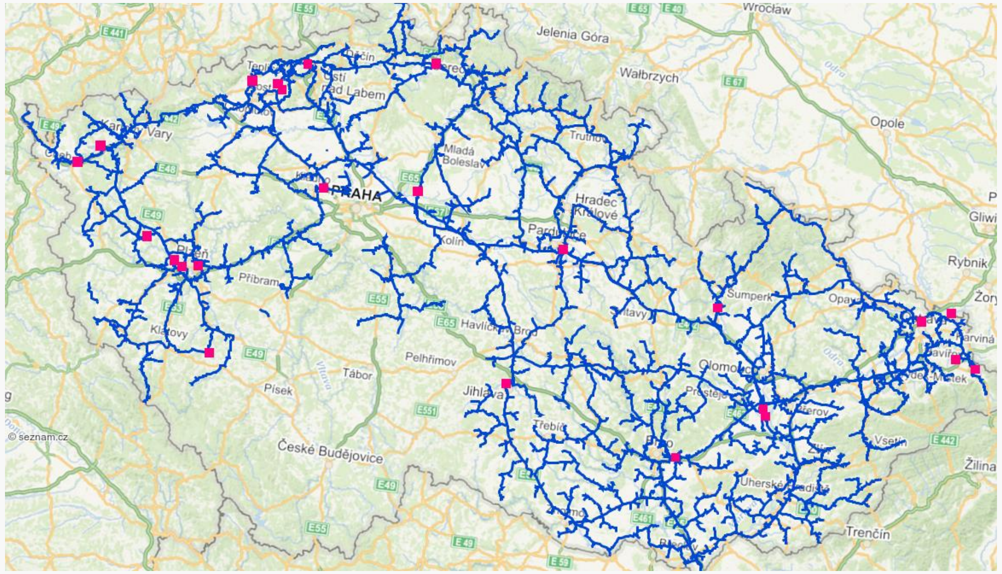
Knowledge 2022



* NON-EXHAUSTIVE

5

Capacity wise, there are only a couple of bottlenecks which will be managed easily in the coming years until larger H2 volumes become available



- **Local networks (Mid- and Low pressure):** analyses ongoing, no major bottlenecks identified so far
- **High pressure network:** Originally identified 300 critical points in the capacity calculation system – further analysis carried out, then selected criteria for further investigations
- Selected criteria
  - Flow speed over 30m/s
  - Length of the section more than 10m
  - DN without limits

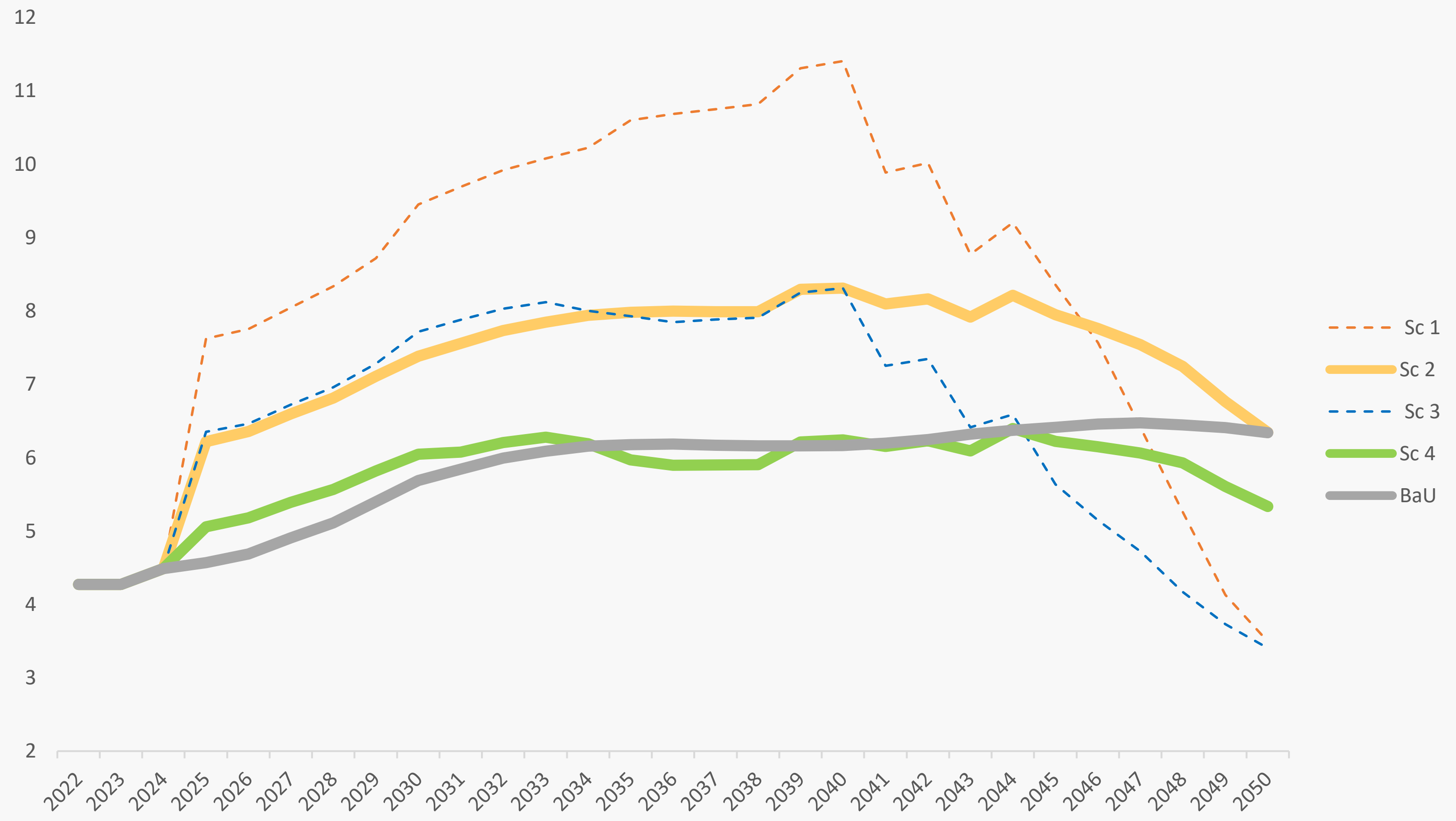
	Length of sections (m)
12 x PRS outflow	
4 x Backbone gas pipeline	
2 x Gas pipeline	Σ 1564
2 x gas pipeline – interconnection	
4 x RS connection	
7 x Customer connection	
Σ 31 x	

