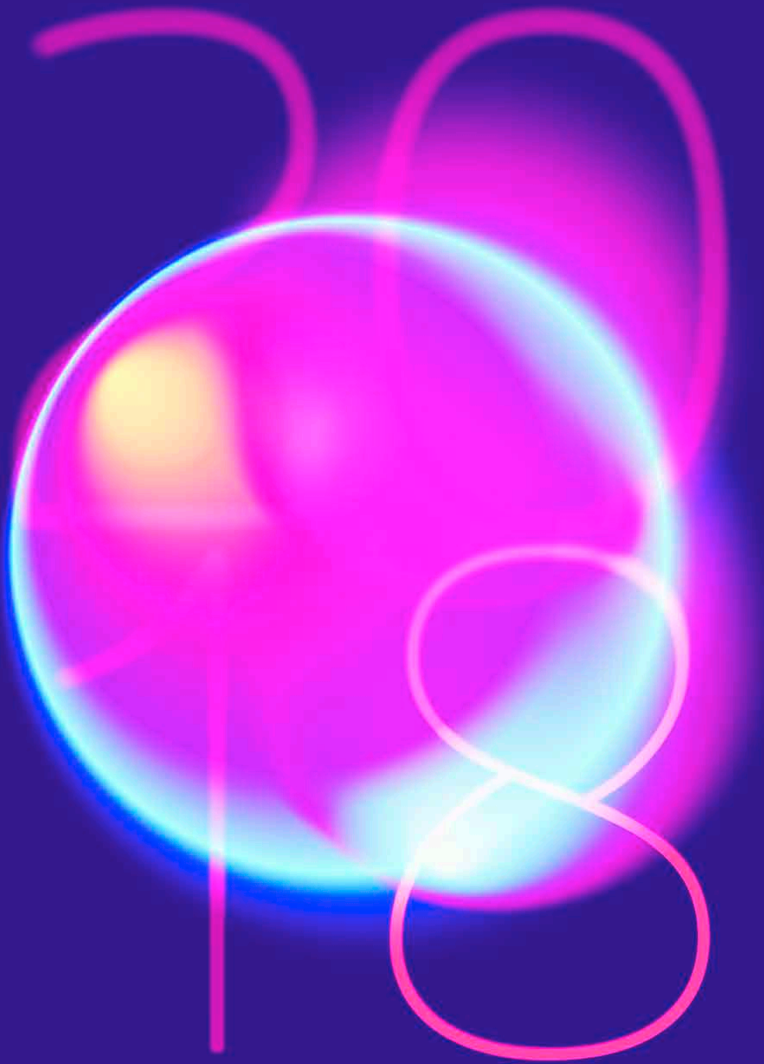


AN ENERGY OF THE FUTURE

ANNUAL REPORT

gaznat
depuis 1968

GAZNAT IN BRIEF

Head office Lausanne
Founding date 12 March 1968
Share capital CHF 27 million
Financial year 1 January to 31 December

KEY FIGURES

Consolidated (CHF thousands)	2018	2017	2016
Revenues	**594,502**	529,387	484,243
Depreciation and amortisation	**12,929**	12,782	12,628
Cash flow	**24,496**	21,870	17,691
Total assets	**396,504**	407,029	394,074
Net capital assets	**208,271**	222,151	288,477
Net debt	**71,305**	87,982	89,433
Equity	**136,645**	132,154	126,937
Energy (GWh)*	**12,695**	13,185	12,812
Power (MW)	**3,861**	3,858	3,507

* Distributed through Gaznat's network
NB: 1 GWh = 1 million kWh = approximately 90,000 m^3 of natural gas

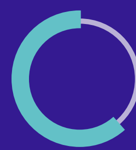
SHAREHOLDERS

Shareholder structure as at 31 December 2018

Geneva Industrial Services	37.51%
Lausanne City Council	26.89%
Holdigaz SA, Vevey	15.56%
Gazoduc SA, Sion	9.67%
Viteos SA, Neuchâtel	3.81%
Groupe E Celsius, Fribourg	2.79%
Municipality of Yverdon-les-Bains	2.25%
Urbagaz SA, Orbe	0.86%
Municipality of Sainte-Croix	0.66%

SHARE-HOLDINGS

66%

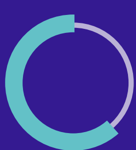


Fingaz SA, Financière Internationale du Gaz

Business: financing gas storage and transportation facilities between France and Switzerland.

Other shareholder: ENGIE

66%



Petrosvibri SA

Business: exploring for and operating hydrocarbon fields in Switzerland.

Other shareholder : Holdigaz SA

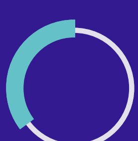
60%

Unigaz SA, 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

33.3%

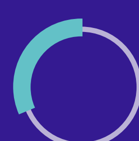


Gas&Com SA

Business: building and operating fibre-optical networks running alongside gas pipelines.

Other shareholders: EGO, GVM

29.5%

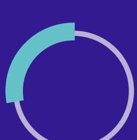


Gazmobile SA

Business: promoting natural-gas fuel for vehicles.

Other key shareholders: EGO, GVM, EGZ, AIL

25.98%



Swissgas SA

Business: representing the interests of the Swiss gas industry abroad and gas supply for Switzerland.

