2016 ANNUAL REPORT
49th REPORT OF THE BOARD OF DIRECTORS
AND ANNUAL FINANCIAL STATEMENT

notre énergie, votre avenir

gaz nat
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Holdigaz SA, Vevey

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Raphaël Morisod
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Industrial Services of Geneva

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Industrial Services of Geneva

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Industrial Services of the City of Lausanne

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Industrial Services of the City of Lausanne
Until 12 February 2016

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From 8 June 2016

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Director
Holdigaz SA, Vevey

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Chairman
Groupe E Celsius SA, Fribourg

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Director of Energy and Products
Viteos SA, Neuchâtel

Caroline Cavalieri Rudaz
General Secretary (non-board member)
Gaznat SA, Vevey

MANAGEMENT COMMITTEE

René Bautz
Chief Executive Officer (CEO)

Bernard Corminboeuf
Head of Trading

Gilles Verdan
Head of Networks

Henri Bourgeois
Chief Financial Officer
Head of Services
**KEY FIGURES**

<table>
<thead>
<tr>
<th>Consolidated (CHF thousands)</th>
<th>2016</th>
<th>2015</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>484,243</td>
<td>479,418</td>
<td>524,820</td>
</tr>
<tr>
<td>Depreciation and amortisation</td>
<td>12,628</td>
<td>13,176</td>
<td>12,727</td>
</tr>
<tr>
<td>Cash flow</td>
<td>17,691</td>
<td>16,762</td>
<td>26,768</td>
</tr>
<tr>
<td>Non-Current assets</td>
<td>394,074</td>
<td>376,044</td>
<td>411,330</td>
</tr>
<tr>
<td>Property, plant and equipment (net)</td>
<td>228,477</td>
<td>223,741</td>
<td>233,110</td>
</tr>
<tr>
<td>Net debt</td>
<td>89,433</td>
<td>64,121</td>
<td>84,003</td>
</tr>
<tr>
<td>Equity</td>
<td>126,937</td>
<td>117,588</td>
<td>115,671</td>
</tr>
<tr>
<td>Energy (GWh)*</td>
<td>12,812</td>
<td>11,398</td>
<td>10,959</td>
</tr>
<tr>
<td>Power (MW)</td>
<td>3,507</td>
<td>3,442</td>
<td>3,437</td>
</tr>
</tbody>
</table>

* Distributed through Gaznat’s network

NB: 1 GWh = 1 million kWh = approximately 90,000 m³ of natural gas

**SHAREHOLDERS**

<table>
<thead>
<tr>
<th>As at 31 December 2016</th>
<th>Shareholding</th>
<th>As at 31 December 2016</th>
<th>Shareholding</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial Services of Geneva</td>
<td>37.51%</td>
<td>Groupe E Celsius SA, Fribourg</td>
<td>2.79%</td>
</tr>
<tr>
<td>City of Lausanne</td>
<td>26.89%</td>
<td>Municipality of Yverdon-les-Bains</td>
<td>2.25%</td>
</tr>
<tr>
<td>Holdigaz SA, Vevey</td>
<td>15.56%</td>
<td>Urbagaz SA, Orbe</td>
<td>0.86%</td>
</tr>
<tr>
<td>Gazoduc SA, Sion</td>
<td>9.67%</td>
<td>Municipality of Sainte-Croix</td>
<td>0.66%</td>
</tr>
<tr>
<td>Viteos SA, Neuchâtel</td>
<td>3.81%</td>
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<td></td>
</tr>
</tbody>
</table>
**SHAREHOLDINGS**

- **Swissgas AG**
  - Business: representing the interests of the Swiss gas industry abroad and gas supply for Switzerland
  - Other shareholders: EGO, GVM, EGZ, ASIG
  - 25.98%

- **Unigaz AG, Union interrégionale pour le transport du gaz naturel**
  - Business: interconnecting Swiss transportation and distribution networks serving the Swiss plateau and western Switzerland
  - Other shareholder: GVM
  - 60%

- **Fingaz AG, Financière Internationale du Gaz**
  - Business: financing the Franco-Swiss gas pipeline between Etrez (F) – La Cure (VD) – Gland (VD), linked to the Etrez underground storage facility
  - Other shareholder: ENGIE
  - 66%

- **Petrosvibri AG**
  - Business: exploring for and operating hydrocarbon fields in Switzerland
  - Other shareholder: Holdigaz SA
  - 66%