5 Investment is the key driver for most scenarios with its peak in 2040

	Low readiness	High readiness
High demand	Scenario 1	Scenario 2
Low demand	Scenario 3	Scenario 4

CAPEX development[1] (bn CZK)

Preliminary



State of **readiness** of the network **has significant impact on the shape** of the investment profile and also on the amount of the investment

High readiness leads to more balanced path. The shape is also much closer to shape of business-as-usual scenario

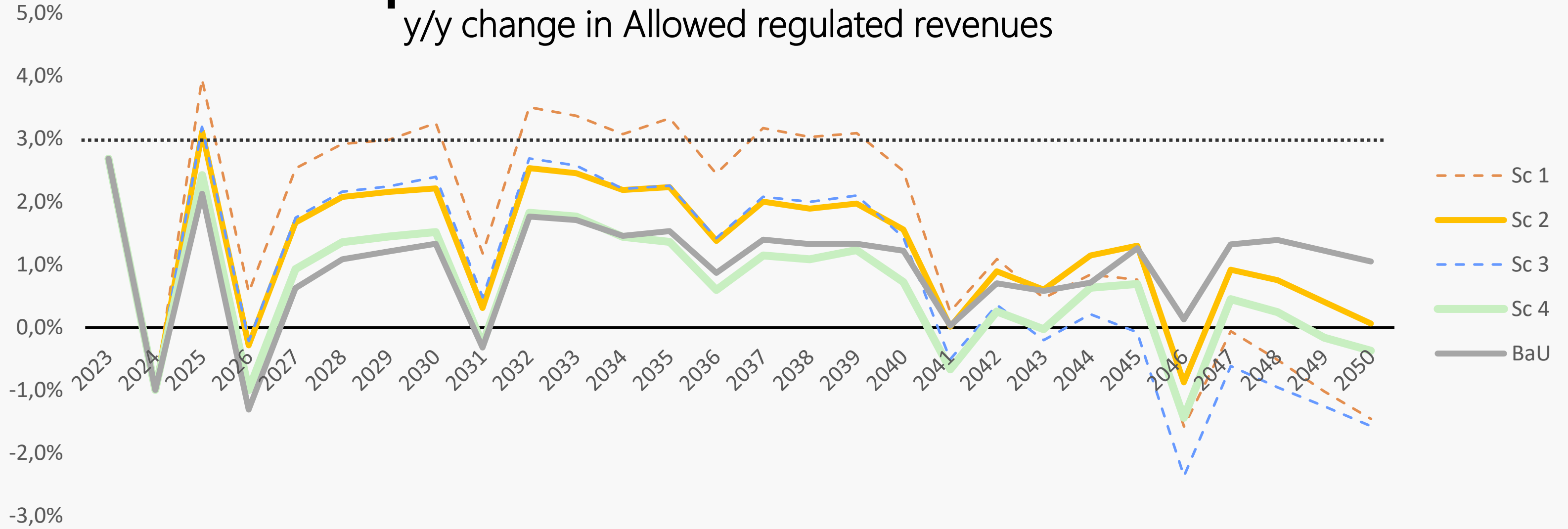
Higher H2 demand and thus length and capacity of the network require higher CAPEX

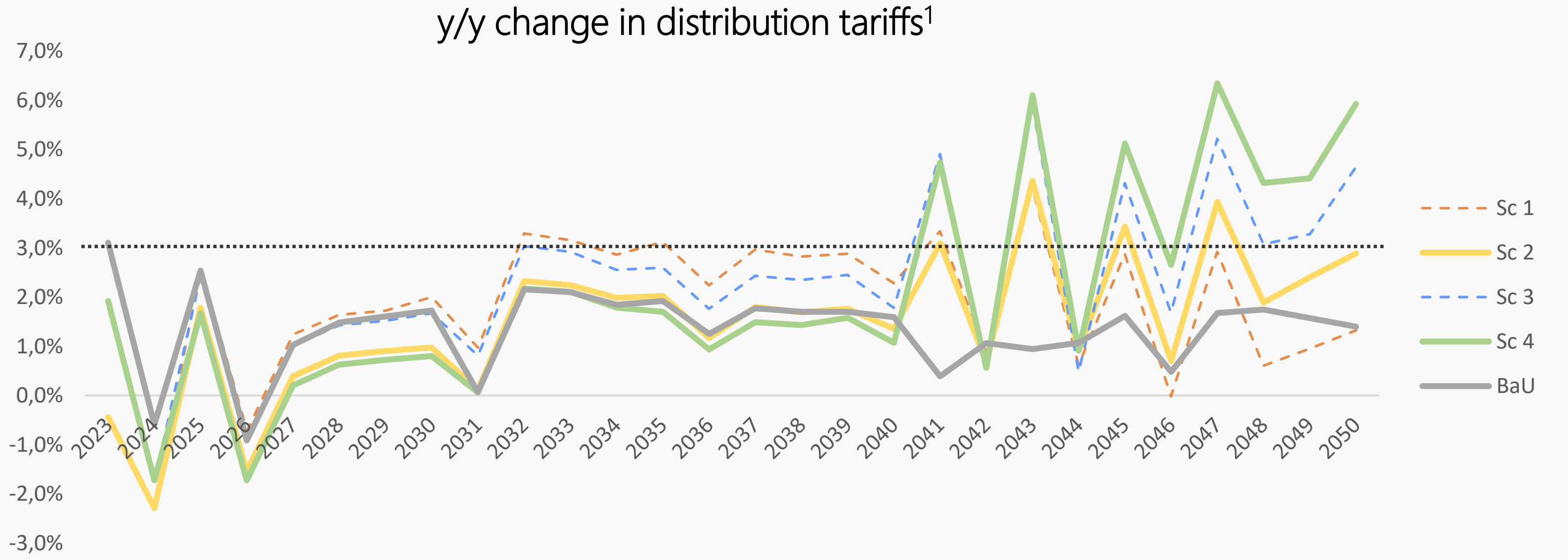
(1) Nominal values, i.e., considering inflation

