

Czech Gas Networks Investments S.à r.l.
Annual Report for the year ended 31 December 2022

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Czech Gas Networks Investments S.à r.l.

Consolidated Management Report

31 December 2022

1. CGNI Group Profile

The Czech Gas Networks Investments S.à r.l. consolidation scope is made up of Czech Gas Network Investments S.à r.l. (the “Company” or “CGNI”) and its subsidiaries Czech Grid Holding, a.s., GasNet, s.r.o. and GasNet Služby, s.r.o. (together referred to as the “GasNet Group”). All subsidiaries are fully owned by Czech Gas Network Investments S.à r.l. (together the “Group”).

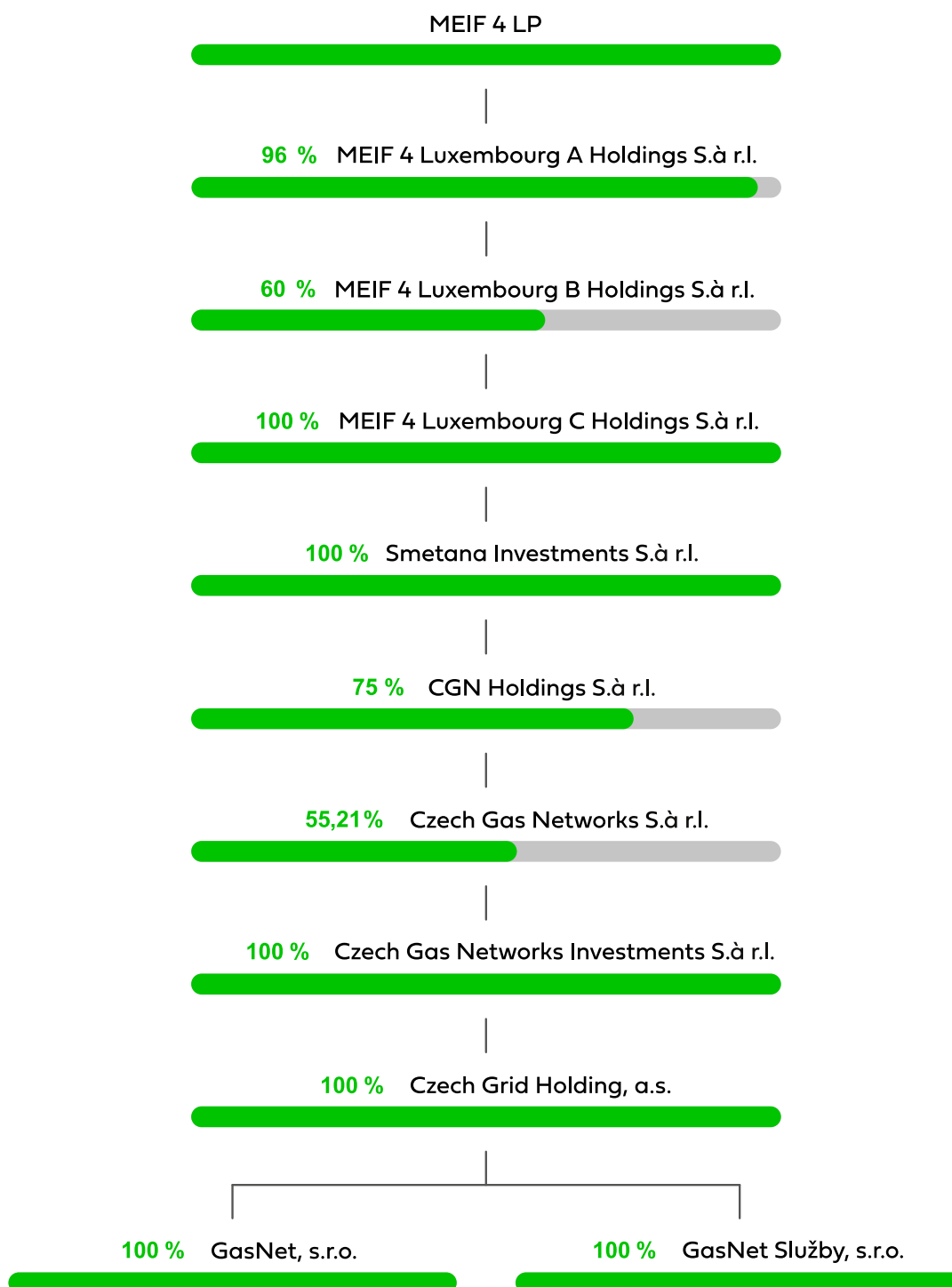
The Company was incorporated on 22 March 2019 and is domiciled in the Grand Duchy of Luxembourg. The Company’s registered office is located at 20, Boulevard Royal, L-2449 Luxembourg.

On 30 September 2019, the Group purchased 100% shares in GasNet Group.

GasNet Group distributes natural gas throughout the territory of the Czech Republic with the exception of Prague and South Bohemia. The gas distribution activity is regulated by an independent regulatory body, Energy Regulatory Office (“ERO”). The regulation is conducted by determining the overall level of allowed revenues (the Revenue Cap) and the subsequent calculating of tariffs for distribution services for individual customers. These distribution prices (tariffs) are published annually in a price resolution issued by ERO. Further, GasNet Group oversees the operation and maintenance of the distribution system and the corresponding gas assets. The Group’s other business activities include comprehensive document management and administration, measuring natural gas consumption and quality, connecting and disconnecting customers, and, no less importantly, engineering services for the construction and reconstruction of natural gas distribution networks.

The Group prepares consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”) under the historical cost convention. The Group financial year begins on 1 January and ends on 31 December.

The structure of CGNI Group for the period from 1 January to 31 December 2022 is as follows:



(Minority shareholders of Czech Gas Networks S.à r.l.:

- Varese IRR LP with a 26.29% share
- Allianz Infrastructure Luxembourg II S.à r.l. with an 18.5% share)

2. Background and significant events in the year 2022

2.1 Key Group Ratios 2022

In millions of CZK

Total sales revenue	13,981
EBITDA	9,177
Operating profit	2,290
Loss before income tax	(2,609)
Loss for the period	(2,715)
Investments	4,225
Number of employees (FTE)	2,295

2.2 Current social and economic situation and its impact on the Group

The escalation of the conflict between Russia and Ukraine in February 2022 significantly impacted the social and economic situation and the Group's business operations. The resulting increased risk of interruption in the flow of natural gas from the Russian Federation to EU countries incited a number of measures at the European and national levels aimed at securing sufficient energy supplies for end customers. The lack of diversification of natural gas sources and dependence on gas from the Russian Federation escalated efforts to replace fossil fuels and increased the pace of development of renewable energy sources. From the Group's perspective, this trend poses a challenge to accelerate preparations for the distribution of renewable and low-carbon gaseous fuels.

Owing mostly to natural gas supplied from alternative sources, Norway and LNG, and the use of gas stocks stored in Czech underground storage facilities, the delivery of natural gas to end customers in the Czech Republic was neither restricted nor interrupted in 2022.

Neither the inflation rate, which amounted to 15.1% in the Czech Republic in 2022, nor rising energy prices, which were above the inflation rate during the same period, had a material direct impact on the Group's financial performance in the reported year. The Group secured most of its energy costs as well as the costs of other key inputs in the preceding accounting period. Combined with the Group's ongoing efforts to optimise its operations, this fact resulted in only a low, approximately 4%, year-on-year increase in raw materials and services used. High natural gas prices had an indirect effect on the Group's financial performance in 2022 by reducing end-customer consumption and, consequently, the Group's revenues. In accordance with the regulation principles in effect, the drop in revenues is expected to be compensated to the Group in the forthcoming years.

2.3 Group Investments

Throughout the reported year, the Group executed investment projects worth CZK 4,225 million in total in accordance with the approved investment plan. Most of the funds were invested in renovating the distribution system.

2.4 Distribution System

The distribution system is operated by GasNet, s.r.o., based on Gas Distribution License No. 220604925 awarded on 1 January 2007 and updated under Annex 042 awarded by the Energy Regulatory Office on 1 December 2022 in accordance with Act No. 458/2000 Coll., on business conditions and conduct of state administration in energy industries and on amendments to certain acts (Energy Act), as in effect.

Overview of Gas Assets		2022
Length of operated pipelines		
Local networks	km	42,751
Service lines	km	11,164
Long-distance lines	km	11,116
Transfer and very-high-pressure regulating stations	units	54
High-pressure regulating stations	units	2,745
Medium-pressure regulating stations	units	753
Cadastral communities with distribution licence	units	6,879

The number of offtake points connected to the distribution system decreased year-on-year by 30,685 down to 2,251,421. At the same time, the quantity of distributed gas dropped from 81 TWh to 65 TWh. The nearly 20% decrease in consumption was mainly due to reduced use of gas in electricity generation, savings on the part of customers caused by high prices, and a 1.0 °C year-on-year increase in the average temperature during the heating season.

2.5 Business and Risk Management

Business and communication activities

In 2022, we concentrated on communicating topics directly related to the Group's operations, most notably the security and reliability of supplies. Another important area targeted by communication efforts was the future of gas and preparation of the Group's gas supply network for the distribution of renewable and low-carbon gases, specifically biomethane and hydrogen.

The year 2022 was rich in events that had a major impact on the gas market. Surges and vast fluctuations in energy prices, increased inflation, and, most importantly, restrictions placed on gas supplies from Russia and their subsequent halt affected the marketplace in an unprecedented way. One of the consequences was the demise of nine gas traders. Despite the highly complicated financial situation on the market, good payment ethics were maintained on the part of our customers, as our receivables for distribution system services rendered decreased year-over-year.

Risk management

Risks to which the Group is exposed are regularly monitored and assessed, and the management is informed of the current state of risks by means of reports. In 2022, a comprehensive catalogue mapping risks throughout the Group was completed. As part of that, no risks jeopardising the Group's existence were identified, and neither were price, credit, liquidity, and cash-flow risks.

The Board of Managers defines the objectives, principles, tasks and competencies to manage financial, operational, and legal risks. All risk management is described in the respective directives that all companies in the Group must adhere to. Financial risk comprises market risk (including interest-rate risk and foreign currency exchange risk), credit risk and liquidity risk. The primary focus of financial risk management is to establish risk limits and to ensure that any exposures to risk stay within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

Foreign exchange rate risk

The Group is exposed to currency risk stemming from the loans and bonds denominated in EUR. Based on internal policies, for at least 85% of the notional amount of each facility, which is denominated in a currency other than CZK, cross-currency swaps are contracted for a term of at least 12 months. The Group does not operate internationally, and only the FX risk that the Group is exposed to is from financing facilities and negligible from operational matters.

Interest rate risk

The Group is exposed to the interest-rate risk which relates primarily to the Group's loan facilities and bonds with a floating interest rate. To mitigate the interest-rate risk, the Group took internal measures and for a minimum of 90% of the notional amount of all loan facilities and bonds entered into interest-rate swap contracts.

Credit risk

The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to meet its obligations. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets. Credit risk is one of the most significant risks for the Group's core distribution business. However, a major part of the Group's risk related to gas distribution services provided mostly to traders, gas suppliers and local distributors is managed by means of credit rules called "Conditions of Financial Eligibility" implemented in the Group's Network Code (that is a part of legal framework approved by ERO based on non-discriminatory rules). Moreover, the credit loss related to the P&L impact from bad debts is recognised by ERO and is fully reimbursed with a time lag as an eligible cost.

Liquidity risk

The liquidity risk consists of the potential shortage of funds needed for paying due obligations and for financing business activities. The Group manages its liquidity risk by securing sufficient funds to be able to meet its financial obligations within a period of no less than three months in accordance with the currently valid Cash-flow outlook.

To mitigate liquidity risk, the Group focuses on precise liquidity planning. Management drafts financial plans for individual years in the framework of regular forecasts. Subsequently, the planned cash flow is updated on a monthly basis for a 12-month period and, moreover, specified with greater accuracy through regular updates, if necessary. The Group plans cash flows for a period of at least 12 months on a daily basis.

2.6 Financial instruments

Derivative financial instruments, including currency and interest-rate swaps are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. All the realised and unrealised results from trading derivatives are presented net in finance costs or finance income within profit or loss for the year. The Group does not apply hedge accounting.

The fair value of cross-currency swap agreements (derivative liability) amounted to CZK 9,894 million and the fair value of interest swap agreements (derivative asset) amounted to CZK 7,850 million as at 31 December 2022.

2.7 Human Resources

In 2022, employee headcount (FTE) in the Group was 2,295. An FTE reduction by 130 employees was achieved thanks to the implementation of restructuring during 2022. Throughout the reported year, wages developed in accordance with the Group's business strategy and the remuneration principles agreed with the trade union.