Other shareholders: EGO, GVM, EGZ, ASIG

15.79%

Swiss Gas Invest SA

Business: acquiring, holding, administering and disposing of equity interests in all categories of companies operating in the natural gas industry.

Other key shareholders: Holdigaz, EGO, Swissgas, Gas&Com, Groupe E Celsius

OUR HOLDINGS THROUGH SWISSGAS

* Of which 65% held on a fiduciary basis for regional companies (Gaznat: 30.769%)

100%

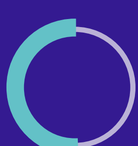
SET Swiss Energy Trading SA *

Swissgas (100%)

100%

Swissgas Speicher SA

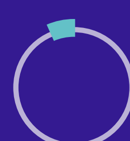
51%



Transitgas SA

Swissgas (51%), FluxSwiss (46%), UNIPER (3%)

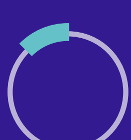
4.9%



FluxSwiss SA

Swissgas (4.9%), Fluxys (50.65%), Swiss Gas Invest (7.89%), CSEIP (36.56%)

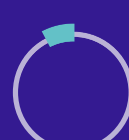
10%



SEAG Aktiengesellschaft für schweizerisches Erdöl SA

Swissgas (10%)

5.26%



Swiss Gas Invest SA

Swissgas (5.26%)

20
18

AN ENERGY OF THE FUTURE

ANNUAL REPORT

SUMMARY


SWISS 3000
HB-XVB
AIR-GLACIERS

BOARD OF DIRECTORS

Chairman
Philippe Petitpierre
Chairman and CEO
Holdigaz SA, Vevey

Vice-Chairman
Pierre Gautier
Board member
Geneva Industrial Services

Pascal Abbet
Director
Holdigaz SA, Vevey
From 7 June 2018

Vincent Collignon
Commercial Director
Geneva Industrial Services

Antoine de Lattre
Director
Holdigaz, Vevey
Until 7 June 2018

François Fellay
Chairman
Gazoduc SA, Sion
From 7 June 2018

Jean-Albert Ferrez
Chairman
Gazoduc SA, Sion
Until 7 June 2018

Dominique Gachoud
Chairman
Groupe E Celsius SA, Fribourg

Remigio Pian
Director of Energy and Products
Viteos SA, Neuchâtel

Jean-Yves Pidoux
Director
Lausanne Industrial Services

Marc-Antoine Surer
Head of Sales
Lausanne Industrial Services

MANAGEMENT COMMITTEE

René Bautz
Chief Executive Officer (CEO)

Henri Bourgeois
Chief Financial Officer (CFO)
Head of Finance and Services

Frédéric Rivier
Head of Trading

Gilles Verdan
Head of Networks

BOARD SECRETARY'S OFFICE

Laura Giaquinto
Board Secretary
Gaznat SA, Vevey
From 1 September 2018

STATUTORY AUDITORS

Ernst & Young SA
Lausanne

LETTER FROM

PHILIPPE PETITPIERRE, CHAIRMAN & RENÉ BAUTZ, CEO

RENÉ BAUTZ / PHILIPPE PETITPIERRE

1968 – the beginnings of natural gas in Western Switzerland

Last year can be considered a milestone. We celebrated Gaznat's fiftieth anniversary by holding a series of events. One grand occasion was the international conference in May at the Rolex Learning Center of the Swiss Federal Institute of Technology Lausanne (EPFL), during which several globally renowned experts in energy and, particularly, natural gas discussed the part played by gas in history while also outlining its prospects. In this respect, we are particularly mindful of the transition to cleaner energy – a process with which nearly all industrialised countries are currently grappling, with varying degrees of success. These actions date back to the commitments adopted at the COP 21 climate conference in Paris, in 2015. Against this backdrop, a clear reminder was given at the EPFL conference that **our energy source is part of the solution, not part of the problem, for those countries wanting to transition safely and efficiently.**

Our company was founded in 1968. At that time, natural gas was gradually replacing coal gas in many European countries. However, as Switzerland lacks easily provable gas reserves, this move away from coal gas required our country to rely on its neighbours to cover demand for natural gas. Back then, coal gas accounted for less than 1% of energy demand in Switzerland. Thanks to a few home-grown visionaries, one of

In the coming years our company will be an important partner for efficiently helping to maintain and develop natural gas in its current form as well as the green gas of the future.

RENÉ BAUTZ
CEO

whom was without a doubt Eric Giorgis (a former chairman of our company), the domestic gas industry was able to start taking shape from the mid-1960s onwards with the founding of Swissgas and the regional transportation companies, including Gaznat in 1968. The groundwork was then laid in Western Switzerland to ensure that natural gas – scheduled to arrive in the early 1970s – could be supplied in the best technical and economic conditions. From its founding on 12 March 1968, Gaznat was able to plan and construct its regional gas grid by linking up with the Transitgas cross-border pipeline in Oberwald and thus carrying natural gas to the western end of Lake Geneva, at Les Grangettes. To connect with the major points of consumption dotted along the lake (namely Vevey, Lausanne and Geneva), the most expedient solution was to lay a pipeline along the bottom of Lake Geneva with partial delivery stations built close to consumption zones. The construction work was performed quickly and the pipeline became operational in 1973, ready to receive its first supplies of natural gas, sourced primarily from the North Sea.

