Czech Gas Networks Investments S.à r.l.

Annual Report for the year ended 31 December 2021

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Czech Gas Networks Investments S.à r.l.

Consolidated Management Report

31 December 2021

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. (the “Group“).

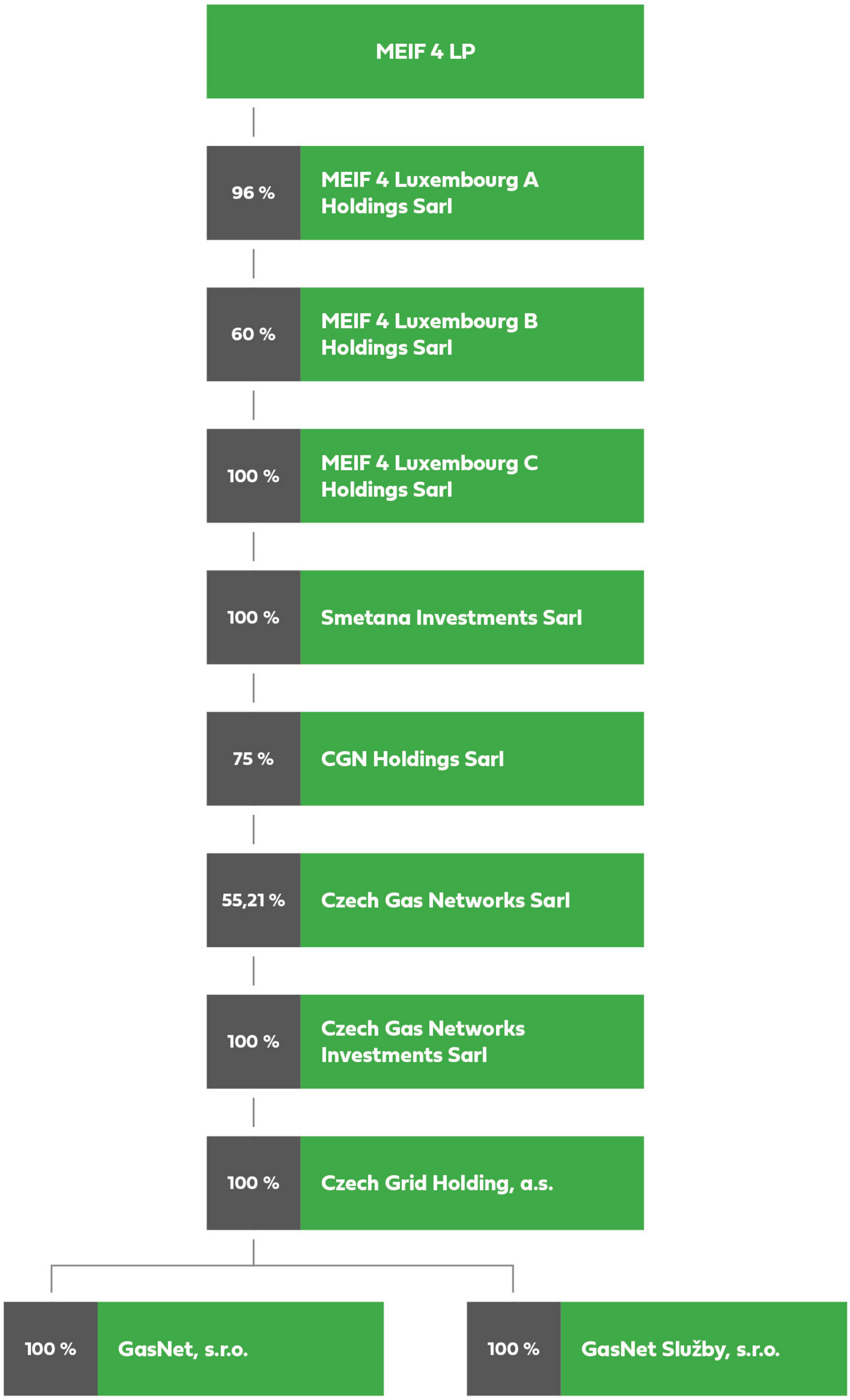
The Company was incorporated on 22 March 2019 and is domiciled in Grand Duchy of Luxembourg. The Company’s registered office is Grand Duchy of Luxembourg, 20, Boulevard Royal, L-2449 Luxembourg.