2.8 OHS and Environmental Protection

In 2022, the Group continued the past trend of improving occupational health and safety as one of its key corporate values. Accordingly, and in conformity to a previously approved plan for the implementation of the ISO 45001 occupational safety standard, the Group initiated seven key projects to ensure compliance with the relevant requirements.

Because the Group's business has an environmental impact in many areas, it is imperative for corporate culture and processes to incorporate a responsible attitude to the natural world. The existing environmental management system allows legislative requirements and set objectives to be managed in an effective manner and attained targets to be defined and subsequently evaluated. Employees are an integral part of the Company's environmental strategy, specifically ongoing, regular training and support from the top management motivating them to attain set objectives.

As in previous years, 2022 was marked by efforts to reduce nitrogen and carbon monoxide emissions at regulating stations. We succeeded in lowering emissions by reconstructing and upgrading the natural gas preheating technology. Efforts to reduce energy consumed by operations were supported with an environmental initiative under the newly established Green GasNet, an internal program, that covers all initiatives concerning areas where our environmental impact is the highest. In addition, considerable progress was achieved in carbon footprint certification under Scope 1 (direct emissions) and Scope 2 (indirect emissions) in regard to optional non-financial reporting, and subsequently in setting additional non-financial reporting sub-targets.

In 2022, no significant adverse environmental impact was recorded.

2.9 Outlook

The Group is closely involved in the process aiming to decarbonise the energy sector and to reduce greenhouse gas emissions. Low-carbon gases, specifically biomethane and hydrogen, played an important role in efforts to that effect. The Group believes in the future of hydrogen as an energy carrier and in its role in the decarbonisation of the Czech industry sector. With that in mind, we will continue in the upcoming years readying the distribution network for the connection of hydrogen production facilities to the distribution system and for the safe, reliable distribution of hydrogen and natural gas blends.

As to the sale of capacity, the Group will continue shifting the main communication channel for gas traders to the Sitecore technology platform during the forthcoming year. Recent legislative changes have increased the potential for using data boxes in business-to-business communication. Considering that this channel provides an effective, unambiguous communication method, we plan to use its potential to the maximum possible extent.

The Group will continue concentrating on securing the safe, reliable, and efficient operation of gas facilities. Another important area is increasing the effectiveness of leak detection using modern inspection technologies.

2.10 Subsequent events

On 18 April 2023 the Group concluded three additional fixed-to-fixed cross-currency swaps in total value of EUR 239.7 million (CZK 5,602 million) to eliminate its outstanding foreign exchange risk. As a result, the Group's exposure to potential currency fluctuations is almost fully eliminated.

On 24 May 2023, the Board of Managers approved an interim dividend distribution of CZK 2,406 millions to its sole shareholder.

As at the date of this Management Report, there have been no other reportable events liable to have a material impact on the assessment of the Group's business.

Czech Gas Networks Investments S.à r.l.

Consolidated Financial Statements

31 December 2022

20, Boulevard Royal

L-2449 Luxembourg

RCS Luxembourg: B 233444

Share capital: CZK 700,000



Audit report

To the Board of Managers of
Czech Gas Networks Investments S.à r.l.

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Czech Gas Networks Investments S.à r.l. (the "Company") and its subsidiaries (the "Group") as at 31 December 2022, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit and loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

Other information

The Board of Managers is responsible for the other information. The other information comprises the information stated in the annual report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Managers for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Managers is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers;



- conclude on the appropriateness of the Board of Managers' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;
- obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Restriction on distribution and use

This report, including the opinion, has been prepared for and only for the Board of Managers and the Shareholder in accordance with the terms of our engagement letter and is not suitable for any other purpose. We do not accept any responsibility to any other party to whom it may be distributed.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 26 May 2023

Emanuela Sardi

Consolidated Statement of Financial Position as at 31 December 2022

<i>In millions of CZK</i>	Note	31 December 2022	31 December 2021
ASSETS			
Non-current assets			
Property, plant and equipment	3.1	99,450	102,195
Right-of-use assets	3.3	3,151	3,046
Intangible assets	3.2	818	826
Derivative financial assets	3.12	4,962	4,622
Other non-current assets		1	1
Total non-current assets		108,382	110,690
Current assets			
Inventories		6	5
Trade and other receivables	3.5	585	616
Income tax prepayment		8	-
Other taxes receivable		1	-
Cash and cash equivalents	3.4	4,040	1,376
Derivative financial assets	3.12	2,888	795
Total current assets		7,528	2,792
TOTAL ASSETS		115,910	113,482
EQUITY			
Share capital	3.7	1	1
Share premium	3.7	26,173	27,219
Accumulated deficit		(9,382)	(6,667)
Total equity		16,792	20,553
LIABILITIES			
Non-current liabilities			
Borrowings	3.8	68,554	69,204
Lease liabilities	3.3	2,037	1,983
Deferred income tax liabilities	4.5	14,133	14,729
Provisions		56	52
Other non-current liabilities	3.9	320	339
Derivative financial liabilities	3.12	7,179	3,533
Total non-current liabilities		92,279	89,840
Current liabilities			
Borrowings	3.8	595	343
Lease liabilities	3.3	235	190
Trade and other payables	3.11	2,261	1,911
Contract liabilities	3.6	745	200
Current income tax payable		43	70
Other taxes payable	3.10	168	180
Provisions		77	168
Derivative financial liabilities	3.12	2,715	27
Total current liabilities		6,839	3,089
Total liabilities		99,118	92,929
TOTAL LIABILITIES AND EQUITY		115,910	113,482

Approved for issue and signed on behalf of Board of Managers on 24 May 2023.

William Price
Statutory Director

Rosa Villalobos
Manager

**Consolidated Statement of Profit or Loss and Other Comprehensive Income
for the year ended 31 December 2022**

<i>In millions of CZK</i>	Note	2022	2021
Revenue	4.1	13,981	15,069
Other income		106	102
Work performed by the Group and capitalised	3.1	465	456
Net impairment charge on financial assets	3.5	(24)	(3)
Raw materials and consumables used		(337)	(220)
Employee benefits expense	4.2.1	(2,085)	(2,152)
Depreciation and amortisation	3.1, 3.2, 3.3	(6,887)	(7,173)
Services	4.2.2	(2,666)	(2,373)
Other operating expenses	4.2.3	(263)	(695)
Operating profit		2,290	3,011
Finance income	4.4	1,361	3,486
Finance costs	4.3, 3.8	(6,260)	(1,725)
Profit / (Loss) before income tax		(2,609)	4,772
Income tax expense	4.5	(106)	(255)
Profit / (Loss) for the year		(2,715)	4,517
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		(2,715)	4,517

**Consolidated Statement of Changes in Equity
for the year ended 31 December 2022**

<i>In millions of CZK</i>	Note	Share capital	Share premium	Accumulated deficit	Total
Balance as at 1 January 2021		1	27,219	(3,388)	23,832
Profit for the year		-	-	4,517	4,517
Total comprehensive income for the year		-	-	4,517	4,517
Transactions with owners in their capacity as owners:					
Interim dividend paid	3.7	-	-	(7,796)	(7,796)
Balance as at 31 December 2021		1	27,219	(6,667)	20,553
Loss for the year		-	-	(2,715)	(2,715)
Total comprehensive loss for the year		-	-	(2,715)	(2,715)
Transactions with owners in their capacity as owners:					
Share premium redemption	3.7	-	(1,046)	-	(1,046)
Balance as at 31 December 2022		1	26,173	(9,382)	16,792

Consolidated Statement of Cash Flows for the year ended 31 December 2022

<i>In millions of CZK</i>	Note	2022	2021
Cash flows from operating activities			
Profit / (Loss) before income tax		(2,609)	4,772
Adjustments:			
Depreciation and impairment of property, plant and equipment	3.1	6,441	6,718
Amortisation and impairment of other intangible assets	3.2	234	244
Depreciation of right-of-use assets	3.3	212	211
Net impairment charge on financial assets	3.5	24	3
Net loss on disposals of property, plant and equipment	4.2.3	272	300
Interest income	4.4	(171)	(6)
Finance costs	4.3	2,133	1,458
Net (profit) / loss on trading derivatives	4.3, 4.4	4,126	(1,750)
Net foreign exchange gain on borrowings	3.8	(1,190)	(1,739)
Loss on loans extinguishment	3.8	-	267
Other non-cash items		-	11
Operating cash flows before working capital changes		9,472	10,489
Decrease in trade and other receivables		7	18
Increase in inventories		(1)	-
Increase/decrease in other non-current liabilities	3.9	(19)	47
Increase/decrease in contract liabilities, trade and other payables		502	(329)
Increase/decrease in provisions		(87)	105
Net change in other taxes receivables and payable	3.10	(12)	(87)
Income taxes paid		(737)	(1,031)
Interest income received		171	6
Interest paid	3.8	(1,871)	(1,493)
Payments for settlement of derivatives	3.12	(245)	(542)
Net cash from operating activities		7,180	7,183
Cash flows used in investing activities			
Purchases of property, plant and equipment and intangible assets		(3,784)	(4,531)
Proceeds from the sale of property, plant and equipment		34	11
Net cash used in investing activities		(3,750)	(4,520)
Cash flows used in financing activities			
Capital distributions to shareholders other than dividends	3.7	(1,046)	-
Principal elements of lease payments	3.8	(220)	(260)
Loans received from credit institutions	3.8	500	21,413
Loans repaid to credit institutions and shareholder	3.8	-	(42,032)
Bond issued	3.8	-	25,647
Dividends paid to the Company's shareholders	3.7	-	(7,796)
Net cash used in financing activities		(766)	(3,028)
Change in cash and cash equivalents		2,664	(365)
Cash and cash equivalents at the beginning of the year		1,376	1,741
Cash and cash equivalents at the end of the year		4,040	1,376

Notes to the Consolidated Financial Statements

1 General Information

1.1 Group and its Operations

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the EU for the year ended 31 December 2022 for Czech Gas Network Investments S.à r.l. (the “Company” or “CGNI”) and its subsidiaries (together the “Group”). CGNI controls the operating entities GasNet, s.r.o. and GasNet Služby, s.r.o. through the intermediate holding entity Czech Grid Holding a.s.

The entities Czech Grid Holding a.s., GasNet, s.r.o. and GasNet Služby, s.r.o. are together referred to as “GasNet Group”. There are no non-controlling interests within the Group.

The Company was incorporated on 22 March 2019 and is domiciled in the Grand Duchy of Luxembourg. The Company is organised under the laws of Luxembourg as a Société à Responsabilité Limitée for an unlimited period of time and was set up in accordance with the laws and regulations of Luxembourg. The Company’s registered office is located at 20, Boulevard Royal, L-2449 Luxembourg.

As at 31 December 2022 and 31 December 2021, the Company’s immediate parent company, with its ownership share and shareholder voting rights of 100%, was Czech Gas Network S.à r.l. (“CGN”), with registered office at 20, Boulevard Royal, L-2449 Luxembourg. The ultimate parent company of the Group is fund MEIF IV LP (Macquarie European Infrastructure Fund) registered in the Grand Duchy of Luxembourg.

The Group’s immediate parent was incorporated on 18 January 2019 and prepares its consolidated financial statements for the year ended 31 December 2022 according to International Financial Reporting Standards as adopted by the European Union.

On 30 September 2019, the Group acquired 100% shares in Czech Grid Holding a.s. and MEIF IV LP became the ultimate controlling party of the Group as at that date. Before that date, the GasNet Group was part of innogy Group.

Principal activity. The Group’s main business activity is operating a natural gas distribution system. The Group operates a distribution system serving an area, defined in its license, which is the largest in the Czech Republic in terms of the area covered by and the length of the operated gas pipelines. The distribution system operator’s key obligations include providing for the safe, reliable, and economical operation and the maintenance, replacement, and development of the distribution system in the delineated area, while gaining funds for these activities by selling distribution capacity. One of the main priorities of the Group is also environmental protection; a priority that is reflected in the majority of tasks, processes, and decisions.

The Group is carefully assessing the potential impact of climate change and the energy transition on its business in terms of risks to its markets and its physical assets and is adapting its business strategy accordingly. These events did not materially impact the management judgments and estimates used in preparing these consolidated financial statements.

Presentation currency. These consolidated financial statements are presented in millions of Czech koruna (“CZK”), unless stated otherwise.

Regulatory framework. The gas distribution activity of the Group is regulated by an independent regulatory body, Energy Regulatory Office (“ERO”), as stipulated by the Energy Act.

The ERO determines the overall level of allowed revenues (the Revenue Cap) and the subsequent calculating of tariffs for distribution services for individual customers. These distribution prices (tariffs) are published annually in a price decree issued by ERO.

The year 2022 was the second year of the fifth regulatory period.