The rest, as they say, is history. The first supply contracts were signed for Switzerland. In Western Switzerland, our business partner was Gaz de France. Gaznat's transportation grid was extended and new interconnections with the rest of Switzerland were created, as well as with our storage facility in France. There followed a surge in transported volumes in Western Switzerland and increased sales through our shareholder customers. All these milestones have made Gaznat a pivotal partner in both the domestic and cross-border market. Correspondingly, natural gas today covers close to 15% of Switzerland's energy needs as our industry enters the new era of the domestic energy transition.

Promising financial results

Though 2018 was about 1°C warmer than 2017 on average, the gas industry had to deal with an intense cold snap in February and March last year, when several European countries issued supply alerts. Consequently, at the end of the 2017-2018 winter period, gas in storage facilities reached its lowest level in eight years. Spot prices surged on some markets.

In Switzerland, that same cold spell produced its lowest temperatures between 26 and 28 February 2018, during which time the highest-ever power peak was recorded on Gaznat's network, at 3,861 MW. Thanks to forward planning and coordination with our business partners, the period was weathered without the need to issue exceptional warnings.

Yet what happened reminds us of the importance of having sufficient supply sources over the winter season. In the wake of recent events, some Swiss members of parliament have expressed concern that Switzerland's energy targets will probably not be attained, given that the country is pulling out of nuclear power, domestic power generation is decreasing and demand is likely to increase. The gas industry remains convinced that coupling electricity and gas networks could improve matters.

Owing to the higher temperature in 2018 (+1°C on average), demand for gas in Switzerland fell by 5% versus the previous year. In the area supplied by Gaznat, the decline was 3.4%, to 10.8 TWh. Adjusted for the weather, however, consumption rose by 6.5% to 12.7 TWh of gas transported through our pipelines.

In 2018, demand from industrial facilities connected to the high-pressure network rose by 2.3%.

Last year, Gaznat's procurement strategy was tailored to the changes affecting marketplaces, where the price of gas is increasingly decoupling from the price of crude oil. Additionally, the introduction of reverse flows from Italy (through the Transitgas main pipeline) has further improved security of supply in Switzerland.

In infrastructure, a considerable amount of work was carried out to renovate installations and secure pipeline routes. Reflecting higher market prices but lower sales, **Gaznat's revenues rose by 12.3% to CHF 594 million. Net debt declined by 19% relative to the end of 2017 while cash flow for the year was up 12%, improving the company's financial capabilities.**

We would like to extend our thanks to our customers and shareholders for their trust in our company. We would also like to thank the Board of Directors, the Management Committee and all our employees for their devotion to Gaznat's development as a company.

ORGANISATION

TRANSPORTING AND SUPPLYING NATURAL GAS TO OUR CUSTOMERS AND BUSINESS PARTNERS SECURELY AND AT THE BEST PRICE: THAT IS OUR COMMITMENT

Mission and employees

Transporting and supplying natural gas to our customers and business partners securely and at the best price: that is our commitment. And we achieve it thanks to the highly professional conduct and strong commitment of our employees and executives. The Board of Directors would like to extend its thanks to each and every person who, once again last year, made this possible.

Management Committee

The Management Committee consists of René Bautz, (Chief Executive Officer), Henri Bourgeois (Head of Finance and Services), Frédéric Rivier (Head of Trading) and Gilles Verdan (Head of Networks).

René Bautz
Chief Executive Officer (CEO)