Source: GasNet

5 y/y growth of distribution tariffs in line with ERO's long term acceptance level of ca. 3%

	Low readiness	High readiness
High demand	Scenario 1	Scenario 2
Low demand	Scenario 3	Scenario 4





The trajectories of simulated distribution tariffs for all scenarios show for **next 20 years** relatively stable development. The y/y changes are in line with ERO's long term acceptance level of ca. 3%

Higher volatility in tariffs at the end of the period are driven by expected reduction in energy demand

(1) without N4G portion

Source: GasNet; ERU

Agenda

Agenda

CGH's core business is the distribution of natural gas throughout the Czech Republic, a regulated business with 81% country coverage.

CGH Snapshot

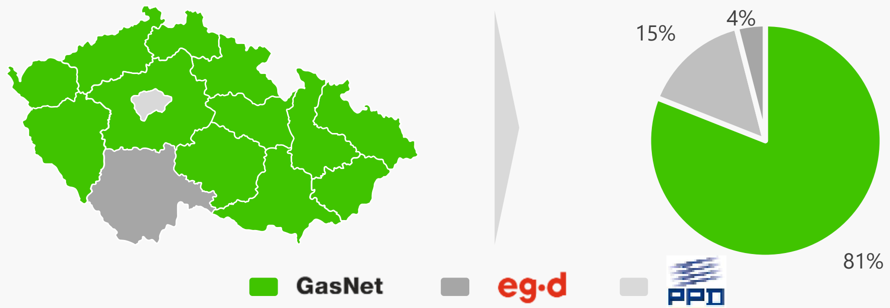
- Largest distribution operation (DSO) in the country by both grid length and number of connections
- First fully unbundled utility in the Czech Republic after the successful separation from innogy in 2020
- Standard European RAB-based regulation with 5-year regulatory periods (RP) with strong track-record of tariff stability. The 5th RP began in 2021 and ends in 2025
- Strategically positioned to support the transition of the Czech Heating sector from lignite to gas
- Received a Sustainalytics rating of 19.4 "Low Risk", ranked 3rd out of 83 Gas Utilities
- The Czech Republic is AA-rated and the Company has a Senior Unsecured Rating: S&P BBB+ (stable) / Fitch BBB (stable). Senior Unsecured Notes issued by the Company are notched up to BBB+ by Fitch.

65,000km of gas pipelines	c. 2.3m off-take points	c. 70TWh / year distributed gas

Geographic Footprint & Market Presence

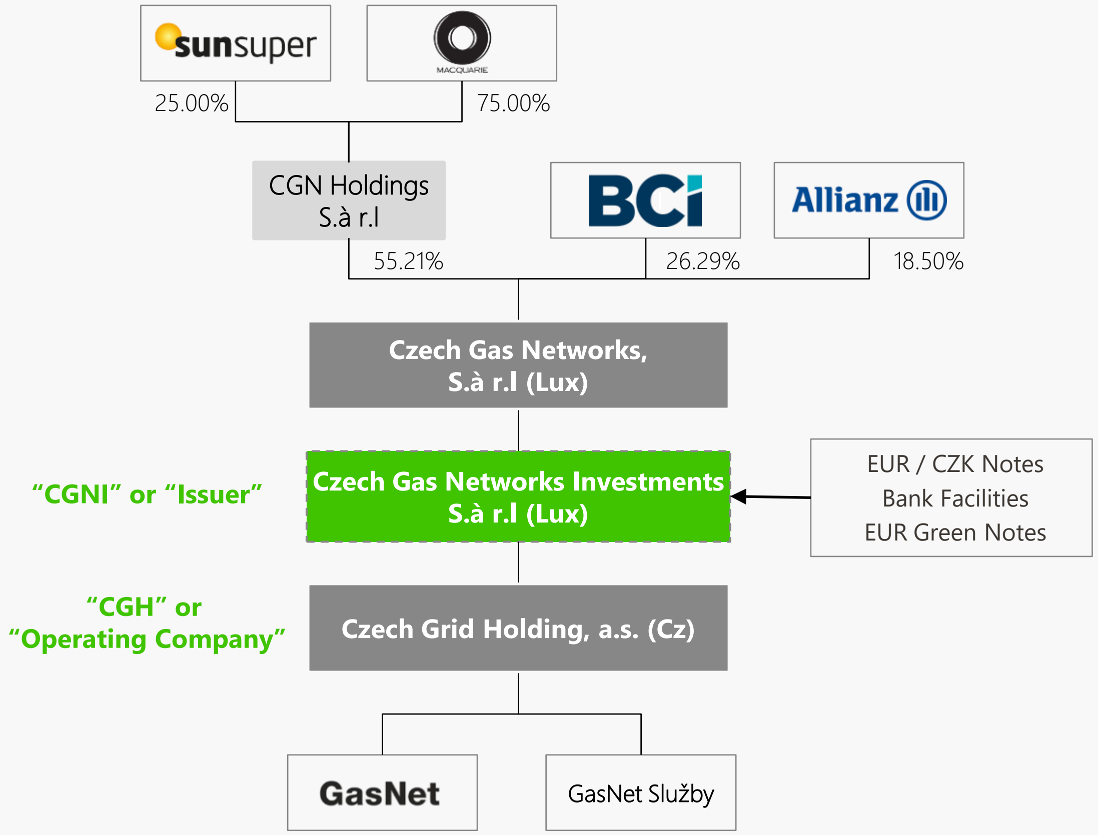
Czech Gas Distribution Regions by Company / Operator