The high price of natural gas resulted in a several-fold increase in the cost of covering gas losses in the distribution system for 2023. Therefore, at the end of 2022, a government decree decided on the so-called capping of gas prices to cover gas losses for distribution companies for the year 2023. The government determined the upper limit of this price in the amount of the price for gas losses in 2022 and established the conditions for the compensation of costs to gas suppliers for losses of the distribution companies. Due to this fact the Company expects to pay for gas losses incurred in 2023 similar unit price level.

1.2 Significant Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union (“EU”) under the historical cost convention modified by revaluation of financial assets and financial liabilities held at fair value through profit and loss. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented.

The preparation of consolidated financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires that management exercises its judgement in the process of applying the Group’s accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 1.3.

Consolidated financial statements. Subsidiaries are those investees that the Group controls because the Group (i) has power to direct the relevant activities of the investees that significantly affect their returns; (ii) has exposure, or rights, to variable returns from its involvement with the investees; and (iii) has the ability to use its power over the investees to affect the amount of the investor’s returns. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances, and unrealised gains on transactions between Group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all its subsidiaries use uniform accounting policies consistent with the Group’s policies.

Foreign currency translation. The functional currency of each of the Group’s consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries, and the Group’s presentation currency, is the national currency of the Czech Republic, Czech koruna (CZK).

Transactions and balances. Monetary assets and liabilities are translated into the functional currency (CZK) at the official exchange rate of the Czech National Bank (“CNB”) at the respective end of the reporting period. Foreign exchange gains and losses resulting from the settlement of the transactions and from the translation of monetary assets and liabilities into each entity’s functional currency at the official year-end exchange rates of the CNB are recognised in profit or loss as finance income or costs. Foreign exchange gains and losses that relate to borrowings and cash equivalents are presented in the statement of profit or loss within “finance income or costs”. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost.

Property, plant and equipment. Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition of the items. Property, plant and equipment include assets under construction for future use as property, plant and equipment.

Repairs and maintenance expenditures are expensed as incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalised and the replaced part is retired. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, items of property, plant and equipment are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). The carrying amount is reduced to the recoverable amount, and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs of disposal. Prior impairments of property, plant and equipment are reviewed for possible reversal at each reporting date as well.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss for the year.

Depreciation. Land is not depreciated. Depreciation on other items of property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives:

	Useful lives in years
Buildings	14 to 50
Gas network	40
Equipment	7 to 20
Furniture and fittings	3

The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at the end of each reporting period.

Intangible assets. The Group's intangible assets have definite useful lives and primarily include capitalised computer software and royalties. Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring it to use.

Intangible assets are amortised using the straight-line method over their useful lives:

	Useful lives in years
Software	3
Other	up to 6

Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use.

Financial instruments – key measurement terms. *Fair value ("FV")* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Amortised cost ("AC") is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any allowance for expected credit losses ("*ECL*"). Accrued interest includes the amortisation of transaction costs deferred at initial recognition and of any premium or discount to the maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupons and amortised discounts or premiums (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of the related items in the consolidated statement of the financial position.

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Financial instruments – initial recognition. Financial instruments at Fair Value Through Profit or Loss ("FVTPL") are initially recorded at fair value. All other financial instruments are initially recorded at fair value adjusted for transaction costs. Fair value at initial recognition is best evidenced by the transaction price. After the initial recognition, an ECL allowance is recognised for financial assets measured at AC and investments in debt instruments measured at Fair Value through Other Comprehensive Income ("FVOCI"), resulting in an immediate accounting loss.

Financial assets – classification and subsequent measurement – measurement categories. Financial assets are classified in the following measurement categories: FVTPL, FVOCI and AC. The classification and subsequent measurement of debt financial assets depends on (i) the Company's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset.

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Group manages its assets in order to generate cash flows – whether the Group's objective is (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows") or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither (i) nor (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL. The business model is determined for a group of assets (on a portfolio level) based on all relevant evidence about the activities that the Group undertakes to achieve the objective set out for the portfolio available at the date of the assessment.

Financial assets – classification and subsequent measurement – cash-flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Group assesses whether the cash flows represent solely payments of principal and interest ("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Group considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for credit risk, the time value of money, other basic lending risks, and profit margin.

The relevant category to the Group is financial assets at amortised cost. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and;
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC. The Group measures ECL and recognises Net impairment losses on financial assets at each reporting date. The measurement of ECL reflects (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money, and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions. Debt instruments measured at AC are presented in the financial statement of the financial position net of the allowance for ECL.

The Group applies a three-stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1. Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter (“12 months ECL”). If the Group identifies a significant increase in credit risk (“SICR”) since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any (“Lifetime ECL”). If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL.

For trade receivables, the Group applies a simplified approach when calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

Financial assets – write-off. Financial assets are written off, in whole or in part, when the Group has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Derivative financial instruments. Derivative financial instruments, including currency and interest-rate swaps are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of derivative instruments are included in profit or loss for the year. All the realised and unrealised results from trading derivatives are presented net in finance costs or finance income within profit or loss for the year. The Group does not apply hedge accounting.

Financial assets - derecognition. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire, or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less. Cash and cash equivalents are carried at amortised cost using the effective interest method because (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and are subsequently carried at amortised cost using the effective interest method.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred, and are subsequently carried at amortised cost using the effective interest method.

Capitalisation of borrowing costs. General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial amount of time to get ready for their intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The commencement date for capitalisation is when (a) the Group incurs expenditures for the qualifying asset, (b) it incurs borrowing costs, and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised. A qualifying asset is the one that needs more than 12 months to construct. The Group finances the acquisition of qualifying assets mainly from specific borrowings.

Capitalisation of operating expenses. The Group presents its operating expenses on a "gross" basis, before the deduction of any amounts capitalised in property, plant and equipment. The operating expenses capitalised within the reporting period are presented in the profit or loss line "Work performed by the Group and capitalised".

Leases. The lease term is the non-cancellable period for which the lessee has contracted to lease the asset together with any further terms for which the lessee has the option to continue to lease the asset, with or without further payment, when at the inception of the lease it is reasonably certain that the lessee will exercise the option.

Lease term of other lease contracts is either explicitly stated in the contract or the lease term is indefinite with termination options. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

The Group leases gas pipelines, buildings, administration buildings, land, subsurface rights and cars. Lease contracts for gas pipelines are usually of an indefinite lease term with a termination option. As the Group assesses that it will not exercise the termination option in the foreseeable future, it sets the lease term according to an analysis of the average residual useful life of the pipeline. Determining the lease term involves significant judgement, which is disclosed in Note 1.3.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present-value basis. Lease liabilities include the net present value of the following lease payments:

- (a) Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) Variable lease payment that are based on an index or a rate;
- (c) Amounts expected to be payable by the lessee under residual value guarantees;
- (d) The exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- (e) Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease where it is known (lease of cars). If that rate cannot be determined, the Group incremental borrowing rate is used.

Right-of-use assets are measured at cost comprising the following:

- (a) The amount of the initial measurement of lease liability,
- (b) Any lease payments made at or before the commencement date less any lease incentives received, and
- (c) Any initial direct costs and restoration costs.

Payments associated with short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss.

The Group does not have any arrangements with variable lease payments.

The Group does not provide residual value guarantees within leases.

Income taxes. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if the consolidated financial statements are authorised prior to filing the relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry-forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on the initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences reverse, or the tax loss carry forwards are utilised.

Deferred tax assets for deductible temporary differences are recorded only to the extent that it is probable that the temporary difference will reverse in the future, and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that management expects the temporary differences to reverse in the foreseeable future.

The Group recognises a deferred income tax asset or liability on the right-of-use asset and lease liability on a net basis.

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest, and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period. Adjustments for uncertain income tax positions, other than interest and fines, are recorded within the income tax charge. Adjustments for uncertain income tax positions in respect of interest and fines are recorded within finance expenses and other gains/(losses), net, respectively.

Value-added tax. Output value-added tax related to sales is payable to tax authorities on the earlier of (i) collection of receivables from customers or (ii) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. Tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial positions on a net basis and disclosed as a resulting asset and liability on each subsidiary level. Where a provision has been made for the ECL of receivables, the impairment loss is recorded for the gross amount of the debtor, including VAT.

Inventories. Inventories are recorded at the lower of cost and net realisable value. The cost of inventory is determined on the weighted average basis. The cost of finished goods and work-in-progress comprises raw material, direct labour, other direct costs, and related production overheads (based on the normal operating capacity) but excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Prepayments. Prepayments are carried at cost less the provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods, or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Share capital. Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of a consideration received over the par value of shares issued is recorded as share premium in equity.

Dividends. Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved. Any dividends declared after the reporting period and before the consolidated financial statements are authorised for issuance are disclosed in the subsequent events note. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to the need to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

Revenue. The Group provides natural gas distribution services within the Czech Republic, which represent the majority of the Group's revenue from contracts with customers.

The Group recognises revenues once it has fulfilled (as it fulfils) its performance obligation by transferring the promised goods or service to the customer. The service is transferred (being transferred) once the customer has gained (as it gains) benefits provided by the Group's performance.

In determining the transaction price, the Group considers the terms of the contracts and its standard business practice. The transaction price is the amount of consideration to which the Group is, in its view, entitled in exchange for transferring the promised goods or service to the customer, with the exception of amounts collected on behalf of third parties. The consideration promised in the contract with the customer may include fixed amounts, variable amounts, or both.

Each contract with a customer (usually a gas trader) includes the following contractual obligations:

- A promise to transfer natural gas to gas end-consumers; and
- A promise to connect the end customer to the distribution network, e.g., install the measuring equipment (gas meter). The gas meter remains in the ownership of the Group.

The distribution of gas and gas meter installations are not distinct because they do not provide a benefit to the customer individually (or together with other available resources that are readily available to the customer) – the installation of a gas meter is not beneficial to the customer if this service is not bundled with gas distribution. Therefore, the two activities represent a single performance obligation.

The transaction price, i.e., the fee for distributing gas, is determined in the contract with the customer (usually a gas trader) and is stated as a fixed amount for each performance obligation (per volume of distributed gas).

Revenues, i.e., the prices for natural gas distribution to partners in the Czech Republic, are regulated by ERO.

Revenue from gas distribution is satisfied over time and measured using the output method to assess progress towards complete satisfaction of the service, because the Group delivers the distribution services and the customer (gas trader) receives and consumes the benefits over the period defined in the contract (i.e., continuous supply contract to meet immediate demands).

Revenues from distribution services are divided into several categories.

Natural gas distribution to end-consumers for high-volume and middle-volume categories is billed to traders on a monthly basis based on measured consumption by end-consumers. Gas distribution to low-volume categories and households is billed to particular traders periodically when the consumption reading is performed at least once every 14 months for each end-consumer.

Revenues from low-volume and household categories consist of actually billed revenues and revenues from so-called "unbilled distribution". The amount of unbilled distribution is calculated from the total amount of distributed gas in the particular year based on the past behaviour of individual consumers and is measured based on the valid price resolution of ERO.

The normal credit term is 14 days upon delivery.

Disclosures relating to significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 1.3.

Trade receivables. A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to the accounting policies of financial assets in the section on Financial instruments – initial recognition and subsequent measurement

Contract liabilities. A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised. Contract liabilities are recognised as revenue when the Group performs under the contract.

Government grants. Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received, and the Group will comply with all attached conditions.

Government grants relating to the purchase of property, plant and equipment are included in Other non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. Government grants relating to costs are deferred and recognised in profit or loss for the year over the period necessary to match them with the costs for which they are intended to compensate.

Employee benefits. Wages, salaries, contributions to the Czech state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and other services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

The Czech state pension plan is a defined contribution plan. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

The Group provides its employees with a voluntary defined contribution scheme. Participating employees can contribute part of their salaries each month to a pension fund approved by CNB, with a contribution from the Group. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

Segment reporting. Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM), and for which discrete financial information is available. The CODM is the person or group of persons responsible for allocating resources to the operating segments of the Group and assessing its performance. Segments are reported in a manner consistent with the internal reporting provided to the Group's chief operating decision maker. Information related to segment, whose revenue, results, or assets are ten percent or more of all the segments, should be reported separately. Management assessed that the whole Group is one reportable segment.

The acquisition method – measurement period. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements the provisional amounts for the items for which the accounting is incomplete. During the measurement period, the acquirer shall retrospectively adjust the provisional amounts recognised at the acquisition date to reflect new information obtained about facts and circumstances that existed as at the acquisition date and, if known, would have affected the measurement of the amounts recognised as at that date. During the measurement period, the acquirer shall also recognise additional assets or liabilities if new information is obtained about facts and circumstances that existed as at the acquisition date and, if known, would have resulted in the recognition of those assets and liabilities as at that date. The measurement period ends as soon as the acquirer receives the information it was seeking regarding the facts and circumstances that existed as at the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date.