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

The 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, the 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 of 1 January and ends on 31 December.

The structure of CGNI Group for the period from 1 January to 31 December 2021 is the following:



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

- *Allianz Infrastructure Luxembourg II S.à r.l. with 18.5% share]*

2. Background and significant events in the year 2021

2.1 Key Group Ratios 2021

In millions of CZK	
Total sales revenue	15,069
EBITDA	10,184
Operating profit	3,011
Profit before income tax	4,772
Profit for the period	4,517
Investments	4,300
Number of employees (FTE)	2,425

2.2 Group Investments

Throughout the reported year, the Group executed investment projects worth in total CZK 4,300 million in accordance with the approved investment plan. Most of the funds was invested into distribution system renovation.

2.3 Distribution System

The distribution system is operated by GasNet, s.r.o., a company from the GasNet Group, based on Gas Distribution License No. 220604925 awarded on 1 January 2007 and updated under Annex 039 awarded by the Energy Regulatory Office on 11 November 2021 in accordance with Act No. 458/2000 Coll., on conditions and conduct of state administration in energy industries and on amendments to certain acts (Energy Act), as in effect.

Overview of Group Gas Assets		2021
Length of operated pipelines		
Local networks	km	42,767
Service lines	km	11,160
Long-distance lines	km	11,122
Transfer and very-high-pressure regulating stations	Units	55
High-pressure regulating stations	Units	2,750
Medium-pressure regulating stations	Units	761
Cadastral communities with distribution licence	Units	6,891

2.4 Business and Risk Management

Business

Due to the sharp rise in gas prices, 13 traders terminated their operations in the fourth quarter due to being unable to meet their commitments under contracts with customers. Their insolvency affected nearly 253,000 offtake points. From this number, the mechanism of switching to the supplier of last resort (SLR) was used for 241,000 offtake points. Most consumers forced to receive last resort supplies managed to negotiate a standard supply contract very rapidly, and only 35,000 offtake points remained subject to the SLR regimen at the end of 2021. The insolvency of the Bohemia Energy Group accounted for the highest number of the foregoing figures.

Thanks to the GasNet's rapid response and the termination of the Distribution System Services Agreement, no unpaid receivables were incurred. Nine other traders went voluntarily out of business in the course of the year. Despite the complicated situation on the gas market, 10 new traders were registered in 2021.

COVID-19

The existence of the novel coronavirus type causing the COVID-19 disease was confirmed in early 2020 and has spread globally. Even though the pandemic and especially the restrictive measures taken in order to mitigate the health impacts have caused disruptions to many businesses and economic activities for the year ended 31 December 2021, they have not significantly affected the Group’s operations and cash flows.

Risk management

Risks to which the Group is exposed are regularly assessed, and their level is actively managed using adequate risk control measures. Special attention is paid to selected risks in strategic areas, particularly the reliability of gas supply to consumers and the safety and security of employees, business partners, and information systems. In 2021, no significant risks in any area increased to a level that would in a significant way jeopardize the Group's operations.

The Board of Directives 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 the currency risk stemming from the loans and bonds denominated in other currency than CZK. 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.

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 each loan facility and bond concluded interest-rate swaps.

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, the 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 a greater accuracy through regular updates, if necessary. The Group plans cash flows for a period of at least 12 months on a daily basis.

2.5 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 period. Derivatives are only used for economic hedging purposes and not as speculative investments. The Group does not apply hedge accounting.

During 2021, the Group entered into a number of 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 3,560 million as at 31 December 2021.

Throughout the reported year, 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. The fair value of interest swap agreements (derivative asset) amounted to CZK 5,417 million as at 31 December 2021.

2.6 Human Resources

In 2021, employee headcount (FTE) in the Group was 2,2,425. Throughout the reported year, wages developed in accordance with the Group's business strategy and the remuneration rules and wage increase principles agreed in the current Collective Agreement. The Group fulfilled all of the obligations arising under the Collective Agreement in effect.

2.7 OHS and Environmental Protection

In 2021, the Group made occupational safety into part of its three key corporate values: "safety, reliability, respect". At the same time, priority was assigned to developing and improving performance in the area of OHS. The frequency of audits and inspections at construction sites increased, and the content of OHS checks was revised.