Henri Bourgeois
Chief Financial Officer (CFO)
Head of Finance and Services

Frédéric Rivier
Head of Trading

Gilles Verdan
Head of Networks

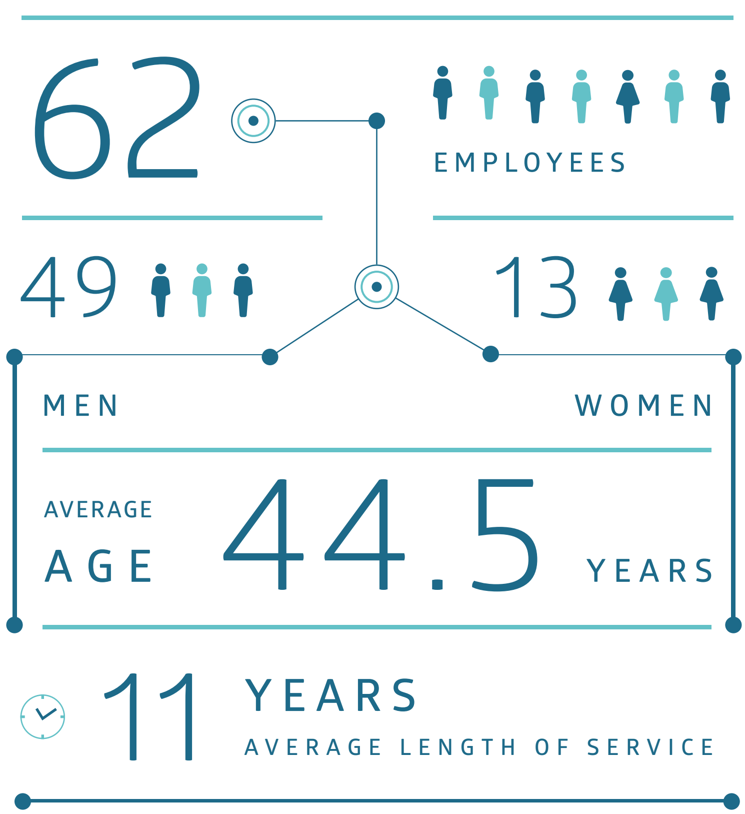
HUMAN RESOURCES

Annual General Meeting

Gaznat's 50th Annual General Meeting, chaired by Philippe Petitpierre, was held in Montreux, Switzerland, on 7 June 2018. The Board of Directors was last year up for re-election. Vincent Collignon, Pierre Gautier, Dominique Gachoud, Philippe Petitpierre, Remigio Pian, Jean-Yves Pidoux and Marc-Antoine Surer were all re-elected for four-year terms. Pascal Abbet and François Fellay were elected to replace Antoine de Lattre and Jean-Albert Ferrez, who had tendered their resignations. All those elected agreed to serve their terms of office.

Marking the company's 50th anniversary, a round-table discussion on the role of gas in promoting the clean-energy revolution and advancing innovation took place after the Annual General Meeting. Invited to participate at this event, which was moderated by Mélanie Freymond, were Christoph Frei (Secretary General of the World Energy Council), Didier Holleaux (Executive Vice-President at ENGIE) and Philippe Petitpierre (Chairman of Gaznat).

STAFF IN FIGURES



PERSONNEL-RELATED DATA

*Gaznat has **62 employees**, **49** of whom are **male** and **13 female**. Adjusting for part-time contracts, this represents **58.9 FTEs**. **The average age** is **44.5**. **The average length of service** is **11 years** – a sign of steadfast dedication to the company.*

GAS ENERGY OF THE FUTURE & ENERGY POLICY

Industry conditions

According to the latest Issues Monitor published by the World Energy Council, the gas industry's main concerns in Switzerland are currently bilateral relations with the EU, market liberalisation and cyber threats. It also points to a clear tendency around the globe towards the promotion of renewable energies, the decentralised production and consumption of energy, and increased digitalisation of supply operations and services activities.

Since 2010, the world gas market has expanded annually by 1.8% on average. Three factors have impacted this market: increased production of non-conventional gas in North America, the significant growth of liquefied natural gas (LNG) through the integration of the East-West markets, and higher demand in Asia. Imports of LNG to China rose by 32% in 2018 compared with the previous year.

Europe presents a more mixed picture. Last year, both consumption and domestic production fell by 4%, mainly because of reduced gas extraction at Groningen, Europe's biggest gas field. Lower output from Groningen has also wider implications because it plays an important part in keeping supply fluid in the northern European markets. Furthermore, security of supply is becoming a topical issue for industry leaders after the cold snap in late February-early March 2018 triggered supply warnings in some countries. During this cold-weather spell, consumption peaked at approximately 28 GWh/day. Gas storage facilities were used extensively to avoid running into shortages on markets.

SECURITY OF SUPPLY IS A TOPICAL ISSUE FOR INDUSTRY LEADERS

“In 2018, climate policy and liberalisation of electricity and gas markets were key political themes in Switzerland.”

Energy policy

In 2018, climate policy and liberalisation of electricity and gas markets were key political themes in Switzerland. The proposed revision of the CO_2 Act for the post-2020 period is currently being considered by the Swiss Parliament. It is worth noting that the Federal Office for the Environment (FOEN) is increasingly of the view that gas will continue playing a central role for the foreseeable future. It also sees renewable gases as a mainstay in the areas of mobility, construction and industry, in the context of ‘sector coupling’. Furthermore, the Federal Council welcomes the industry objective of increasing the share of renewable gas used for heating to 30% by 2030.

Access to the network is not fully covered in the Pipelines Act (PipeA), which is why the Swiss gas industry supports a new law on gas supplies (Gas Supply Act).

The Swiss Federal Office of Energy (SFOE) has prepared a bill which is due to be issued for consultation in 2019. In the meantime, industry and the gas sector have agreed to resume discussions with a view to developing the industry-wide agreement on the thresholds for third-party access to the network and the rules on eligibility.

SWISS GAS INDUSTRY IS CALLING FOR NEW LAW ON GAS SUPPLIES


GAZNAT

2018 ANNUAL REVIEW

6.5 % ↗

DEMAND FROM GAZNAT'S BUSINESS PARTNERS (SHAREHOLDER CUSTOMERS) AND DIRECT INDUSTRY CUSTOMERS ADJUSTED FOR DIFFERENCES IN WEATHER