During the measurement period, the acquirer shall recognise adjustments to the provisional amounts as if the accounting for the business combination had been completed at the acquisition date. Thus, the acquirer shall revise comparative information for prior periods presented in the financial statements as needed, including making any change in depreciation, amortisation or other income effects recognised in completing the initial accounting.

Amendment of the consolidated financial statements after issuance. Any changes to these consolidated financial statements after issuance require the approval of the general meeting of shareholders who authorised these consolidated financial statements for issuance.

1.3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the consolidated financial statements and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant impact on the amounts recognised in the consolidated financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include the following:

Applying of IFRIC 12 Service Concession Arrangements or IAS 16 Property, plant and equipment to items of gas distribution infrastructure. Gas distribution licences are provided to the Group by the government for an indefinite period. The gas pipelines are fully owned by the Group, where the Group controls construction or maintenance. Decisions related to these pipelines are done at the Group level. The Group is not restricted in its practical ability to sell or pledge the infrastructure (gas pipeline). The Group is not obliged to hand over the pipeline at the end of service performance period to any of government institutions. It has full discretion to sell its infrastructure to a third party that would then operate it going forward (the process of disposal would be monitored by ERO though). The consideration for the infrastructure would be a result of negotiations between the two parties. In limited circumstances, the government, in accordance with Czech legislation, can entrust some parts of the Group's gas infrastructure from to other operators; however, any restriction of ownership title should only be performed in exchange for a consideration. The specific terms of the consideration/compensation should fairly reflect the potential losses suffered by the Group in such a situation. The Group doesn't have any restrictions regarding the operation of the infrastructure (that has to be in line with the legislative requirements, e.g., safety). Based on the facts and circumstances, there are no predefined conditions to hand over the infrastructure to any another party at the end of the period of the arrangement for little or no incremental consideration. The potential consideration in such cases (and such cases are rare) shall represent the fair value of the losses incurred by the Group. Therefore, based on the management's judgement, the IFRIC 12, Service Concession Arrangements, is not applicable to the gas distribution infrastructure and the infrastructure is accounted for in accordance with IAS 16, *Property, plant and equipment*.

Useful lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance program; and (c) the technical or commercial obsolescence arising from changes in market conditions.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the period ended 31 December 2022 would be to increase it by CZK 527 million or decrease it by CZK 829 million (as at 31 December 2021: increase it by CZK 801 million or decrease it by CZK 656 million).

Revenues

Identifying performance obligations. The contractual obligations of the Group are to:

- Distribute a certain amount of gas from the boundaries of the Czech Republic to gas end consumers; and
- To connect the gas end consumers to the distribution network e.g., install the measuring equipment (gas meter). The gas meter remains in the ownership of the Group.

The transport of gas and installation of gas meter are not distinct because they do not provide a benefit to the customer individually (or together with other available resources that are readily available to the customer) – the installation of a gas meter is not beneficial to the customer if these services are not bundled with gas distribution.

Determining the timing of satisfaction of gas distribution services. The Group concluded that revenue from gas distribution services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Group. The fact that another entity would not need to re-perform the distribution services that the Group has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Group's performance as it performs it.

The Group records revenue based on:

- Volume of gas distributed and measured (actually billed revenues); and
- Volume of gas distributed but not yet measured (unbilled distribution) – the volume is estimated based on the total volume of gas distributed in the particular year based on past behaviour of individual customers and is measured based on the valid price resolution of ERO and also includes the distribution of gas which was started but not yet completed.

The total volume of gas distributed is adjusted by gas losses in the distribution system, which are calculated as the four-year average of the last known difference between the volume of gas entering the system and the real billing to all customers in the same period.

Impairment analysis

The Group assesses whether the recoverable amount of non-current assets calculated as a fair value less costs to sell is higher than the carrying amount of these assets. These calculations use cash-flow projections based on financial budgets approved by management. Based on the triggers identified during the year 2022, the Group performed an impairment analysis that reveals that there is no need for an impairment to be reflected in the Group consolidated financial statements prepared as at 31 December 2022.

The recoverable amount was determined based on a valuation model that estimates fair value less cost to sell derived from discounted cash flow ("DCF"). It is based on long cash flow projection period till 2070 and terminal value beyond this year. The reason behind the long projection is that only a sufficiently long projected period can properly reflect the impact of capital expenditures (CAPEX) and related transformation to hydrogen distribution. It is assumed that hydrogen will be distributed within the same distribution system.

The DCF model

- reflects the regulatory rules in the 5th regulatory period ("5th RP") that came into force from 2021 until 2025;
- is based on financial and investment budgets approved by the management for the period till 2027;
- assumes pre-tax base, i.e. the estimated cash flows in the Model represent pre-tax amounts and were discounted using the pre-tax discount rate.

Assumptions used for this impairment test calculation to which the recoverable amount is most sensitive were the discount rate and the regulatory WACC (its value fixed by the legislation for the 5th regulatory period and estimated for the period beyond that).

Sensitivity analysis for break-even points was performed on the key assumptions with the following conclusion:

- change in the discount rate by +0.58% above the base case; and
- change in regulatory WACC by (0.95%) above the base case.

1.4 Adoption of New or Revised Standards and Interpretations

The following amendments became effective from 1 January 2022 and have been adopted by the Group but did not have any material impact on the Group.

Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 9 and IFRS 16 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

- The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

1.5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2023 or later, and which the Group has not early adopted.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).

The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument.

Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 1 on the classification of liabilities as current or non-current was issued in January 2020 with an original effective date of 1 January 2022. However, in response to the COVID-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. The Group is currently assessing the impact on its financial statements.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information doesn't need to be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

Unless otherwise described above, other new standards and interpretations are not expected to affect the Group's consolidated financial statements.

2 Entity-wide disclosures

The Group derived revenue from the customer innogy Energie, s.r.o. in the amount of CZK 5,183 million in the year ended 31 December 2022 (2021: CZK 5,471 million), which represented 37% of the Group's total revenue as at the year ended 31 December 2022 (2021: 37%). Revenue from the customer ČEZ Prodej a.s. exceeded 10% of the Group's total revenue in the year ended 31 December 2022 with an amount of CZK 1,672 million, which represented 12% of the Group's total revenue. Revenue from the other customers of the Group individually did not exceed 10% of the Group's total revenue in both 2022 and 2021.

The Group derives all the revenues and holds all the non-current assets in the Czech Republic.

3 Statement of Financial Position Items

3.1 Property, Plant and Equipment

Movements in the carrying amount of property, plant and equipment were as follows:

<i>In millions of CZK</i>	Freehold Land	Buildings	Gas Network	Equipment	Construction in progress	Total
Carrying amount as at 1 January 2021	220	2,504	97,644	4,176	706	105,250
Additions	2	109	2,771	629	462	3,973
Transfers	1	345	24	69	(439)	-
Disposals	(1)	(11)	(257)	(41)	-	(310)
Depreciation charge	-	(344)	(5,511)	(863)	-	(6,718)
Carrying amount as at 31 December 2021	222	2,603	94,671	3,970	729	102,195
Cost at as 31 December 2021	222	3,503	107,342	6,093	729	117,889
Accumulated depreciation	-	(900)	(12,671)	(2,123)	-	(15,694)
Carrying amount as at 31 December 2021	222	2,603	94,671	3,970	729	102,195
Additions	4	142	2,785	589	479	3,999
Transfers	2	34	356	59	(451)	-
Disposals	(2)	(9)	(249)	(42)	(1)	(303)
Depreciation charge	-	(266)	(5,372)	(803)	-	(6,441)
Carrying amount as at 31 December 2022	226	2,504	92,191	3,773	756	99,450
Cost at as 31 December 2022	226	3,668	110,175	6,630	756	121,455
Accumulated depreciation	-	(1,164)	(17,984)	(2,857)	-	(22,005)
Carrying amount as at 31 December 2022	226	2,504	92,191	3,773	756	99,450

Construction in progress comprises mainly construction of the gas network. Upon completion, assets are transferred to use. Borrowing costs were capitalised to construction in progress in the year ended 31 December 2022 in the amount of CZK 48 million (2021: CZK 11 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 7.92% in the year ended 31 December 2022 (2021: 1.95%). No assets are pledged.

The Group capitalised its own constructed fixed assets (mainly gas network) of CZK 465 million in the year ended 31 December 2022 (2021: CZK 456 million).

Contractual commitments for purchases of fixed assets are disclosed in the Note 6.1.

3.2 Intangible Assets

Movements in the carrying amount of intangible assets were as follows:

<i>In millions of CZK</i>	Acquired software	Acquired software under development	Other	Total
Carrying amount as at 1 January 2021	525	175	43	743
Additions	326	-	1	327
Transfers	129	(129)	-	-
Amortisation charge	(230)	-	(14)	(244)
Carrying amount as at 31 December 2021	750	46	30	826
Cost as at 31 December 2021	1,283	46	60	1,389
Accumulated amortisation	(533)	-	(30)	(563)
Carrying amount as at 31 December 2021	750	46	30	826
Additions	195	31	-	226
Transfers	43	(43)	-	-
Amortisation charge	(222)	-	(12)	(234)
Carrying amount as at 31 December 2022	766	34	18	818
Cost as at 31 December 2022	1,211	34	57	1,302
Accumulated amortisation	(445)	-	(39)	(484)
Carrying amount as at 31 December 2022	766	34	18	818

Additions to intangible assets in the year ended 31 December 2022 and 31 December 2021 related mainly to the assets acquired in the process of separating from the innogy Group after the year 2019 and establishing an independent IT environment.

3.3 Leases

i) Amounts recognised in the balance sheet:

The movement in right-of-use assets is presented below:

<i>In millions of CZK</i>	Gas Network	Subsurface rights	Buildings	Motor vehicles	Land	Other equipment	Total
Carrying amount as at 1 January 2021	992	909	250	28	27	-	2,206
Additions	127	76	36	13	95	-	347
Modifications	704	-	-	-	-	-	704
Depreciation charge	(86)	(29)	(73)	(16)	(7)	-	(211)
Carrying amount as at 31 December 2021	1,737	956	213	25	115	-	3,046
Carrying amount as at 1 January 2022	1,737	956	213	25	115	-	3,046
Additions	73	102	117	11	31	7	341
Modifications	(17)	-	(2)	-	(4)	-	(23)
Depreciation charge	(87)	(32)	(67)	(17)	(9)	(1)	(213)
Carrying amount as at 31 December 2022	1,706	1,026	261	19	133	6	3,151

The increase in the lease liabilities reflects the additions to the right-of-use assets (including subsurface rights), which amounted during the year ended 31 December 2022 CZK 341 million (2021: 1,051 million), of which subsurface rights related to gas network were in the amount of CZK 102 million (2021: CZK 76 million). The main part of increase during the year ended 31 December 2021 was caused by modification of lease contracts of CZK 704 million.

A significant part of the lease contracts for the gas distribution network is concluded mainly with municipalities for an indefinite lease period, and the lease payment is a subject to the regulation. On 1 January 2021, with the beginning of the fifth regulatory period, following the change in the regulation, the Group signed amendments to the existing lease contracts that resulted in an increase in the lease payments for certain lease contracts. The Group recognised a lease modification for such contracts and recognised the CZK 704 million increase in the right-of-use assets and CZK 704 million increase in lease liabilities.

Subsurface rights relate to contracts with a landowner with whom the Group obtains the right to place a pipeline in an underground space usually for an indefinite period in exchange for consideration. Such a contract specifies the exact location and dimensions (path, width, and depth) of the underground space within which the pipeline will be placed. The Group assessed that a contract contains a lease therefore IFRS 16 applies for subsurface rights. The useful life of these rights is determined based on the useful life of the pipeline laid down.

<i>In millions of CZK</i>	31 December 2022	31 December 2021
Lease liabilities		
Non-current	2,037	1,983
Current	235	190
Total lease liabilities	2,272	2,173

ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts related to leases:

<i>In millions of CZK</i>	2022	2021
Depreciation charge of right-of-use assets		
Buildings	67	73
Gas network	87	86
Subsurface rights	32	29
Motor vehicles	17	16
Land	9	7
Other equipment	1	-
Total depreciation charge	213	211
Interest expense (included in finance cost) – Note 4.3	78	37

Expenses related to short-term leases were presented as Other operating expenses (see Note 4.2.3). Expenses related to leases of low-value assets and expenses related to variable lease payments were insignificant in the years ended 31 December 2022 and 31 December 2021.

The total cash outflow for leases in 2022 was CZK 365 million (2021: CZK 365 million). Out of that, the amount CZK 102 million (2021: CZK 78 million) was paid in advance for the whole length of the contract.

Significant judgements in respect of determining the lease term and discount rates used for determining lease liabilities are disclosed in the Note 1.3.

Determining the lease term. In determining the lease term, management considers all facts and circumstances that create an economic incentive to not exercise a termination option as most of the lease contracts are for an indefinite period with a termination option.