In the middle of the year, the Group's top management approved a plan for implementing the ISO 45001 occupational health and safety standard.

In accordance with the priorities of our strategy, efforts to minimize adverse impacts of our business on the environment and to promote sustainability are the cornerstone of our operations. As regards running the Group in accordance with environmental protection laws, 2021 was no exception.

Considering the European Union's goal to achieve carbon neutrality between now and 2050, we launched in the reported year Green GasNet, a program that integrates all environmental initiatives that respond to areas where our operations have the greatest environmental impact. That includes technical losses and natural gas leaks from our distribution system, the impact of which on climate change we consider to be the most important.

At the end of the year, we successfully obtained an ISO 50001 certificate, the international standard for energy management that allows us to reduce not only financial costs, but also emissions with a view to fulfilling the ambitious targets of the ESG strategy and the Green GasNet program.

The reported year saw the publication of the first ever Sustainability Report for 2020, which described the impact of our operations and related measures aimed at sustainable future. There was no serious incident with an adverse impact on the environment in 2021.

2.8 Outlook

The Group's activities will continue to focus on improving the security and reliability of natural gas supply to end consumers.

In relation to our customers, we want to continue providing high-quality services with an emphasis on simplicity, availability, and the maximum use of modern means of communication.

In the first half of 2022, work will begin on porting the current version of the DSO (Distribution system operator) Online Service to a new technology. Under a project titled Digital Experience Platform (DXP), all the Group's websites and portals will be standardized through the implementation of the Sitecore technology platform.

The Group adapts its operations to decarbonization processes in the energy supply sector and to efforts to increase the diversification of gas sources. Accordingly, preparations will have to be made in the upcoming period for increased demand for the connection of methane production facilities to the network. As regard the long-term outlook, the GasNet Group will secure the distribution of other renewable, low-carbon gases, including hydrogen.

2.9 Subsequent events

In late February 2022 ongoing political tension between Russia and Ukraine escalated in a conflict with a military invasion of Russian forces in Ukraine. The worldwide reaction to Russia's violation of international law and aggression against Ukraine was the imposition of extensive sanctions and limitations on business activity. We consider these acts as non-adjusting post balance sheet events. Overall effect of the recent development is increased volatility in the financial and commodity markets, as well as consequences on the economy in general. The Group considered the business risks comprising adverse effects of economic sanctions imposed on Russia, business interruptions (including supply chain), increased occurrences of cyber-attacks, legal and regulatory compliance risk and many others, and has assessed that their direct impact on the Group is not significant at this time.

The Group has assessed several scenarios concerning interruption of Russian natural gas supplies to the Czech Republic. Even in case of the worst scenario, i.e. complete interruption of gas supplies to the Czech market, there is no material going concern uncertainty.

Moreover, the Group has implemented preventive measures to reduce expenditures and has prepared a set of reactive measures, which would be applied in case of gas supply shortages.

To support the prudence principle and to reduce the liquidity risk, the shareholders of the Group have decided to withhold any upstream distribution from the Group until further notice, both in a form of dividend as well as of interest on shareholder loan.

Gas network operators are in close contact and keep monitoring the whole situation.In case natural gas supplies to the Czech Republic are disrupted all gas network operators are ready to act according to the valid legislation that clearly states concrete steps on how to proceed in such extraordinary situations.

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

Czech Gas Networks Investments S.à r.l.

Consolidated Financial Statements

31 December 2021

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 2021, 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 2021;
- the consolidated statement of profit and loss and other comprhensive 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.

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, the sole Shareholder and the Bonds holders 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, 27 June 2022