- **Gas&Com AG**
  - Business: building and operating optical-fibre networks running alongside gas pipelines
  - Other shareholders: EGO, GVM
  - 33.3%

- **gazmobile AG**
  - Business: promoting natural-gas fuel for vehicles
  - Other key shareholders: EGO, GVM, EGZ, AIL
  - 29.5%

- **Swiss Gas Invest AG**
  - Business: acquiring, owning, administering and disposing of equity holdings in all categories of companies operating in the natural gas industry
  - Other key shareholders: Holdigaz, EGO, Swissgas, Gas&Com, Groupe E Celsius
  - 15.79%

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**OUR HOLDINGS THROUGH SWISSGAS**

- **Swissgas Speicher AG**
  - Swissgas (100%) 100%

- **Transitgas AG**
  - Swissgas (51%), FluxSwiss (46%), UNIPER (3%) 51%

- **FluxSwiss Sagl**
  - Swissgas (4.9%), Fluxys (50.65%), Swiss Gas Invest (7.89%), CSEIP (36.56%) 4.9%

- **SET Swiss Energy Trading AG**
  - Swissgas (100%) 100%

- **SEAG, Aktiengesellschaft für schweizerisches Erdöl AG**
  - Swissgas (10%) 10%

- **Swiss Gas Invest AG**
  - Swissgas (5.26%) 5.26%
NATURAL GAS, A RELIABLE ENERGY SOURCE WITH POLITICAL, ECONOMIC AND ENVIRONMENTAL POTENTIAL

What does the future hold for natural gas?

The Swiss gas industry is waiting in the wings to become a major player in the power generation market. Switzerland will have a generation shortfall in the event that it pulls completely out of nuclear power, and technology such as co-generation provides a fitting, efficient response to this challenge. Power-to-gas technology is also set to become an important addition to the wind-power value chain, showing that these energy sources can function together optimally. Another field in which the natural gas industry is looking to make a difference is mobility. Based on a biogas mix, CO₂ emissions from vehicles fuelled by natural gas are cut by more than 30%, and fine particle emissions are eliminated completely. Compressed Natural Gas furthermore supports national economies as it is priced significantly below gasoline and diesel. According to a recent report by the Swiss Environmental Transport Society, of the ten vehicles recognised as best-performing in Switzerland on environmental criteria, eight run on compressed natural gas. It is vital that all stakeholders, be they political, from the business world or from the energy industry, become aware of the role that natural gas could play in the future as an efficient, climate-friendly source of energy. It has the lowest emissions of all fossil fuels, making it the only one capable of becoming part of the equation in the upcoming energy transition, not only domestically but also outside Switzerland. It is no understatement to say that natural gas is the only energy source that can make a meaningful contribution to the three pillars of sustainable development, namely environmental protection, consideration of social needs and the continued balanced development of our economy. There isn’t a moment to lose.

Philippe Petitpierre, Chairman of the Board of Directors
Vevey, 30 March 2017
LETTER FROM
RENÉ BAUTZ
CHIEF EXECUTIVE OFFICER

Two projects stand out in the year under review. Global Infrastructure Partners (GIP), an investment fund, in 2016 announced that it wanted to sell its interest in FluxSwiss SARL, which markets the largest share of transportation capacity on the Transitgas natural gas pipeline. Partnering with other Swiss gas companies, Gaznat founded Swiss Gas Invest SA with the aim of purchasing part of GIP’s ownership interest. Fluxys (a Belgian company) and Credit Suisse Energy Infrastructure Partners also bought equity stakes. Additionally, Gaznat developed a new supply model for and in conjunction with its business partners, offering specific products to allow these partners to optimise their portfolios. As a result, the requirements of our gas distributor partners are even more keenly taken into account.

Last year was also a busy period for energy legislation, from the Confederation’s Energy Strategy to the amended CO₂ Act and preparatory work on the gas supply bill. Gas networks and renewable gas projects are key elements in the forthcoming energy transition, guaranteeing security of supply and meeting the need for flexibility as more and more intermittent energy comes on stream.