Periods after termination options are only included in the lease term if it is reasonably certain that the lease will not to be terminated.

As the Group assesses that it will not exercise the termination option in the foreseeable future, it sets the lease term based on the expected period of asset use (usually remaining useful economic life).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial year, there was no significant financial effect of revising lease terms to reflect the effect of exercising termination options.

A 10% increase or decrease in the lease term as at 31 December 2022 would result in an increase of CZK 146 million or, respectively, a decrease in the amount of CZK 161 million in lease liabilities (as at 31 December 2021: increase in the amount of CZK 145 million, decrease in the amount of CZK 155 million).

Discount rates used for determining lease liabilities. The Group uses its incremental borrowing rates as a base for calculating the discount rate when the interest rate implicit in the lease cannot be readily determined. As an incremental borrowing rate, the Group uses market interest rates for interest-rate swaps with a similar maturity, adjusted by the respective credit margin. Such an approach based on the management view, reflected the best estimate of the incremental borrowing rates as at the date of initial application of the standard. The interest rates differ based on the length of the contract term (categories of contract terms). Such incremental borrowing rates are revised for new or modified contracts.

A 10% increase or decrease in the discount rate as at 31 December 2022 would result in a decrease of CZK 68 million or, respectively, an increase in the amount of CZK 72 million in lease liabilities (as at 31 December 2021 decrease in the amount of CZK 64 million, increase in the amount of CZK 68 million).

3.4 Cash and Cash Equivalents

<i>In millions of CZK</i>	31 December 2022	31 December 2021
Cash at bank	4,040	1,376
Total cash and cash equivalents	4,040	1,376

The credit quality of cash and cash equivalents balances based on Moody's ratings:

<i>In millions of CZK</i>	31 December 2022	31 December 2021
A1	2,974	1,376
A2	1,005	-
Aa3	61	-
Total cash and cash equivalents	4,040	1,376

There was no expected credit loss allowance recognised in respect of cash and cash equivalent as at 31 December 2022 and 2021, as the expected loss was assessed as insignificant.

No cash at bank was pledged as at 31 December 2022 and 2021.

3.5 Trade and Other Receivables

<i>In millions of CZK</i>	31 December 2022	31 December 2021
Trade receivables gross amount	520	563
Other financial receivables	10	6
Less credit loss allowance	(40)	(17)
Total financial assets within trade and other receivables	490	552
Prepayments	95	64
Total non-financial assets within trade and other receivables	95	64
Total trade and other receivables	585	616

The Group applies the IFRS 9 simplified approach to measure expected credit losses which uses a lifetime expected loss allowance for all financial trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2022 and 2021, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle receivables. The Group has identified the Czech GDP to be the most relevant factor and, accordingly, adjusts the historical loss rates based on expected changes in these factors.

The credit loss allowance for trade receivables is determined according to the provision matrix presented in the table below. The provision matrix is based on the number of days that an asset is past due, adjusted for forward-looking information on the GDP of the Czech Republic.

<i>In % of gross value</i>	31 December 2022		
	Loss rate	Gross carrying amount	Lifetime ECL
Trade receivables			
- current	0,16%	465	-
- less than 30 days overdue	1,00%	15	-
- 30 to 90 days overdue	64,00%	6	6
- 91 to 180 days overdue	75,00%	6	6
- 181 to 360 days overdue	88,00%	15	15
- over 360 days overdue	99,00%	13	13
Total trade receivables		520	40
Other financial receivables			
- current	0.5%	10	
Total financial assets within trade and other receivables		530	40
Total credit loss allowance		(40)	
Total financial assets within trade and other receivables (net carrying amount)		490	

<i>In % of gross value</i>	31 December 2021		
	Loss rate	Gross carrying amount	Lifetime ECL
Trade receivables			
- current	0.07%	507	-
- less than 30 days overdue	1.00%	37	-
- 30 to 90 days overdue	40.00%	4	2
- 91 to 180 days overdue	79.00%	3	3
- 181 to 360 days overdue	87.00%	5	5
- over 360 days overdue	99.00%	7	7
Total trade receivables		563	17
Other financial receivables			
- current	0.5%	6	-
Total financial assets within trade and other receivables		569	17
Total credit loss allowance		(17)	
Total financial assets within trade and other receivables (net carrying amount)		552	

The trade receivables gross carrying amount included to the line “gross amount over 360 days overdue” as at 31 December 2022 and 2021 comprised mainly trade receivables that were more than three years overdue as at 31 December 2022 and 2021.

3.6 Contract Balances

The Group has recognised the following balances arising from contracts with customers:

<i>In millions of CZK</i>	31 December 2022	31 December 2021
Trade receivables	481	546
Trade receivables consist of the Trade receivables gross amount less credit loss allowance (see Note 3.5).		
<i>In millions of CZK</i>	31 December 2022	31 December 2021
Contract liabilities – advances from customers for gas distribution (third parties)	745	200
Total current contract liabilities	745	200

As at 31 December 2022, total contract liabilities increased by CZK 545 million compared to the balance as at 31 December 2021. The main cause was the energy crisis in 4Q 2021 and the bankruptcy of gas traders (mainly Bohemia Energy) that caused a significant amount of advances returned back to Bohemia Energy in comparison to new advances received from other customers of the Group.

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

<i>In millions of CZK</i>	2022	2021
<i>Revenue recognised that was included in the contract liability balance at the beginning of the period:</i>		
Gas distribution (third parties)	200	571
Services	-	2
Total	200	573

The Group does not need to disclose information about its remaining performance obligations, as it has a right to a consideration from a customer in an amount that corresponds directly to the value to the customer of the entity's performance completed to date.

3.7 Share Capital

<i>In millions of CZK</i>	Share Capital	Share premium	Legal reserves
At 1 January 2021	1	27,219	0.07
At 31 December 2021	1	27,219	0.07
Share premium redemption	-	(1,046)	-
At 31 December 2022	1	26,173	0.07

Share capital was presented by subscribed capital, which consisted of 700,000 ordinary shares with a nominal value of CZK 1 each as at 31 December 2022 and 2021, all were fully paid. Each ordinary share carried one vote. They entitle the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held.

The movement in the share premium account during the year ended 31 December 2022 corresponded to a decrease of CZK 1,046 million paid in cash following to the decision taken by the Extraordinary General Meeting of the sole shareholder held on 23 December 2022.

The Company is obliged to allocate at least five per cent of the profits each year to the legal reserve until it reaches an amount equal to 10 per cent of the share capital. The legal reserve is not available for distribution to shareholders.

On 18 May 2021, the General Meeting decided on the interim dividend distribution of CZK 6,939 million and on 25 June 2021 on interim dividend distribution of CZK 857 million (CZK 11,138 per share in total). The interim dividend was recorded as a decrease in equity and was paid in 2021.

Shareholder structure	As at 31 December 2022		As at 31 December 2021	
	Number of shares (in thousands)	Share (%)	Number of shares (in thousands)	Share (%)
Czech Gas Network S.à r.l.	700	100	700	100
Total	700	100	700	100

The ultimate controlling party was Macquarie European Infrastructure Fund IV LP as at 31 December 2022 and 2021.

3.8 Borrowings

Borrowings comprise lease liabilities (disclosed in the Note 3.3), the loans received by the Group from its sole shareholder, borrowings from credit institutions and bonds issued, as follows:

<i>In millions of CZK</i>	31 December 2022	31 December 2021
Term loans		
- Non-current portion	68,554	69,204
- Current portion	595	343
Total borrowings	69,149	69,547

<i>In millions of CZK</i>	31 December 2022	31 December 2021
Non-current borrowings		
Bonds		
- EUR Tranche	38,377	39,537
- CZK Tranche	6,742	6,739
Bank borrowings		
- Multiple lenders	9,391	8,884
Loans from shareholder		
- Czech Gas Network S.à r.l.	14,044	14,044
Total non-current borrowings	68,554	69,204
Current borrowings – interest accrued		
- Loans from shareholder Czech Gas Network S.à r.l.	173	132
- Bonds	422	211
Total current borrowings	595	343
Total borrowings	69,149	69,547

Current borrowings as at 31 December 2022 amounted to CZK 595 million (31 December 2021: CZK 343 million) and consist of an accrued interest payable on the loan notes issued by the Group to its sole shareholder of CZK 173 million (as at 31 December 2021: CZK 132 million) and an accrued interest payable on the EUR Tranches and CZK Tranche of bonds of CZK 422 million (as at 31 December 2021: CZK 211 million).

Bank borrowings. Non-current bank borrowings consist of two tranches as at 31 December 2022 with the weighted average interest rate of 6.63 % p.a. (as at 31 December 2021: one tranche with weighted average interest rate of 1.34 % p.a.)

Non-current bank borrowings as at 31 December 2022 have maturity in 2028.

Nature	Lender	Maturity date	Interest rate	Currency	Carrying amount as at 31 December 2022
Facility A	Multiple lenders	20 May 2028	0.55% + PRIBOR 6m	CZK	8,891
CAPEX facility	Multiple lenders	20 May 2028	0.55% + PRIBOR 6m	CZK	500
Total					9,391

The interest rate of Facility A is composed of a margin of 0.55% and a floating rate (PRIBOR six months).

Non-current bank borrowings as at 31 December 2021 have maturities in 2028.

Nature	Lender	Maturity date	Interest rate	Currency	Carrying amount as at 31 December 2021
Facility A	Multiple lenders	20 May 2028	0.55% + PRIBOR 6m	CZK	8,884
Total					8,884

On 18 May 2021, the Group entered as Borrower into a new English law governed facilities agreement (the "new Facilities Agreement") between several banks as Arrangers and Komerční banka, a.s. as the agent for a total commitment of CZK 22,000 million allocated as follows: Facility A commitment of CZK 20,500 million; a new CAPEX facility commitment of CZK 1,000 million and a new revolving credit facility of CZK 500 million.

On 20 May 2021, following the new Facilities Agreement, the Group repaid the remaining nominal amount of Facility B in the amount of CZK 7,989 million, repaid in full the CAPEX facility of CZK 700 million, drawn nominal amount of Facility A commitment of CZK 20,500 million and on 21 May 2021 drawn a new CAPEX facility of CZK 1,000 million.

On 8 September 2021, following the issuance of Green Notes, the Group partially repaid Facility A in the amount of CZK 11,575 million and repaid in full the new CAPEX facility for CZK 1,000 million.

There was a loss on the extinguishment of bank borrowings of CZK 267 million as at 31 December 2021. No such item applies for 2022.

There is a possibility of drawing a CAPEX commitment in the amount of CZK 1,000 million (CZK 1,000 million in 2021) and a revolving credit facility in the amount of CZK 500 million (CZK 500 million in 2021), of which CZK 500 million were drawn on 28 April 2022 as CAPEX facility and is recorded as at 31 December 2022 in the same amount (as at 31 December 2021: CZK 0 million).

For information about the loan covenants, please refer to the Note 5.3.

Bonds issued. On 31 March 2021 and on 8 September 2021, respectively, the Group issued EUR notes (the "Eurobonds") and Green EUR notes (the "Green Notes") in the amount of EUR 500 million each. There were no additional conditions in respect of Green notes except that: the proceeds from the Green Bonds must be used for financing and refinancing of green eligible assets (which are mainly used for polyethylene pipes replacing the steel ones).

Details of the bonds issued were as follows:

Tranche	Issuer	Maturity date	Interest rate	31 December 2022	31 December 2021
EUR fixed interest rate bonds	CGNI	16 July 2027	1.00%	14,465	14,899
CZK floating interest rate bonds	CGNI	21 July 2026	1.0%+PRIBOR 6m	7,000	6,782
EUR bonds	CGNI	31 March 2031	0.875%	12,058	12,423
EUR Green Notes	CGNI	8 September 2029	0.450%	12,018	12,383
Total				45,541	46,487

As at 31 December 2022, non-current bond borrowings consisted of four tranches (as at 31 December 2021: four tranches) with the fixed interest rate for the EUR tranches at the effective interest rate of 0.85% (as at 31 December 2021: 1.75%) and the floating interest rate for the CZK tranche at 6.90% as at 31 December 2022 (as at 31 December 2021: 1.45%).

Loans from shareholders. Details of the loans from shareholder were as follows:

Tranche	Noteholder	Maturity date	Interest rate	31 December 2022	31 December 2021
Loan Notes B	CGN	30 September 2044	4.90%	14,217	14,176
Total				14,217	14,176

Loan Notes B received from the shareholder are at all times subordinated in right and priority of payment to all other existing and future liabilities and obligations of the Group.

In previous years, the Company entered into multiple derivative contracts with banks under which:

- A minimum of 90% of the notional amount of each borrowing effectively bears a fixed interest rate, either by a contractually fixed interest rate or by concluded derivative contracts following the maturity of the debt;
- For 85% of the notional amount of each borrowing, which is denominated in a currency other than CZK, a cross-currency swap is concluded for a term of at least 12 months.