TRADING

2018 – Lower domestic consumption

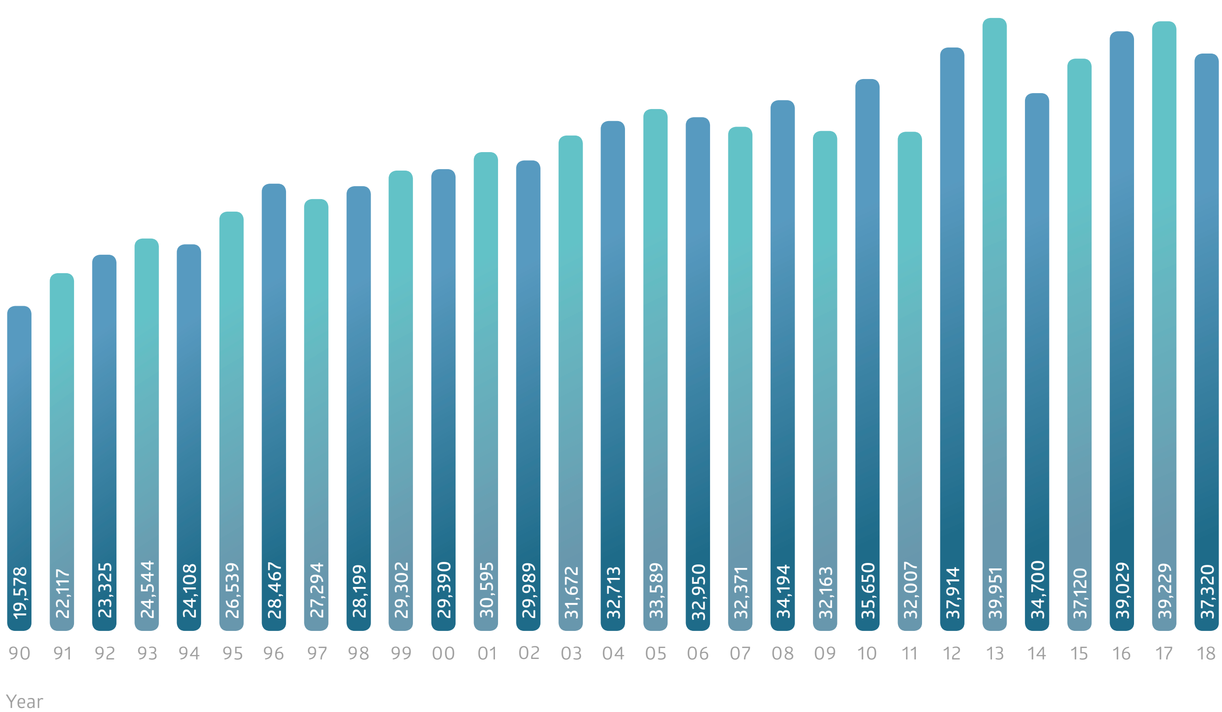
In 2018 natural gas consumption in Switzerland fell by 5% to 37.3 TWh.

According to the Swiss Meteorological Office, the average annual temperature for 2018 was the highest since records began in 1864. It was also 0.7°C higher than the annual average for 2017 and 1.5°C above the average for 1981-2010.

Fall in consumption in Gaznat area after four consecutive annual increases

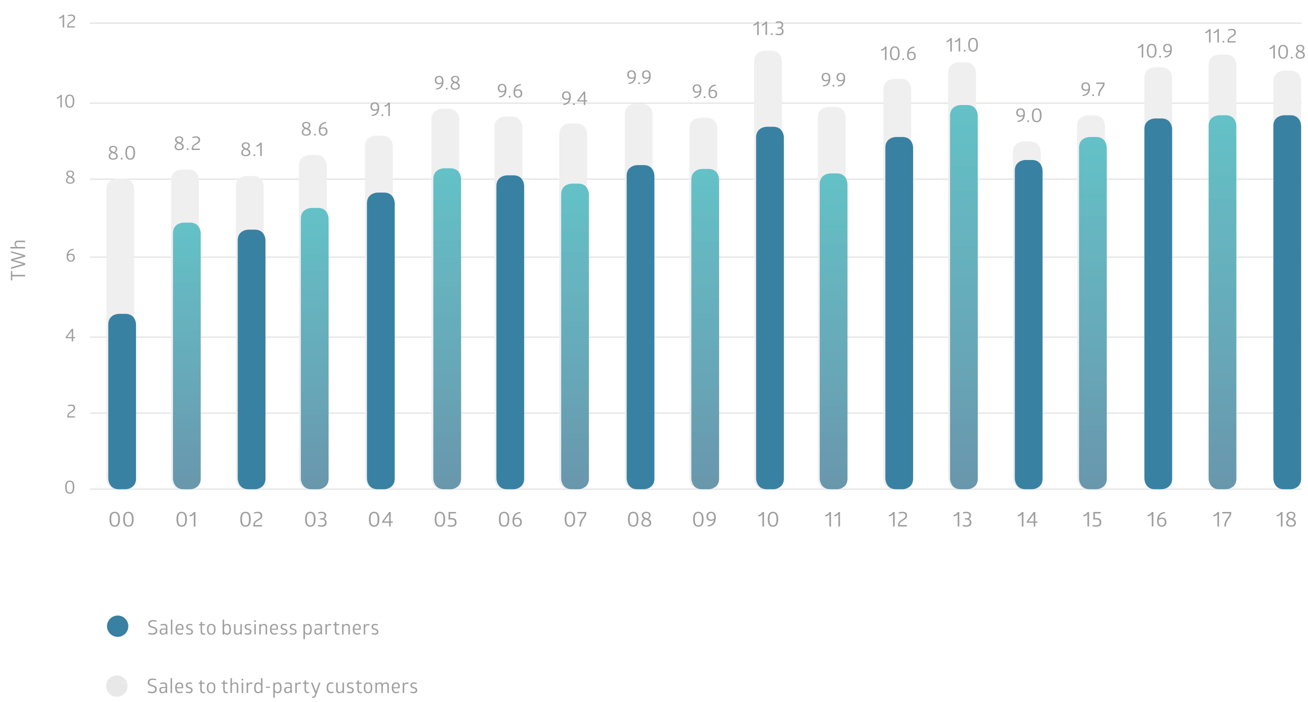
In the area covered by Gaznat, temperatures were significantly warmer (by +1.04°C) in 2018 than in 2017. There were 11% fewer annual heating degree days (20/12 HDDs)[1] in 2018 than in 2017.