Market Shares by customers coverage (YE2020)



Source: Company Information.

Current Shareholding & Corporate Structure



7 The Czech regulation for Gas Distribution is stable, attractive and predictable, in full alignment and compliance with EU directives and international practices.

ERO’s Key Principles & Objectives

- Stability and sustainability of tariffs
- Predictability of regulation
- Interest of all stakeholders guaranteed
- Objective and transparent decision making
- Consistency with legislation

Key Elements of the Czech Gas Distribution Regulation

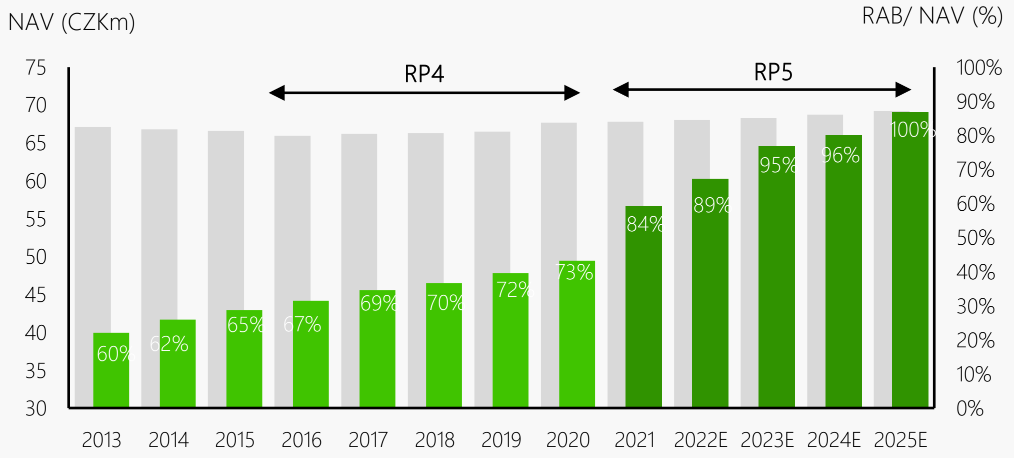
- Standard RAB-based revenue-cap model
- Current grid infrastructure regulation in place since 2002
- Currently in the 5th RP, which started in 2021 and ends in 2025
- Regulator traditionally opted for stable tariffs across regulatory periods
- “This framework provides stability, transparency, and predictability to operators' cash flows.” (S&P, 2020)

Allowed Revenue Breakdown

Allowed Profit (RAB x WACC) + **Allowed D&A** + **Allowed Opex** = **Allowed Revenue**

- RP5 WACC was set to 6.43% (pre-tax)
- Opex level based on the average of 2017-2019 actuals, with under- / outperformance sharing at the level of GasNet set at 50% / 50%

RAB and NAV Reconciliation Schedule

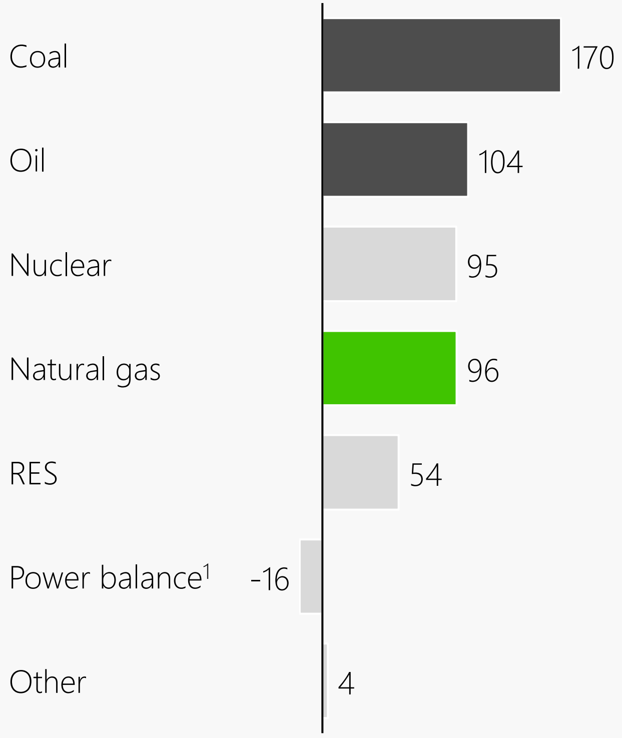


- Upward reconciliation of RAB to match the higher underlying net book value in motion until 2025, with non-binding Capex plans for period 2021-2025 and 2025-2030