Such derivatives do not meet the hedge accounting criteria, so they are classified as “held for trading” for accounting purposes and are accounted for at fair value through profit or loss. For more details, refer to Note 3.12.

Reconciliation of liabilities from financing activities. The table below sets out an analysis of liabilities from financing activities and the movements in the Group's liabilities from financing activities for each of the periods presented. The items of these liabilities are those that are reported as cash flows from investing or financing activities:

<i>In millions of CZK</i>	Note	Bank borrowings	Loans from Shareholder	Bonds	Lease liabilities	Total liabilities from financing activities
Liabilities from financing activities as at 1 January 2022		8,884	14,176	46,487	2,173	71,720
Non-cash movements:						
Interest expenses	4.3.	564	688	803	78	2,133
Interest capitalised	4.3., 3.1.	48	-	-	-	48
Foreign exchange difference		-	-	(1,190)	-	(1,190)
Increase of leases and lease modifications		-	-	-	319	319
Total non-cash movements		612	688	(387)	397	1,310
Cash movements:						
Drawing of borrowings		500	-	-	-	500
Interest paid (expensed and capitalised)		(605)	(647)	(559)	(78)	(1,889)
Cash outflows		-	-	-	(220)	(220)
Total cash movements		(105)	(647)	(559)	(298)	(1,609)
Liabilities from financing activities as at 31 December 2022		9,391	14,217	45,541	2,272	71,421

<i>In millions of CZK</i>	Note	Bank borrowings	Loans from Shareholder	Bonds	Lease liabilities	Total liabilities from financing activities
Liabilities from financing activities as at 1 January 2021		21,551	22,013	22,440	1,380	67,384
Non-cash movements:						
Interest expenses	4.3	205	840	387	37	1,469
Interest capitalised	4.3, 3.1	11	-	-	-	11
Foreign exchange difference		(6)	-	(1,733)	-	(1,739)
Loss on extinguishment		267	-	-	-	267
Increase of leases and lease modifications		-	-	-	1,053	1,053
Total non-cash movements		477	840	(1,346)	1,090	1,061
Cash movements:						
Issuance of bonds		-	-	25,647	-	25,647
Drawing of borrowings		21,413	-	-	-	21,413
Settlement of borrowings		(34,332)	(7,700)	-	-	(42,032)
Interest paid (expensed and capitalised)		(225)	(977)	(254)	(37)	(1,493)
Principal elements of lease payments		-	-	-	(260)	(260)
Total cash movements		(13,144)	(8,677)	25,393	(297)	3,275
Liabilities from financing activities as at 31 December 2021		8,884	14,176	46,487	2,173	71,720

Fair values of borrowings are disclosed in Note 5.4.

3.9 Other Non-current Liabilities

The balance of non-current liabilities comprises the following:

<i>in millions of CZK</i>	31 December 2022	31 December 2021
Financial liabilities:		
Non-current payable from gas network construction	80	81
Non-current payable from IT projects implementation	26	46
Total financial payables within other non-current liabilities	106	127
Non-financial liabilities:		
Deferred income from government grants	211	206
Other non-current liabilities	3	6
Total non-financial payables within other non-current liabilities	214	212
Total	320	339

The main part of government grants was provided in 1999 for the development of the gas network. The Group also received a government grant for construction of LNG stations in 2022 in the amount of CZK 14 million. Government grants were recognised as deferred income and are credited to profit or loss (Other income) on a straight-line basis over the expected useful lives of the related assets. The current part of government grants amounted to CZK 10 million as at 31 December 2022 (as at 31 December 2021: CZK 10 million) and was included in the Trade and Other payable. The respective income from government grants was recognised in the profit or loss line Other income and amounted to CZK 10 million in the year ended 31 December 2022 (2021: CZK 10 million).

3.10 Other Taxes Payable

<i>In millions of CZK</i>	31 December 2022	31 December 2021
Other taxes payable within one year comprise the following:		
Value-added tax	159	157
Personal income tax	9	23
Other taxes payable – current	168	180

3.11 Trade and Other Payables

<i>In millions of CZK</i>	31 December 2022	31 December 2021
Trade payables	1,491	1,100
Refundable deposits received	430	415
Other advances received	11	8
Other payables	6	5
Total financial payables within trade and other payables	1,938	1,528
Other payables	48	20
Liabilities to employees	263	308
Liabilities to social security and health insurance	12	55
Total non-financial payables within trade and other payables	323	383
Total trade and other payables	2,261	1,911

Refundable deposits received are cash deposits obtained from customers and serve as a guarantee for the Group. If the cooperation with customer is finished, they are returned in cash.

3.12 Derivative Financial Instruments

The Group entered into several derivative contracts under which:

- The interest rate risk of a minimum of 85% of the notional amount of all borrowings denominated in a currency other than CZK is mitigated through cross-currency swaps for a term of at least 12 months.
- A minimum of 90% of the notional amount of all borrowings effectively bears a fixed interest rate, either by a contractually fixed interest rate or by concluded derivative contracts following the maturity of the debt.

In May 2020, for the minimum of 90% of the notional amount of each loan facility and bond, the Group concluded forward-starting interest-rate swaps that come into effect since January 2021 onwards.

On 31 March 2021, the Group entered into a number of cross-currency swap agreements, all maturing on 31 March 2031, to mitigate the risk of the notional amount of EUR fixed interest rate notes issued on the same date for the total amount of EUR 448 million to cover the Group's position in EUR.

In July 2021, the Group entered into a number of forward starting interest rate swap agreements to mitigate the interest rate risk related to payments under the bank facilities and bonds all maturing after the period end. By entering into these interest rate swap agreements, the Group has increased the interest rate risk-free ratio back to 90%, as it dropped below targeted value in May 2021 in relation with drawing of new non-current bank borrowings (for more information, please, see Note 3.8).

In September 2021, the Group entered into a number of cross-currency swap agreements, all maturing on 8 September 2029, to mitigate the foreign exchange risk related to the notional amount of the Green Bond issued by the Group on 8 September 2021 with the notional amount of EUR 500 million, for the total amount of EUR 364 million (equivalent of CZK 9,239 million) to cover the Group's position in EUR.

As of 31 December 2021, the total notional amount of all cross currency swaps the Group has entered into equals EUR 1,360 million (equivalent of CZK 35,174 million). Maturities of these swaps range between 2026 and 2031.

As of 31 December 2022, the total notional amount of all interest rate swaps the Group has entered into equals CZK 70,002 million. Thereof CZK 48,502 million already mitigate the interest rate risk the Group faces as of 31 December 2022, whereas the rest of CZK 21,500 million belong to forward starting interest rate swaps with effective date 30 September 2024. Maturities of these interest rate swaps range between 2024 and 2031. As at 31 December 2021, the total notional amount of all interest rate swaps the Group had entered into equalled CZK 70,002 million with maturities ranging between 2024 and 2031, of which CZK 21,500 million has the effective date of settlements from 30 September 2024.

The fair value of cross-currency swap agreements (derivative liability) amounted to CZK 9,894 million as at 31 December 2022 (as at 31 December 2021: CZK 3,560 million).

The fair value of interest swap agreements (derivative asset) amounted to CZK 7,850 million (as at 31 December 2021: CZK 5,417 million).

<i>In millions of CZK</i>	31 December 2022	31 December 2021
Non-current assets		
Interest-rate swaps	4,962	4,622
Current assets		
Interest-rate swaps	2,888	795
Non-current liabilities		
Cross currency interest-rate swaps	(7,179)	- (3,533)
Current liabilities		
Cross currency interest-rate swaps	(2,715)	(27)
Total net fair value of derivative financial instruments	(2,044)	1,857

(i) Classification of derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. The derivatives are classified as "held for trading" for accounting purposes and are accounted for at fair value through profit and loss. The portions of financial assets and liabilities expected to be realised within 12 months of the balance sheet date, are presented as current assets and liabilities, the rest, where the realisation is expected after 12 months of the balance sheet date is classified as non-current.

Foreign exchange derivative financial instruments entered into by the Group are generally traded in an over-the-counter market with professional market counterparties on standardised contractual terms and conditions. Derivatives have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in market interest rates, foreign exchange rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time.

(ii) Fair value measurement

For information about the methods and assumptions used in determining the fair value of derivatives, refer to Note 5.4.

(iii) Amounts recognised in profit or loss

The following amounts were recognised in profit or loss in relation to derivatives:

<i>In millions of CZK</i>	2022	2021
Interest-rate swaps		
Fair value gain on interest-rate swaps	4,390	5,482
Cross currency interest-rate swaps		
Fair value loss on cross-currency interest-rate swaps	(8,516)	(3,732)
Net gain / (loss) on derivative financial instruments	(4,126)	1,750

The payments for realised derivatives amounted to CZK 225 million in the year ended 31 December 2022 (2021: CZK 542 million).

4 Profit or Loss Items

4.1 Analysis of Revenue by Category

Analysis of revenue by category is presented as follows:

<i>In millions of CZK</i>	2022	2021
Revenue from gas distribution	13,664	14,895
Revenues from rendering of other services	317	174
Total revenue (recognised over time)	13,981	15,069

As at 31 December 2022, the Group recognised 96% of total gas distribution revenue from wholesale traders of gas (as at 31 December 2021: 97%) and 4% from end consumers of gas distribution (as at 31 December 2021: 3%).

The Group disaggregated its revenue from gas distribution by the end-customer category, which are either direct customers of wholesale traders (mentioned above) or customers of the Group:

<i>In millions of CZK</i>	2022	2021
Revenues from gas distribution		
Large and medium sized consumers category	5,166	5,407
Small sized consumers category	2,044	2,225
Household category	6,454	7,263
Total revenue	13,664	14,895

Revenues from gas distribution and other services were recognised over time in the year ended 31 December 2022 and 2021. The disaggregation of revenue was disclosed as such in order to present the structure of the ultimate customers' portfolio, since each customer category has its own pricing, risks and other specifics.

4.2 Expenses

4.2.1 Employee benefits expense

<i>In millions of CZK</i>	2022	2021
Wages and salaries	1,514	1,567
Statutory pension contributions	345	314
Statutory health insurance and social security	131	160
Supplementary pension insurance	55	41
Other employee benefits	40	70
Total employee benefits expense	2,085	2,152

The following is the breakdown by professional categories as at 31 December 2022 and 2021:

<i>Number of employees</i>	2022	2021
Blue Collar	851	917
Other	1,435	1,484
Total number of employees	2,286	2,401

4.2.2 Services

<i>In millions of CZK</i>	2022	2021
Gas transportation	1,454	1,064
IT and network services	426	460
Gas network maintenance	264	296
Energy market operation fees	120	179
Other maintenance	92	38
Consultancy and other fees	90	99
Other services	81	105
Measurement of gas consumption	41	40
Travel expenses	41	32
Car fleet maintenance	29	30
Training expenses	17	16
Phone costs	11	14
Total services	2,666	2,373

4.2.3 Other operating expenses

<i>In millions of CZK</i>	2022	2021
Net loss on disposal of property, plant and equipment	293	302
Other items	(124)	112
Operating (losses compensation)/losses within gas transportation	(121)	99
Utilities	120	83
Lease expenses (low value and short-term leases)	69	68
Insurance expenses	14	17
Other taxes and charges	12	14
Total other operating expenses	263	695

4.2.4 Auditor's fees

<i>In millions of CZK</i>	2022	2021
Audit services	14	13
Other audit related services	-	10
Total auditor's fees	14	23

4.3 Finance Costs

<i>In millions of CZK</i>	2022	2021
Interest costs		
Interest expense on borrowings	2,103	1,432
Interest expense on the lease liability	78	37
Less capitalised finance costs	(48)	(11)
Net interest costs recognised in profit or loss	2,133	1,458
Other finance costs		
Loss on loans extinguishment	-	267
Net loss on trading derivatives	4,127	-
Total finance costs recognised in profit or loss	6,260	1,725

4.4 Finance income

<i>In millions of CZK</i>	2022	2021
Net exchange gain on foreign currency balances and transactions	1,190	1,730
Net gain on interest rate swaps and cross currency swaps	-	1,750
Interest income	171	6
Total finance income	1,361	3,486

4.5 Income Taxes

(a) Components of income tax expense

Income tax expense recorded in profit or loss comprises the following:

<i>In millions of CZK</i>	2022	2021
Current tax	702	979
Deferred tax	(596)	(724)
Income tax expense for the year	106	255

(b) Reconciliation between the tax expense and profit or loss multiplied by the applicable tax rate

The income tax rate applicable to the majority of the Group's 2022 and 2021 income is 19%.

The reconciliation between the expected and the actual taxation charge is provided below.