Natural gas consumption in Switzerland, 1990-2018 (GWh)



[1] 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.

Gaznat sales, 2000-2018



The volume of natural gas delivered by Gaznat to its business partners and direct customers totalled 10.8 TWh in 2018, down 3.4% on 2017.

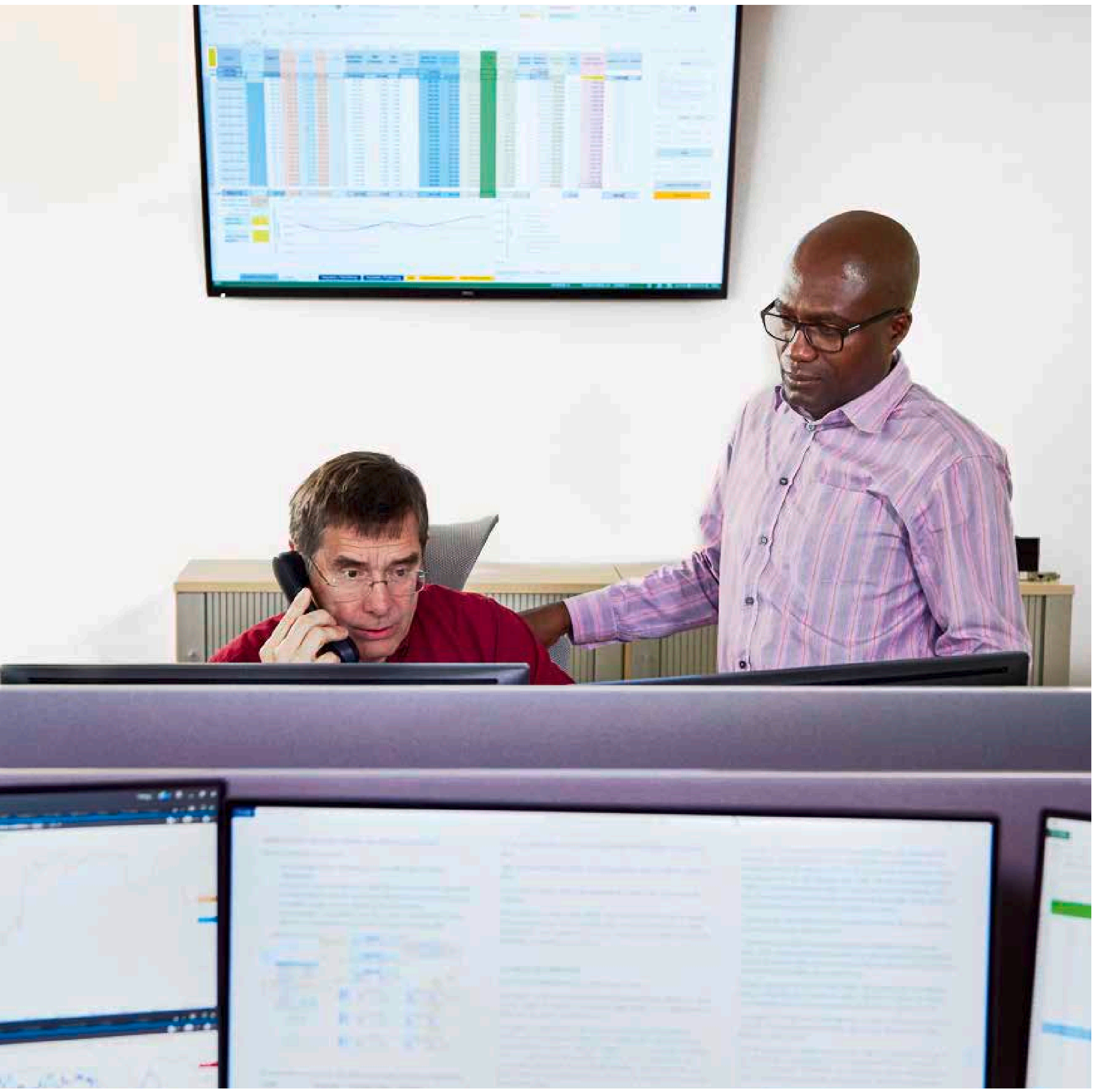
After correcting for differences in weather, consumption by Gaznat's business partners (shareholder customers) and direct industrial customers increased by 6.5% relative to the previous year. Taken separately, consumption by Gaznat's direct industrial customers rose by 2.3%.

Sharp fluctuations in market prices during 2018

Market prices in Germany (NCG)[2] and the Netherlands (TTF)[3] fluctuated strongly during 2018. Indeed, the year was notable for spot prices of between €17 and €19.5/MWh in January and the first half of February. The cold snap at the end of February 2018, combined with low stock levels in Europe and reduced deliveries of LNG, then caused price spikes of up to €70/MWh on the NCG hub. In April, prices fell back to €18.7/MWh and then gradually increased in line with the oil price to reach €29.8/MWh at the end of September before following oil back downwards to end the year at €21.7/MWh.