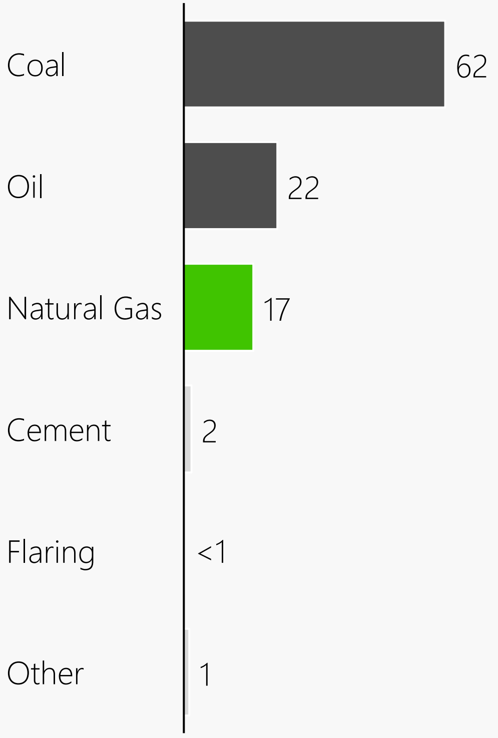
Source: Company Information, ERO.

Czech energy consumption is dominated by fossil fuels

Primary energy consumption
2020, TWh



Emissions by source
2017, $MtCO_2$



Decarbonisation will have to focus on replacing coal and oil

Selected key aspects of the Czech energy landscape

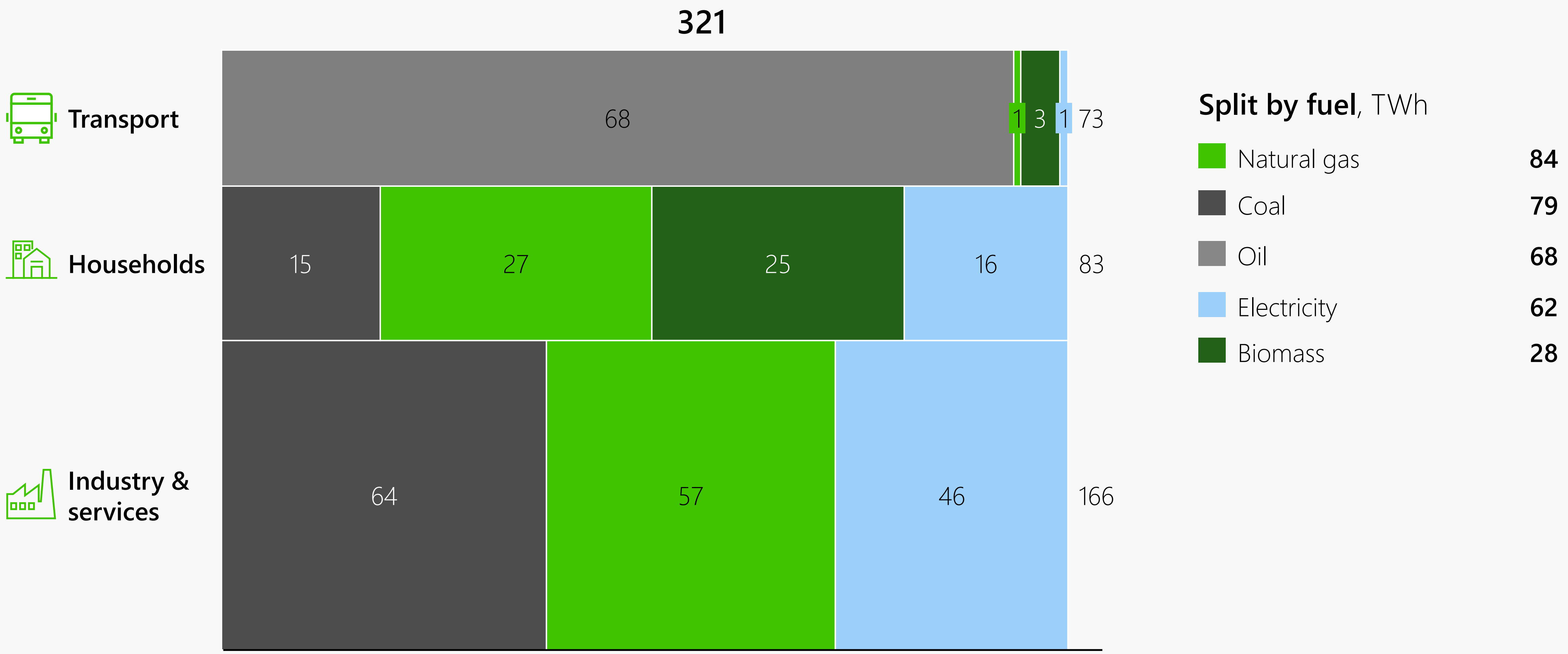
- A Nuclear friendly
- B Self-sufficient power generation
- C Low RES potential
- D Cold winters
- E Importing fuels

1. Electric power is not a primary energy source. Taking the perspective of the Czech Republic, negative balance reflects net exports.