<i>In millions of CZK</i>	2022	Effective tax rate %	2021	Effective tax rate %
Income / (Loss) before tax	(2,609)		4,772	
Theoretical tax charge at statutory rate of 19%:	(496)	19	907	19
Tax effect of items which are not deductible or assessable for taxation purposes:				
- Income which is exempt from taxation	(226)	8,67	(662)	(16.39)
- Non-deductible expenses	828	(31,75)	10	2.73
Income tax expense for the year	106	(4,06)	255	5.34

Non-deductible expenses in the year ended 31 December 2022 were mainly related to finance costs (net loss on interest rate swaps and cross currency swaps), income which is exempt from taxation was mainly related to net exchange gain on EUR bonds. Income which is exempt from taxation in the year ended 31 December 2021 was mainly related to finance income (net exchange gain on foreign currency balances and transactions and interest rate swaps and cross currency swaps).

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

<i>In millions of CZK</i>	31 December 2020	Credited to profit or loss	31 December 2021
Tax effect of deductible / (taxable) temporary differences			
Difference between tax base and carrying value of Property, plant and equipment (different tax depreciation)	(15,519)	702	(14,817)
Provisions for liabilities and charges	51	31	82
Right of use assets and lease liabilities	15	(9)	6
Net deferred tax liability recognised	(15,453)	724	(14,729)
Total deferred tax asset	66	22	88
Total deferred tax liability	(15,519)	702	(14,817)
Net deferred tax liability recognised	(15,453)	724	(14,729)

<i>In millions of CZK</i>	31 December 2021	Credited to profit or loss	31 December 2022
Tax effect of deductible / (taxable) temporary differences			
Difference between tax base and carrying value of Property, plant and equipment (different tax depreciation)	(14,817)	657	(14,160)
Provisions for liabilities and charges	82	(12)	70
Right of use assets and lease liabilities	6	(49)	(43)
Net deferred tax liability recognised	(14,729)	596	(14,133)
Total deferred tax asset	88	(18)	70
Total deferred tax liability	(14,817)	614	(14,203)
Net deferred tax liability recognised	(14,729)	596	(14,133)

The current portion of net deferred tax liability mainly related to different tax depreciation of property, plant and equipment amounted to CZK 520 million as at 31 December 2022 (CZK 503 million as at 31 December 2021).

In the context of the Group's current structure, the tax losses and current tax assets of different Group companies may not be offset against the current tax liabilities and taxable profits of other Group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

5 Risk Management

5.1 Offsetting Financial Assets and Financial Liabilities

Financial assets and liabilities are offset, and the net amount is reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

There was no offsetting of financial assets and financial liabilities as at 31 December 2022 and 31 December 2021.

5.2 Financial Risk Management

The Board of Managers defines the objectives, principles, tasks, and competencies to manage financial, operational and legal risks. All risk management is described in the respective directives that all companies in the Group must adhere to. Financial risk comprises market risk (including interest-rate risk and foreign currency exchange risk), credit risk and liquidity risk. The primary focus of financial risk management is to establish risk limits and to ensure that any exposures to risk stay within these limits. The operational and legal risk management functions are intended to ensure the proper functioning of internal policies and procedures in order to minimise operational and legal risks.

Credit risk. The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to meet its obligations.

Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets. The maximum credit risk exposure of financial assets (consisting of trade and other receivables, cash and cash equivalents and derivatives) amounted to CZK 12,380 million as at 31 December 2022 (as at 31 December 2021: CZK 7,362 million).

100% of Cash and cash equivalents balance is placed within 3 banks as at 31 December 2022 and 31 December 2021. Credit risk concentration in respect of trade and other receivables is not significant.

Credit risk management. Credit risk is one of the most significant risks for the Group's core distribution business. However, a major part of the Group's risk related to gas distribution services provided mostly to traders, gas suppliers and local distributors is managed by means of credit rules called "Conditions of Financial Eligibility" implemented in the Group's Network Code (that is a part of legal framework approved by ERO based on non-discriminatory rules). Moreover, the credit loss related to the P&L impact from bad debts is recognised by ERO and is fully reimbursed with a time lag as an eligible cost.

The Conditions of Financial Eligibility of the Group define individual counterparty Credit Limits for its counterparties differentiated based on the counterparty's ratings from external international rating agencies such as Standard & Poor's, Fitch and Moody's, or scorings from agencies like Crefoport or Creditreform. There are threshold ratings for minimum acceptable creditworthiness.

The evaluation of the Group's Credit Exposure (settlement exposure) from the distribution business is generally defined in the Conditions of Financial Eligibility. It is modelled and takes into account metering-type specific payment terms (such as prepayments) and legal terms and conditions for switching and early contract termination. The Credit Exposure is calculated automatically on a daily basis in monthly granularity for the period of the following 12 months based on the current status of the counterparty's customer portfolio and distribution capacity booking requests. The counterparty receives automated notifications from the Group's system in the event that the Credit Exposure exceeds the set Credit Limit.

A counterparty's is entitled to arrange an unsecured Credit Limit only if it fulfils threshold ratings for minimum acceptable creditworthiness as well as all the defined financial covenants ($\text{Debt} \leq 0.8 \times \text{equity}$; $\text{EBIT/Interest costs} \geq 2.7$; $3 \times \text{EBITDA} \geq \text{Debt}$). These financial covenants are calculated from the latest audited annual reports that have to be provided to the Group. If the rating/scoring is not sufficient and/or if the financial covenants are broken, then the Group's credit exposure has to be collateralised by means of the one (or a combination) of the following risk mitigation tools: bank guarantee, cash deposit or parent company guarantee. There are also minimum rating requirements introduced for guarantee providers (for banks and parent companies). As at 31 December 2022 and 2021, there were no such significant guarantees or credit enhancements received by the Group.

Expected credit loss ("ECL") measurement. Measurement of ECLs is an accounting estimate that involves the determination methodology, models, and data inputs. The following components have a major impact on credit loss allowance: definition of default, significant increase in credit risk ("SICR"), probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"). The Group regularly reviews and validates the models and inputs to the models to reduce any differences between ECL estimates and actual credit loss experience. In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined and explained below, and discounted to present value using the instrument's effective interest rate.

Probability of default ("PD"). Two types of PDs are used to calculate ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated PD occurring over the remaining life of the financial instrument and it is a sum of the 12-month PDs over the life of the instrument.

Exposure at default ("EAD") is an estimate of exposure at a future default date taking into account expected changes in the exposure after the reporting period, including repayments of principal and interest, and expected drawdowns on committed facilities.

Loss given default (“LGD”) is an estimate of a loss arising on a default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral. It is usually expressed as a percentage of the EAD. The expected losses are discounted to the present value at the end of the reporting period. The discount rate represents the effective interest rate (“EIR”) for the financial instrument or an approximation thereof.

The Group applies the IFRS 9 simplified approach to measure expected credit losses for Trade receivables, the description of the method is disclosed in Note 3.5.

Significant increase in credit risk (“SICR”). In order to determine whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. There is a presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

- For the purposes of measuring PD, the Group defines **default** as a situation when the exposure meets one or more of the following criteria:
 - (a) The borrower is significantly past due on its contractual payments;
 - (b) International rating agencies have classified the borrower in the default rating class;
 - (c) The borrower meets the unlikelihood-to-pay criteria listed below:
 - It is becoming likely that the borrower will enter bankruptcy;
 - The borrower is insolvent (indication of being insolvent is when contractual payments are more than 90 days past due).

Quantitative credit risk disclosures for Trade and other receivables and Cash and cash equivalents are presented in Note 3.5 and Note 3.4, respectively.

Market risk. The Group’s market risk is predominantly controlled by a central treasury department (Group’s treasury) under policies approved by the Board of Managers. The Group’s treasury identifies, evaluates, and manages financial risks in close co-operation with the Group’s operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest-rate risk. Market risks arise from open positions in interest-bearing assets and liabilities and from assets and liabilities denominated in currencies other than CZK which are exposed to market movements.

Foreign exchange rate risk. The Group is exposed to the currency risk stemming from the cash and cash equivalents, loans and bonds denominated in EUR.

Based on internal policies, for at least 85% of the notional amount of each facility, which is denominated in a currency other than CZK, cross-currency swaps are concluded for a term of at least 12 months. The Group does not operate internationally and only FX risk that the Group is exposed to is from financing facilities and negligible from operational matters.

In 2020, the Group restated the terms of existing cross-currency swap agreements for a total amount of EUR 548 million with respect to the notional amount of the EUR bond issued in July 2020 to cover the Group’s position in EUR.

During 2021, the Group entered into new cross-currency swap agreements with a total notional amount of EUR 812 million with respect to the notional amount of the EUR bonds the company issued in March and September 2021 to cover the Group’s position in EUR.

The fair value of cross-currency swap agreements (derivative liability) amounted to CZK 9,894 million as at 31 December 2022 (as at 31 December 2021: CZK 3,560 million).

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in CZK, was as follows:

<i>In millions of CZK</i>	31 December 2022 EUR	31 December 2021 EUR
Assets		
- Cash and cash equivalents	137	142
Liabilities		
- Borrowings	(38,541)	(39,706)
- Cross-currency swap agreements (notional amount)	35,174	35,174

As shown in the table above, the Group is primarily exposed to changes in CZK/EUR exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from EUR-denominated financial instruments.

<i>In millions of CZK</i>	Impact on post tax profit 2022	Impact on post tax profit 2021
EUR / CZK exchange rate - increase 10% (CZK depreciates)	(468)	(483)
EUR / CZK exchange rate - decrease 10% (CZK appreciates)	468	483

Interest-rate risk. The Group is exposed to the interest-rate risk which relates primarily to the Group's loan facilities and bonds with a floating interest rate. To mitigate the interest-rate risk, the Group took internal measures and for the minimum of 90% of the notional amount of all loan facility and bond concluded interest-rate swaps.

During 2021, the Group entered into new interest rate swap agreements with a total notional amount of CZK 8,551 million for the interest payments under the CZK term bank loans and under the CZK floating leg of existing cross-currency interest-rate swaps. In addition, the Group entered into forward starting interest rate swap agreements with a total notional amount of CZK 21,500 million to reflect the extended maturity of Group's debt.

The fair value of interest swap agreements (derivative asset) amounted to CZK 7,850 million as at 31 December 2022 (as at 31 December 2021: CZK 5,417 million).

All the Group's external long-term debt instruments have floating interest rates except for EUR interest rate bonds, while the shareholder loans have fixed interest rates and do not expose the Group to any interest-rate risk.

The table below summarises the Group's exposure to interest-rate risks. The table presents the aggregated amounts of the assets and liabilities subject to interest-rate risk at carrying amounts, categorised by the earlier of contractual interest repricing or maturity dates:

<i>In millions of CZK</i>	Note	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	More than 5 years	Total
31 December 2022							
Variable rate borrowings	3.8	-	-	-	(6,742)	(9,391)	(16,133)
Fixed rate borrowings – repricing or maturity dates	3.8	-	-	-	(14,398)	(38,023)	(52,421)
Net interest sensitivity gap as at 31 December 2022		-	-	-	(21,140)	(47,414)	(68,554)

<i>In millions of CZK</i>	Note	Demand and less than 1 month	From 1 to 6 months	From 6 to 12 months	From 12 months to 5 years	More than 5 years	Total
31 December 2021							
Variable rate borrowings	3.8	-	-	-	(6,739)	(8,884)	(15,623)
Fixed rate borrowings – repricing or maturity dates	3.8	-	-	-	-	(53,581)	(53,581)
Net interest sensitivity gap as at 31 December 2021		-	-	-	(6,739)	(62,465)	(69,204)

Swaps currently in place cover approximately 90% of the variable loan principal outstanding. The swap contracts require settlement of the net interest receivable or payable semi-annually. The settlement dates do not coincide exactly with the dates on which interest is payable on the underlying debt.

In general, the volatility of market interest rates can have a significant impact on profit, which can be positive or negative depending on the development. An increase in interest rates causes the Group's financing costs to rise. If the interest rates during 2022 were 50 basis points higher / lower for loans and bonds at floating interest with all other variables held constant, net profit for the year ended 31 December 2022 and equity as at 31 December 2022 would have been CZK 11 million lower / higher (2021: CZK 49 million lower / higher).

Range of actions, responsibilities and controls are set out in guidelines to which the Group is obliged to adhere when conducting financial transactions. The Group's financial transactions are recorded in the system, enabling them to be monitored. To mitigate interest-rate risk and liquidity risk, the maturity of the long-term debts is spread over several years, and in each year a new loan financing the development project is issued in each year.

Cash and cash equivalents comprising bank balances payable on demand bear a floating interest rate and are insignificant.

Liquidity risk. Liquidity risk consists of the potential shortage of funds needed for paying due obligations and for financing business activities. The Group manages its liquidity risk by securing sufficient funds to be able to meet its financial obligations within a period of no less than three months in accordance with the currently valid Cash-flow outlook.