[2] NCG: NetConnect Germany (virtual trading point for the southern Germany region)
[3] TTF: Title Transfer Facility (virtual trading point for the Netherlands)

“Gaznat offers renewable products. CO_2 emission rights enable business partners to offer carbon neutral gas. It also sells biogas certificates.”



LONG-TERM CONTRACTS STILL FORM THE BACKBONE OF GAZNAT'S PORTFOLIO AND CONTRIBUTE TO SECURITY OF SUPPLY

Lower oil price

The Brent crude price was $66.6 a barrel at the start of the year. It peaked at $86.3 on 3 October, then fell steadily to end the year at $53.8.

Adjustments to Gaznat supply portfolio

Generally speaking, the terms governing medium/long-term supply contracts have changed significantly in recent years. Prices were initially indexed to those of oil products, but they have gradually been renegotiated or replaced by indexations linked to the market price of gas on the hubs (NCG or TTF for continental Europe).

At the end of 2018, 15% to 20% of Gaznat's supply was still indexed to oil products, but the majority is now dependent on market prices.

Despite being progressively adjusted to reflect market conditions, long-term contracts still form the backbone of Gaznat's portfolio and contribute to its security of supply – an essential consideration since no gas deposits are being exploited in Switzerland, nor are there any seasonal storage facilities at present. Since some current long-term contracts are set to expire in 2019 and 2020, Gaznat's supply strategy has been reviewed in the light of the development of the NCG and TTF marketplaces, the merger of the northern and southern zones in France in November 2018, and new opportunities for reverse flow from Italy via the Transitgas pipeline system. On this basis, new contracts have been negotiated for the next few years.

New products and associated services developed for business partners and customers

As a lower proportion of the supply portfolio is indexed to the price of oil, there has been a significant increase in price volatility as regards gas sales to business partners. Gaznat therefore offers portfolio management services to its business partners and implements hedging transactions for market risk on their behalf. Since 1 January 2017, Gaznat has offered to supply certain of its partners on a product basis, which can then be optimised in line with market price signals and their own needs. Business partners also have the opportunity to buy or sell quantities of gas at the market price via a user-friendly, secure IT platform.

Gaznat also offers renewable products. On the one hand, CO_2 emission rights enable business partners to offer carbon-neutral gas. On the other, Gaznat sells Swiss or German 'biogas' certificates, which allow business partners to offer their residential customers gas derived partly or wholly from renewable sources.

> *At the end of 2018, 15% to 20% of Gaznat's supply was still indexed to oil products.*