Source: McKinsey DPO and MPM models, CO_2: ourworldindata.org, Statni energeticka koncepce CR

7 Coal is used mainly in household heating and industry

Final energy consumption, 2019, TWh



Source: ERU, Czech Statistical Office, McKinsey analysis

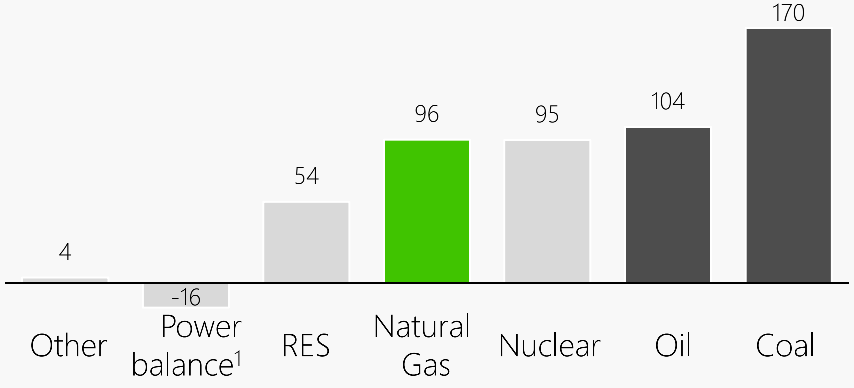
7 Decarbonisation will have to focus on replacing coal and oil in energy production, industry & transport; while renewables will stay constrained.

Czech current emissions and targets lag behind those of the EU...

	Actual 2019 CR/EU	Target 2030 CR/EU
EU GHG (ETS) emission reduction targets	34% / 24% vs 1990 level	30% / 55%[2] vs 1990 level
ESR[1]	+10% / -10% vs 2005 level	-26% / -40%[2] vs 2005 level
RES Share in Gross Final Consumption	16.2% / 19.7%	22% / 32%[3]
RES Share in Transport	7.8% / 8.9%	14% / 14%[3]

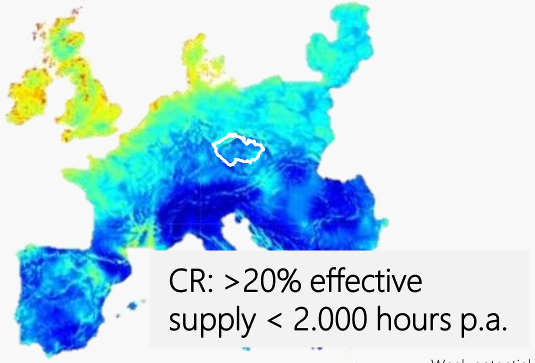
...with Czech energy consumption remaining largely reliant on coal...

2020, TWh

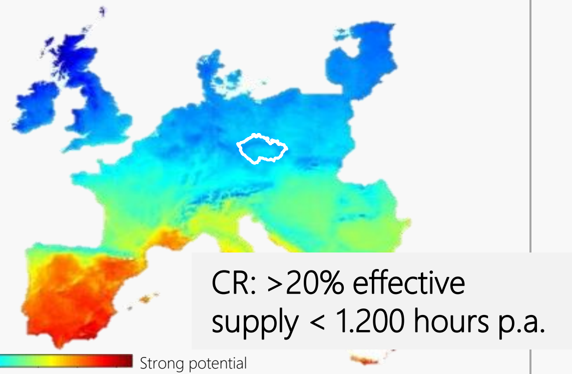


...given there is limited wind and solar potential (capacity factors)...

Wind Potential



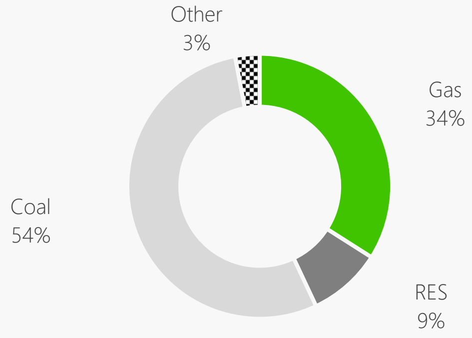
Solar Potential



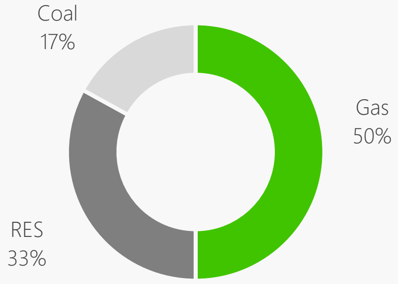
Weak potential — Strong potential

...requiring gas to play a crucial role in achieving the CR's targets...

Actual 2019



Projected 2030



Source: EEA Europa, Eurostat, EC materials.

Notes: 1) While EU ETS is a joint emissions trading scheme and target is common for whole EU, Effort Sharing Regulation (ESR) sets individual targets for each country in non-ETS emissions (sectors not regulated by EU ETS scheme). 2) Past EU 2030 overall target was 40% reduction and all other targets (CR EU GHG and all ESH targets) link to that. In line with Green deal the overall EU target changed to 55% reduction by 2030 and other targets need to get changed. Current indication of ESH 2030 targets mentions ca -35%, CR specific can be expected around 27-30%. 3)The figures include also bonuses for advanced biofuels in the form of doubling the figures of advanced biofuels. In reality the Transport RES target value would be ca 10.5%. EC says CR RES targets in first line are unambitious.