René Bautz, CEO
Vevey, 30 March 2017

NATURAL GAS – A LINCHPIN IN THE FORTHCOMING ENERGY TRANSITION
In 2016, natural gas consumption in Switzerland increased by 5.1% relative to 2015 to stand at 39 TWh. As in the previous year, the Swiss Meteorological Office noted 2016 as a milder-than-usual year, based on the reference norm taken from the 1981-2010 period. As a national average, 2015 was 1.29°C warmer than usual, narrowly beating the previous record of 1.24°C set in 2011. The difference was less marked in 2016, which measured 0.7°C above the norm. Even so, it was still one of the ten warmest years on record since measurements began in 1864. The winter of 2015-2016 (i.e. the three months from December 2015 to February 2016) was the second mildest winter ever, exhibiting temperatures almost 4°C above the norm. Altogether, 2016 was a mild year but cooler than 2015. This partly accounted for the increased demand for gas.

2016 – HIGHER DEMAND FOR GAS IN SWITZERLAND

VOLUMES OF NATURAL GAS DELIVERED BY GAZNAT TO UTILITIES AND DIRECT CUSTOMERS TOTALLED 10,859 GWH

Gaznat sales in Switzerland

20/12 heating degree days: when the average daily outdoor temperature is below 12°C, 20/12 HDDs are calculated using the difference between 20°C and this temperature
Generally speaking, the terms governing medium/long-term supply contracts have changed significantly in recent years. Previously, prices were indexed to oil products, and minimum take-or-pay volumes were imposed. Moreover, this contract type had the particularity of imposing a two-way limitation. The supplier was limited to delivering a maximum annual volume to the customer, while customer had to withdraw or, failing that, pay for a minimum volume – often amounting to 70-80% of the maximum annual volume. This in-built flexibility made it possible to manage climatic fluctuations from one year to the next. Medium/long-term contracts are these days increasingly indexed to market prices, and clauses stipulating minimum volumes have widely been watered down or, in some cases, eliminated altogether. In this context, the short-term business segment was able to take advantage of market opportunities in 2016. It also focused on enhancing the value of unused assets.

Many supply contracts were adjusted to reflect new indexing practices. In certain cases, transitions to full indexing based on the gas market price were negotiated.

At the end of 2016, 20-25% of Gaznat’s supply was still indexed to oil products. Most of our supply is now dependent on market prices, through either medium/long-term indexing clauses or wholesale market purchases. Import prices at the end of the year were slightly lower than at the start of 2016. However, because of lower temperatures, they have been rising in the first quarter of 2017 relative to the corresponding period in 2016.

Negotiations were undertaken between GasTerra and Swissgas on the one hand, and between Uniper (E.ON until end-2015) and Swissgas on the other hand, with a view of improving the terms of these contracts. The amendment to the GasTerra-Swissgas contract came into force in the spring of 2016. Contract renegotiations between Swissgas and Uniper were in the process of being wrapped up in late 2016 and will impact gas deliveries in 2018/2019 and 2019/2020.

Long-term contracts, which remain the backbone of Gaznat’s supply chain, are being adapted to take market conditions into account. They continue to help guarantee security of supply – an essential consideration since no storages are currently being operated in Switzerland. The structure of supply contracts is changing in line with the gradual development of marketplaces. Adapting contracts is therefore an important issue for meeting security-of-supply constraints and coping with market volatility.
3,507 MW

In 2016, peak power on Gaznat’s network reached 3,507 MW, which was slightly higher than in 2015 (3,442 MW). In 2016, transported gas volumes increased by a sharp 12.4% over the previous year to 12,812 GWh, reflecting significant increases in quantities transported for both industrial and heating purposes.

WORKING FOR OUR CUSTOMERS

In 2016, Gaznat worked on several large-scale studies and other projects:
- Installing a new regulating and metering station for an industrial customer
- Designing and installing a new regulating and metering station in Saillon on behalf of Sogaval SA
- Modernising an existing regulating and metering station for another industrial customer

ANOTHER STEP TOWARDS DIGITALISATION

Gaznat’s extranet has been available to its transportation network customers for several years. Until 2016, it had provided only consumption data, linepack monitoring and other information on gas quality, but was last year expanded to offer new features requested by customers. These are:
- Defining warning thresholds for hourly transported volumes, with messages sent to various email recipients
- Extending the extranet to work on mobile devices
After a three-year decline, resulting chiefly from the plunge in wholesale gas prices and the stronger Swiss franc against the euro, the revenue of Gaznat SA increased by 1.5% in 2016 to CHF 484 million. Sales rose in the Trading division in response to a 12% increase in volumes sold. In the Networks division, sales rose by 1.5%. Gross profit correspondingly climbed by 12% while net profit edged down relative to the previous year, amounting to CHF 11.5 million. The net margin over sales was 2.5%.