NETWORKS

3,861 MW
Measured power

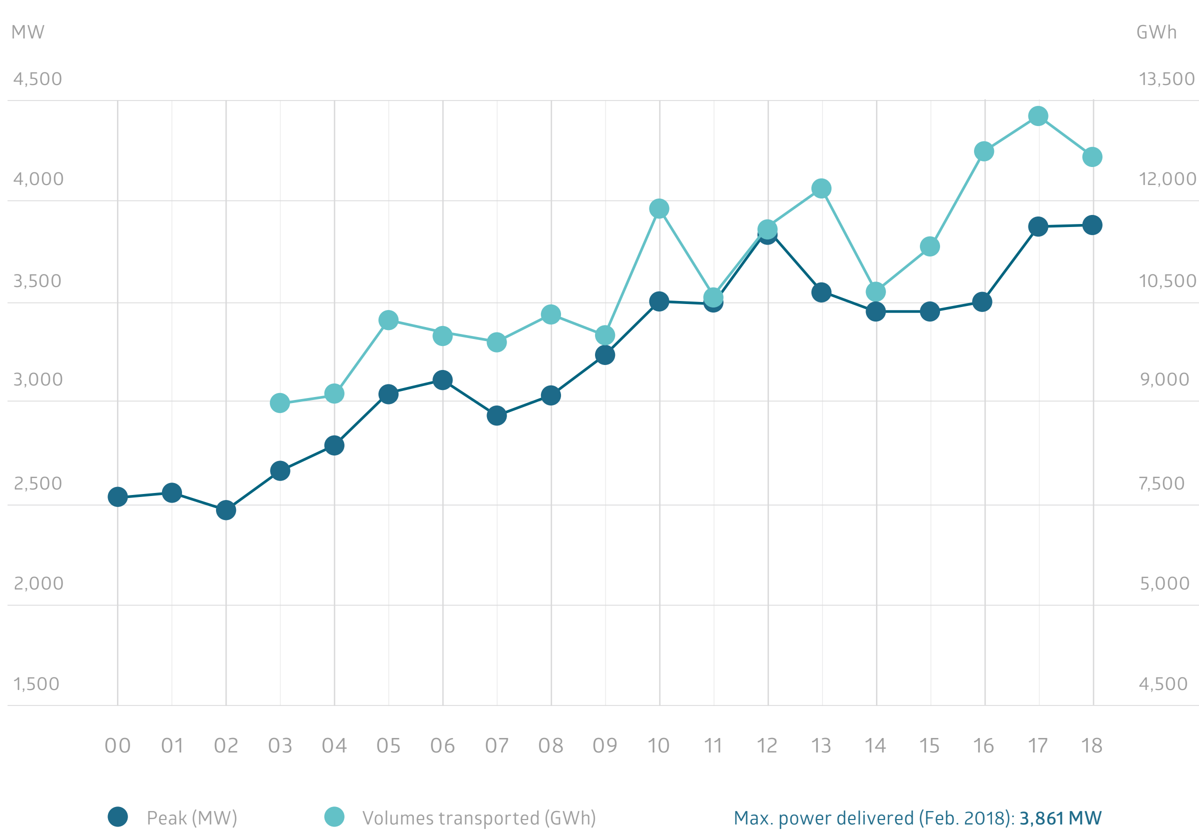
NETWORK ACHIEVES POWER RECORD

Following a high of 3,858 MW in 2017, the peak power measured on the Gaznat network in 2018 totalled 3,861 MW – **another all-time record.**

12,695 GWh
Volumes transported

At 12,695 GWh, the volumes transported were down 3.7% on 2017. The decline can be explained by milder average temperatures than in 2017. Nevertheless, this was still the second-highest volume ever transported.

Volumes transported and measured power, 1998-2018



Max. power delivered (Feb. 2018): 3,861 MW

FINANCE & SERVICES

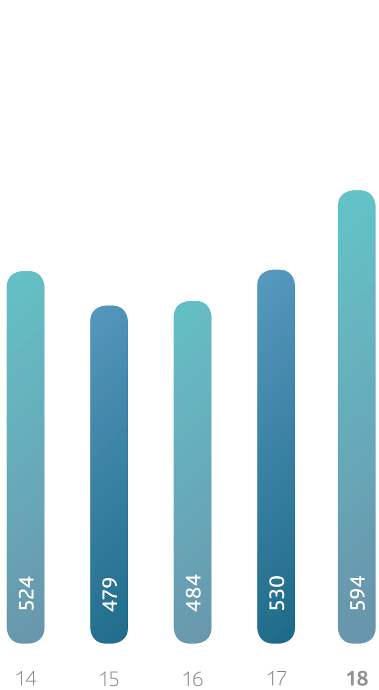
INCREASED REVENUES AND PROFIT

66%
Net gearing

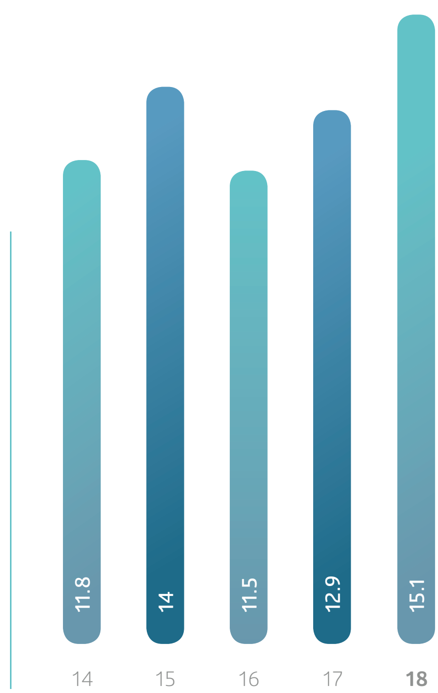
2.5%
Net margin

Revenues increased for the fourth consecutive year to reach CHF 594 million by the end of 2018, which represents a rise of more than 12% compared with 2017. Although the volume of gas sold declined slightly because of the comparatively mild winter, the company's sales were boosted by a surge in gas prices on the European markets at the end of the year and the improved performance of the euro against the Swiss franc. The only year in which our company posted higher revenues than in 2018 was 2013, when CHF 600 million was exceeded.
Gross profit rose by 8.3% compared with the previous year, to surpass CHF 40 million. Careful control of operating expenses, which decreased by 4%, enabled Gaznat to achieve a net profit of CHF 15.1 million, up 16.1%, and to keep its net margin above 2.5%. Moreover, while Trading saw revenues leap by 14% as it maintained its profitability, the stable revenues at the Networks division was the main earnings driver.

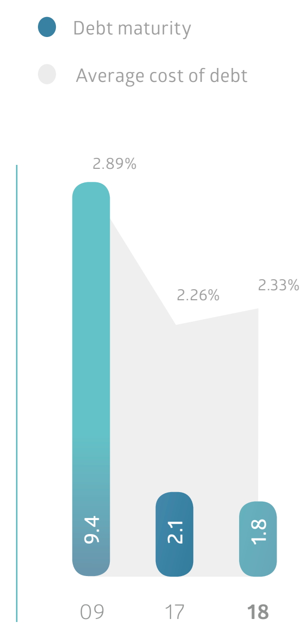
Revenues (CHF m)



Net profit (CHF m)



Debt maturity
Average cost of debt



Gaznat has a healthy balance sheet, with net debt remaining stable at CHF 88 million and net gearing of 66% (net debt divided by equity). This solid balance sheet will be a major asset as regards refinancing in 2019, when a loan of CHF 20 million matures. Persistently low yields, with no increases in interest rates expected before early 2020, should enable the company to continue lowering its overall cost of debt, which stood at an average rate of 2.33% at the end of 2018.

depuis 1968

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