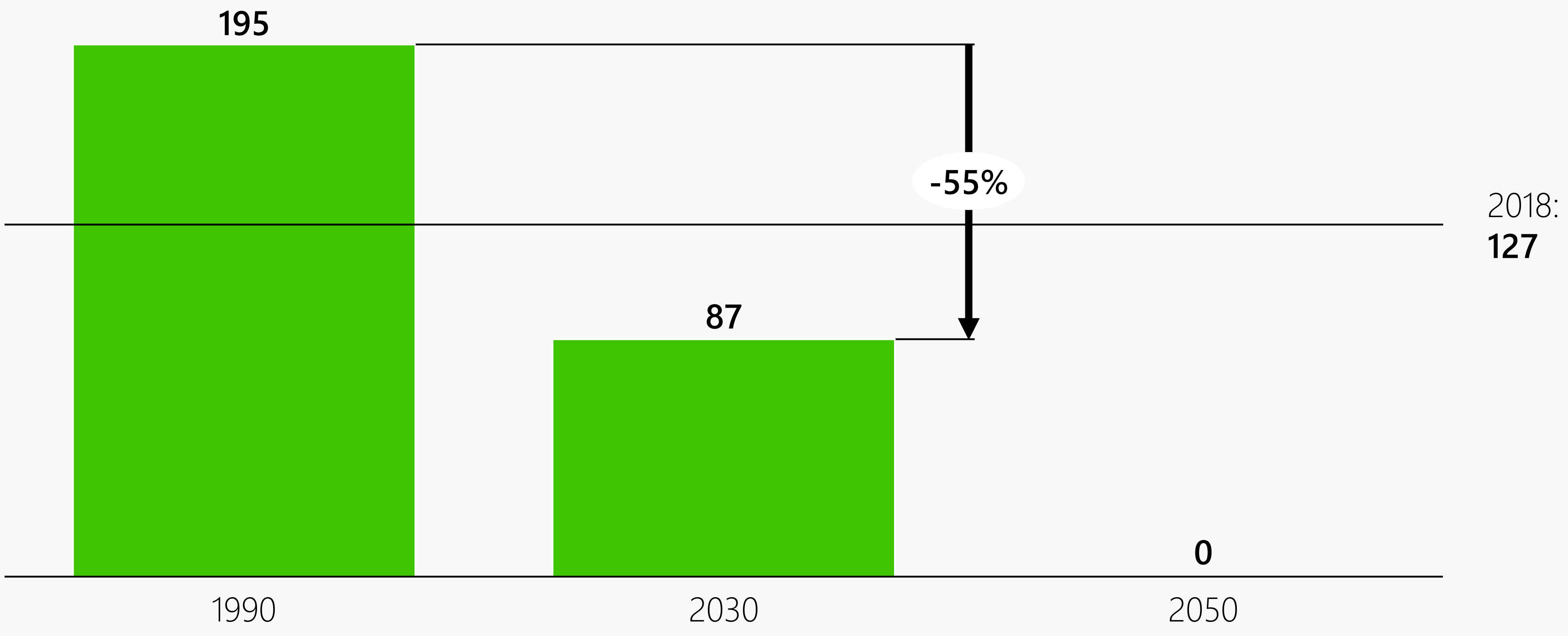
7 Czech decarbonisation will become especially challenging after 2030.

Greenhouse gas emissions, $MtCO_2e$

Emissions **fell rapidly after 1990** due to the change in the structure of the Czech economy

Majority of abated emissions will be from the **production of power and heat**

The target consistent with the EU Green Deal is to **reach net zero emissions by 2050**



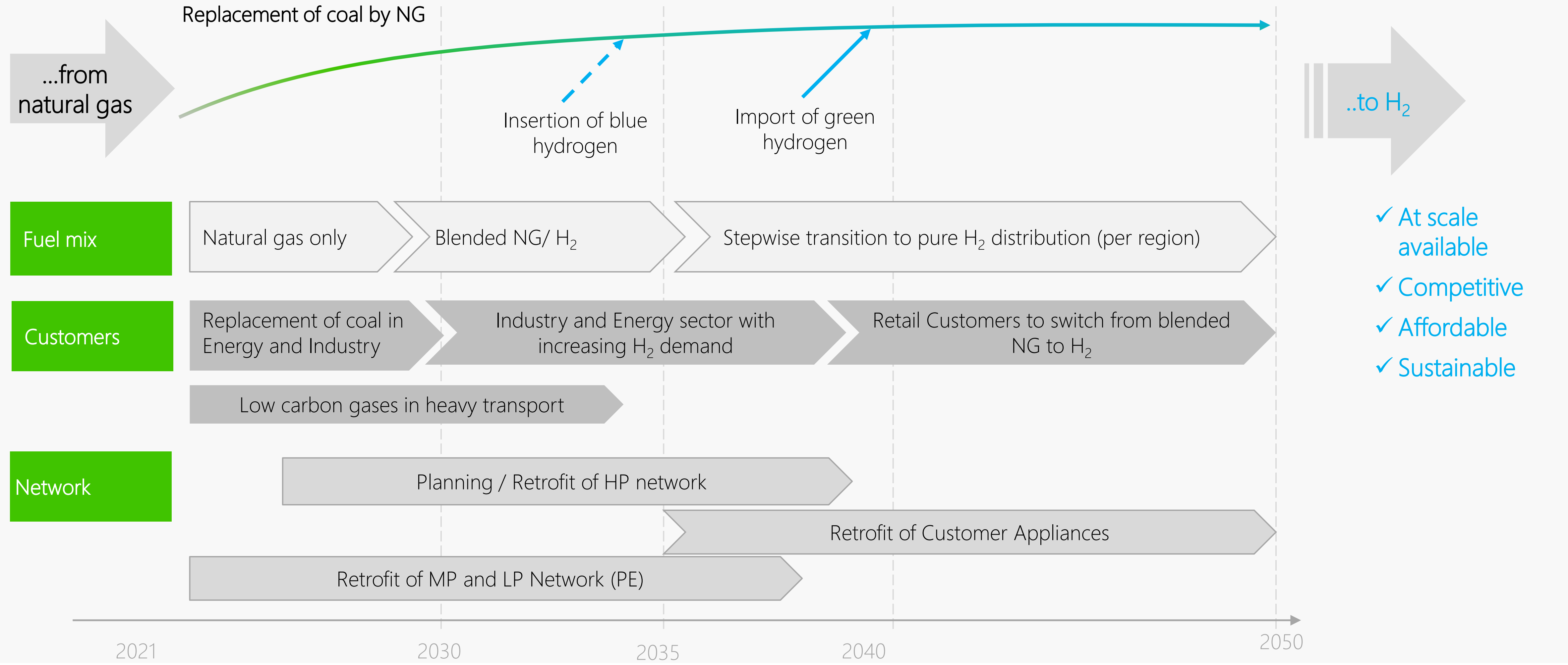
Initial 2030 emission targets can be reached by transitioning **coal-based power and heat generation to natural gas.**