To mitigate liquidity risk, the Group focuses on precise liquidity planning. Management drafts financial plans for individual years in the framework of regular forecasts. Subsequently, the planned cash flow is updated on a monthly basis for a 12-month period and, moreover, specified with greater accuracy through regular updates, if necessary.

The Group plans cash flows for a period of at least 12 months on a daily basis.

Financial planning mainly concentrates on planning revenues and expenses with respect to exact due dates (weekends and public holidays must be taken into account) with an emphasis on the conformity of planned reciprocal items between individual Group companies.

The table below shows liabilities as at 31 December 2022 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments.

When the amount payable is not fixed, the amount disclosed is determined by referencing the conditions existing at the end of the reporting period.

The maturity analysis of financial liabilities based on undiscounted cash flows as at 31 December 2022 is as follows:

<i>In millions of CZK</i>	Carrying amount	Future payments, including principal and interest	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years
Liabilities							
Trade and other payables	1,938	1,938	1,513	381	44	-	-
Bank borrowings	9,391	13,531	0	0	748	3,054	9,729
Bonds	45,541	49,656	293	106	478	24,134	24,645
Loans from shareholder	14,217	29,195	232	111	518	2,755	25,579
Lease liability	2,272	3,206	9	17	202	703	2,275
Other non-current liabilities	106	106				26	80
Total	73,465	97,632	2,047	615	1,990	30,672	62,308

The maturity analysis of financial liabilities based on undiscounted cash flows as at 31 December 2021 is as follows:

<i>In millions of CZK</i>	Carrying amount	Future payments, including principal and interest	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years
Liabilities							
Trade and other payables	1,528	1,528	981	515	32	-	-
Bank borrowings	8,884	11,387	-	-	469	1,530	9,388
Bonds	46,487	50,519	65	109	384	9,325	40,636
Loans from shareholder	14,176	29,841	-	302	518	2,755	26,266
Lease liability	2,173	2,982	8	15	188	799	1,972
Other non-current liabilities	127	127	-	-	-	46	81
Total	73,375	96,384	1,054	941	1,591	14,455	78,343

The tables below show the cash flow from derivatives as at 31 December 2022 and 2021. The inflow from gross settled cross-currency interest-rate swaps is expressed in CZK but settled in EUR. The cash flow from gross settled cross-currency interest-rate swaps is shown on a gross basis at fair market value and split into contractual maturities. The cash flow from net settled interest-rate swaps is shown on a net basis at fair market value and split into contractual maturities.

As at 31 December 2022:

<i>In millions of CZK</i>	Carrying amount	Total contractual cash flows	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years
Derivatives							
Gross settled cross-currency interest-rate swaps							
inflow	-	34,367	-	-	266	14,144	19,957
outflow	(9,894)	(53,834)	-	-	(2,981)	(25,367)	(25,486)
Net settled interest-rate swaps							
Net outflow	7,850	14,434	228	-	2,660	9,120	2,426
Total	(2,044)	(5,033)	228	-	(55)	(2,103)	(3,103)

As at 31 December 2021:

<i>In millions of CZK</i>	Carrying amount	Total contractual cash flows	Demand and less than 1 month	From 1 to 3 months	From 3 to 12 months	From 12 months to 5 years	Over 5 years
Derivatives							
Gross settled cross-currency interest-rate swaps							
inflow	-	35,773	-	-	274	3,825	31,674
outflow	(3,560)	(46,802)	-	-	(2,034)	(9,474)	(35,294)
Net settled interest-rate swaps							
Net outflow	5,417	6,040	-	-	1,447	3,948	645
Total	1,857	(4,989)	-	-	(313)	(1,701)	(2,975)

During 2021, the Company has refinanced its original acquisition term bank borrowings at the carrying amount of CZK 21,551 million as at 31 December 2020 (for details, refer to Note 3.8) by issuing bonds and arranging new term facilities with the longer maturity (over 7 years) in order to mitigate the cash-flow risk and spread the maturities over several years.

The Group had access to the following undrawn bank borrowing facilities at the end of the reporting period:

<i>In millions of CZK</i>	31 December 2022	31 December 2021
Revolving credit facility line	500	500
CAPEX facility line	500	1,000

The banks' CAPEX facility line and revolving credit facility line are committed credit lines and might be drawn at any time until 18 May 2028 from the portfolio of banks. At the reporting date, CZK 500 million out of the CAPEX facility has been drawn (CZK 0 million as of 31 December 2021) by the Group. There were no draw downs in the revolving credit facility as at 31 December 2022 and as at 31 December 2021.

5.3 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Group managed as at 31 December 2022 was CZK 16,792 million (2021: CZK 20,553 million) which corresponds to total equity as recognised in the balance sheet.

In maintaining or adjusting its capital structure, the Group targets a long-term capital structure compliant with an investment grade rating.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio reflects requirements of rating agencies Fitch and Standard and Poor, in order to comply with BBB+ rating objectives. More specifically, the Group's strategy was to maintain the most constraining rating metric called FFO net leverage, calculated as total borrowings less cash and cash equivalents divided altogether by FFO (Funds From Operations) below 6.7. As at 31 December 2022, the actual value of FFO net leverage was 6.20 (as at 31 December 2021: 6.18).

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 (Regulated Asset Base - the amount of the total non-current assets defined by the regulator) the Group shall repay its bank borrowings immediately. The Company was assigned the credit rating by S&P Global Ratings and Fitch Ratings corresponding to the investment grade as at 31 December 2022 and 31 December 2021.

5.4 Fair Value Disclosures

Fair value measurements are analysed by level in the fair value hierarchy, as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities; (ii) level two measurements are valuation techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and (iii) level three measurements are valuations not based on observable market data (that is, unobservable inputs). Management applies its judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

Financial assets and liabilities measured at fair value

The Fair value of the interest-rate swaps was determined as the present value of future cash flows based on the observable yield curve from the Bloomberg terminal as at 31 December 2022 and 31 December 2021. The cross-currency interest-rate swap was determined as the present value of future cash flows based on the forward exchange rates as at the balance sheet date and future cash flows were discounted by the observable yield curves from the Bloomberg terminal as at 31 December 2022 and 31 December 2021.

<i>Recurring fair value measurements in millions of CZK</i>	31 December 2022 Level 2 fair value	31 December 2021 Level 2 fair value
ASSETS		
Derivatives		
- interest-rate swaps	7,850	5,417
TOTAL ASSETS	7,850	5,417
LIABILITIES		
Derivatives		
- interest-rate swaps	-	-
- Cross currency interest swap	(9,894)	(3,560)
TOTAL LIABILITIES	(9,894)	(3,560)

The fair value of EUR fixed interest rate bonds issued (Note 3.8) amounts to CZK 29,409 million as at 31 December 2022 (as at 31 December 2021: CZK 39,920 million). EUR fixed interest rate bonds issued belong to level 1 of the fair value hierarchy, since they are quoted in an active market.

The loans from the shareholder were provided at market terms on 30 September 2019. As at 31 December 2022 the fair value of the loans from shareholder amounts to CZK 11,157 million (CZK 16,741 million as at 31 December 2021).

All other borrowings (bank borrowings, CZK floating interest rate bonds and loans from shareholder) belong to level 2 of the fair value hierarchy. As at 31 December 2022 and 2021, their fair values were not materially different from their carrying amounts.

The fair value of floating-rate instruments that are not quoted in an active market were estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. As inputs to the DCF model, the Group used intra-group credit margins and market interest rates for interest rates swaps ("IRS") with the similar duration to the duration of financial instruments held at AC. The discount rate was determined as a sum of the intra-group margin and IRS rate.

Carrying values of Trade and other receivables and Trade and other payables approximate to their fair values because of their short-term nature. The difference between fair value and carrying amount of Other non-current liabilities was insignificant.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

5.5 Presentation of Financial Instruments by Measurement Category

As at 31 December 2022 and 2021, all the Group's financial liabilities and financial assets presented in the Note 5.4 were carried at amortised cost except the derivatives, which were carried at fair value through profit or loss.

6 Other

6.1 Contingencies and Commitments

Tax contingencies. Czech tax legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. The Czech tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax noncompliant counterparties. Fiscal periods remain open for review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review were made. Under certain circumstances, reviews may cover longer periods.

Czech transfer pricing (TP) legislation is generally aligned with the international TP principles developed by the Organisation for Economic Cooperation and Development (OECD), although it has specific features. The TP legislation provides for the possibility of additional tax assessment for controlled transactions (transactions between related parties and certain transactions between unrelated parties) if such transactions are not on an arm's-length basis. Management has implemented internal controls to comply with current TP legislation.

Tax liabilities arising from controlled transactions are determined based on their actual transaction prices. It is possible, with the evolution of the interpretation of TP rules, that such prices could be challenged. The impact of any such challenge cannot be reliably estimated, but it may be significant to the financial position and / or the Group's operations.

The Group does not have any significant contingent liabilities as at 31 December 2022 and 2021.

Capital expenditure commitments. As at 31 December 2022, the Group had contractual capital expenditure commitments in respect of property, plant and equipment of CZK 2,624 million (2021: CZK 3,438 million).

Bank commitments. There were no pledges as at 31 December 2022 and 2021.

6.2 Balances and Transactions with Related Parties

Parties are generally considered to be related if the parties are under common control, or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related-party relationship, attention is directed to the substance of the relationship, not merely the legal form.

As at 31 December 2022 and 2021, the Group was owned by Czech Gas Networks S.à r.l. (CGN S.à r.l.). The ultimate controlling party was Macquarie European Infrastructure Fund IV as at 31 December 2022 and 2021.

The outstanding balances with related parties for the year ended 31 December 2022 and 2021 were as follows:

<i>In millions of CZK</i>	Note	Immediate parent company CGN S.à r.l. 31 December 2022	Immediate parent company CGN S.à r.l. 31 December 2021
Borrowings	3.8	14,217	14,176
Trade and other receivables		2	3

Loans from the shareholder were provided at market terms.

The expense items with related parties for the year ended 31 December 2022 and 2021 were as follows:

<i>In millions of CZK</i>	Note	Immediate parent company CGN S.à r.l. 31 December 2022	Immediate parent company CGN S.à r.l. 31 December 2021
Finance costs	3.8	688	840

Finance costs are related to borrowings that were provided at market terms at the date of the respective tranche.

Key management compensation. Key management compensation. Key management represents three Senior Executives of the subsidiaries, seven Non-executive Managers of the Group's Board of Managers and seven Non-executive Directors of Czech Grid Holding, a.s. as at 31 December 2022 (2021: four Senior Executives of the subsidiaries, six Non-executive Managers of the Group's Board of Managers and 7 Non-executive Directors of Czech Grid Holding, a.s.).

Non-executive directors are directors whose main responsibilities are outside of the Group, and only occasionally dedicate time to the Group's activities. Their remuneration was paid by entities outside of the Group and no payments were recharged to the Group from this title. Therefore, the Group does not have a basis to provide information about their compensation in relation to the Group.

The information regarding remuneration of the four Senior Executives in the year ended 31 December 2022 and 2021 is set out below:

<i>In millions of CZK</i>	2022			2021		
	Expense	Provisions	Trade and other payables	Expense	Provisions	Trade and other payables
<i>Short-term benefits:</i>						
- Salaries	16	-	-	19	-	-
- Short-term motivation program	11	-	10	12	-	15
- Social security costs	4	-	3	6	-	-
<i>Other long-term employee benefits:</i>						
- Long-term motivation program	-	31	-	24	31	-
Total key management compensation	31	31	13	61	31	15

Short-term bonuses fall due fully within twelve months after the end of the period in which management rendered the related services.

Besides the above-stated, the in-kind consideration in the form of using the cars leased by the Group amounted to CZK 1 million and presented as a depreciation of the right-of-use assets in the year ended 31 December 2022 (2021: CZK 3 million).

6.3 Principal Subsidiaries

The Group's principal subsidiaries as at 31 December 2022 and 31 December 2021 are set out below.

The country of registration is also their principal place of business.

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration	Method of consolidation
Czech Grid Holding, a.s.	Holding of participations in directly owned subsidiaries	100%	100%	Czech Republic	Full
GasNet Služby, s.r.o.	Construction activities, repairs, revisions of designated gas and electrical equipment.	100%	100%	Czech Republic	Full
GasNet, s.r.o.	Gas distribution	100%	100%	Czech Republic	Full

7 Events after the Reporting Period

On 18 April 2023 the Group concluded three additional fixed-to-fixed cross-currency swaps in total value of EUR 239.7 million (CZK 5,602 million) to eliminate its outstanding foreign exchange risk. As a result, the Group's exposure to potential currency fluctuations is almost fully eliminated.

On 24 May 2023, the Board of Managers approved an interim dividend distribution of CZK 2,406 millions to its sole shareholder.

No other events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2022.