The balance sheet was strong at year-end, showing group net debt of CHF 89 million, equating to net gearing of 75% (net debt divided by equity). The average cost of debt was again low, at 2.3%. Debt maturity (i.e. average time left until repayment) fell by 1 year, coming to 3 years and 2 months. The next major refinancing deadline is June 2018.

Given the surge and increased sophistication of cyber-attacks, IT staff in 2016 continued strengthening the security of IT systems and processes. All customer usage data will henceforth be centralised in a new data warehouse, and a new ERP package (enterprise resource planning) has been selected after an invitation to tender. New regulatory requirements on gas trading and derivatives (EMIR/REMIT) also kept our teams busy during the year.

### Maturity and average cost of debt

<table>
<thead>
<tr>
<th>Maturity (years)</th>
<th>Average rate (%)</th>
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<tbody>
<tr>
<td>2009</td>
<td>2.90%</td>
</tr>
<tr>
<td>2016</td>
<td>2.20%</td>
</tr>
</tbody>
</table>

### Three avenues for digitalisation

- **New website**
- **Digitalisation**
- **New Transportation data interface**
- **Networks app**
CHANGES TO PENSION PROVISION

Human Resources last year undertook the major task of modernising the company’s pension arrangements. In September 2016, having consulted its employees, Gaznat chose to withdraw from the Caisse de Pension Énergie Coopérative (a defined-benefit scheme) with effect from 31 March 2017.

CORPORATE CULTURE

Gaznat reviewed its corporate culture in 2016. A survey of all employees showed that the company is perceived as being highly oriented towards quality, professionalism and compliance with procedures. The working environment is appreciated for encouraging healthy relations and fostering effective teamwork. These two observations, in line with the requirements of the profession, attest to a working environment that is both stimulating and congenial. However, employees also believe Gaznat must continue evolving to keep up with the reality of a new competitive context and demonstrate greater innovation. Proactivity and openness to change are seen as the key values of the future.

PERSONNEL

In 2016, Gaznat had 61 employees (47 men and 14 women) or 57.4 when expressed as full-time equivalents. The average age in the company was 45.

LEGAL

In addition to its usual activities, the legal department in 2016 was called upon several times to act as a custodian of the gas industry’s interests by taking part in several legislative consultations.

Gaznat gave its views on the preliminary study reports on the future Swiss gas supply act. This expert analysis, commissioned by the Swiss Federal Office of Energy, is important as it will help to define the act’s legal framework. Gaznat is in favour of market liberalisation but believes that this must be done gradually to ensure that there is time to adapt gas industry structures and guarantee that consumer expectations are met. The consultation phase is not yet over and will continue as the parliamentary bill is drafted and discussed.

Gaznat has officially taken a position on the draft amendments to the CO₂ Act. With regard to form, it considers that the legal text is complex and cannot be fully understood unless one has proper expertise in the matter. With regard to substance, Gaznat opposes the banning of gas-fired heating installations and believes that the potential for reducing greenhouse gases in the mobility sector has been overlooked (electric cars, heavy goods vehicles). It is critical of the fact that gas has been tarred with the same brush as other fossil fuels in terms of CO₂ emissions, whereas its contribution to the upcoming energy transition will be decisive. It is also dissatisfied that gas-related development potential is not sufficiently taken into account and considered only from the standpoint of future technological developments.

The company has also taken an official position on the Vaud cantonal act on subsoil natural resources. Gaznat is in favour of offering protection to these resources, but believes that future technologies, particularly in terms of natural gas storage, should be left outside its scope.

Finally, the legal department reviewed guidance plans (plans directeurs) submitted for public review in the cantons of Geneva, Vaud and Valais. Adjustments are sometimes required in territorial development to ensure the security of gas pipeline installations, with the aim that land can be developed and energy supply facilities maintained in the same area without compromising safety.
As part of its efforts to finance R&D projects, Gaznat signed an agreement with the Swiss Federal Institute of Technology Lausanne (EPFL) to solicit projects from laboratories and research bodies within the school on the following topics:

- Carbon management (capture, use and storage)
- Gas-driven mobility (natural gas, hydrogen and fuel cells)
- Power-to-gas and gas-to-power technology
- Biogas and methanation

Six research projects were selected. Among those chosen, three relate to the field of carbon chemistry, two are related to CO₂ capture and sequestration, and one project will research the future applications of micro co-generation. Two new calls for projects will be launched in the coming years.