Fit for 55, however increases ambitions significantly, with strong side effects on Czech economy, society and citizens.

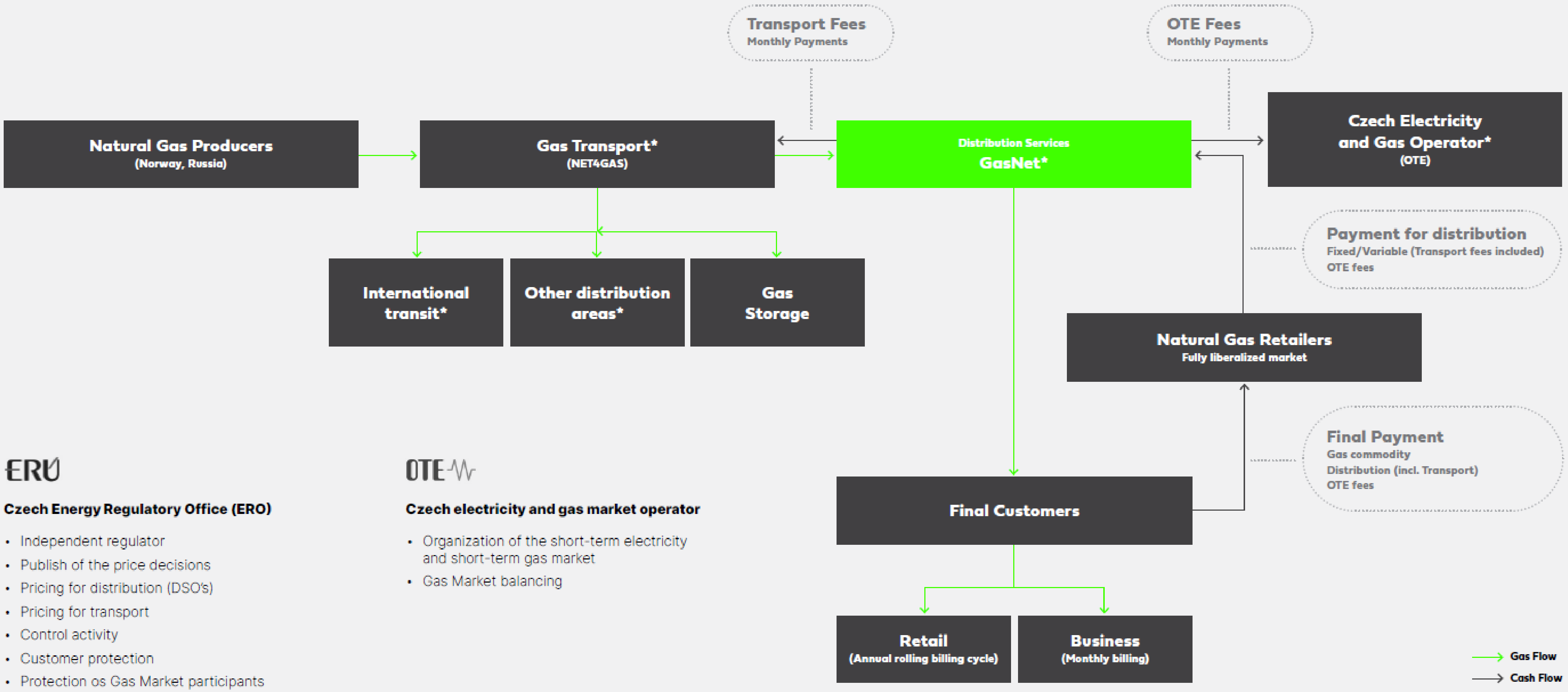
The **key decarbonisation challenge will come after 2030**: further decarbonising applications for which natural gas and liquid fuels are currently used.

Source: European Commission, MPO.

7 2021-2050: GasNet to enter a deep transformation process by supporting replacement of coal with natural gas within this decade; while preparing in parallel for sustainable hydrogen distribution after 2030.



7 GasNet is the regulated owner & operator of the distribution network, with 2.3 million end connections. The transformation process towards a more sustainable energy sector requires significant efforts across the whole energy



ERÚ

Czech Energy Regulatory Office (ERO)

- Independent regulator
- Publish of the price decisions
- Pricing for distribution (DSO's)
- Pricing for transport
- Control activity
- Customer protection
- Protection os Gas Market participants
- Support of renewable energy sources

OTE

Czech electricity and gas market operator

- Organization of the short-term electricity and short-term gas market
- Gas Market balancing

* Subject regulated or partially regulated by ERO