Electronically signed by:
Emanuela Sardi

Emanuela Sardi

Consolidated Statement of Financial Position as at 31 December 2021

In millions of CZK	Note	31 December 2021	31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	3.1	102,195	105,250
Right-of-use assets	3.3	3,046	2,206
Intangible assets	3.2	826	743
Derivative financial assets	3.12	4,622	307
Other non-current assets		1	1
Total non-current assets		**110,690**	**108,507**
Current assets			
Inventories		5	5
Trade and other receivables	3.5	616	575
Other taxes receivable		-	62
Cash and cash equivalents	3.4	1,376	1,741
Derivative financial assets	3.12	795	-
Total current assets		**2,792**	**2,383**
TOTAL ASSETS		**113,482**	**110,890**
EQUITY			
Share capital	3.7	1	1
Share premium	3.7	27,219	27,219
Accumulated deficit		(6,667)	(3,388)
Total equity		**20,553**	**23,832**
LIABILITIES			
Non-current liabilities			
Borrowings	3.8	69,204	65,620
Lease liabilities	3.3	1,983	1,215
Deferred income tax liabilities	4.5	14,729	15,453
Provisions		52	17
Other non-current liabilities	3.9	339	292
Derivative financial liabilities	3.12	3,533	742
Total non-current liabilities		**89,840**	**83,339**
Current liabilities			
Borrowings	3.8	343	384
Lease liabilities	3.3	190	165
Trade and other payables	3.11	1,911	2,110
Contract liabilities	3.6	200	573
Current income tax payable		70	122
Other taxes payable	3.10	180	267
Provisions		168	98
Derivative financial liabilities	3.12	27	-
Total current liabilities		**3,089**	**3,719**
Total liabilities		**92,929**	**87,058**
TOTAL LIABILITIES AND EQUITY		**113,482**	**110,890**

Approved for issue and signed on behalf of Board of Managers on 27 June 2022.

Charles Roemers Manager	Rosa Villalobos Manager

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2021

In millions of CZK	Note	2021	2020
Revenue	4.1	15,069	14,594
Other income		102	65
Work performed by the Group and capitalised	3.1	456	449
Net impairment charge on financial assets	3.5	(3)	-
Raw materials and consumables used		(220)	(202)
Employee benefits expense	4.2.1	(2,152)	(1,880)
Depreciation and amortisation	3.1, 3.2, 3.3	(7,173)	(7,700)
Services	4.2.2	(2,373)	(3,344)
Other operating expenses	4.2.3	(695)	(877)
Operating profit		**3,011**	**1,105**
Finance income	4.4	3,486	9
Finance costs	4.3, 3.8	(1,725)	(3,236)
Profit / (Loss) before income tax		**4,772**	**(2,122)**
Income tax expense	4.5	(255)	(12)
Profit / (Loss) for the year		**4,517**	**(2,134)**
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**4,517**	**(2,134)**

Rosa Villalobos
Manager

Charles Roemers
Manager

Consolidated Statement of Changes in Equity
for the year ended 31 December 2021

In millions of CZK	Note	Share capital	Share premium	Accumulated deficit	Total
Balance as at 1 January 2020		**1**	**27,856**	**(404)**	**27,453**
Loss for the year		-	-	(2,134)	**(2,134)**
Total comprehensive loss for the year		**-**	**-**	**(2,134)**	**(2,134)**
Transactions with owners in their capacity as owners:					
Share premium decrease	3.7	-	(637)	-	**(637)**
Interim dividend paid	3.7	-	-	(850)	**(850)**
Balance as at 31 December 2020		**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**

Rosa Villalobos
Manager

Charles Roemers
Manager

Consolidated Statement of Cash Flows for the year ended 31 December 2021

In millions of CZK	**Note**	**2021**	**2020**
Cash flows from operating activities			
Profit / (Loss) before income tax		4,772	(2,122)
Adjustments:			
Depreciation and impairment of property, plant and equipment	3.1	6,718	7,251
Amortisation and impairment of other intangible assets	3.2	244	271
Depreciation of right-of-use assets	3.3	211	178
Net impairment charge on financial assets	3.5	3	-
Net loss on disposals of property, plant and equipment	4.2.3	300	351
Finance costs	4.3	1,458	1,947
Net (profit) / loss on trading derivatives	4.3	(1,750)	454
Net foreign exchange (gain) / loss on borrowings	3.8	(1,739)	432
Loss on loans extinguishment	3.8	267	228
Other non-cash items		11	(10)
Operating cash flows before working capital changes		**10,495**	**8,980**
Decrease in trade and other receivables		18	86
Decrease in inventories		-	1
Increase in other non-current liabilities	3.9	47	51
Decrease in contract liabilities, trade and other payables		(329)	(66)
Increase in provisions		105	76
Net change in other taxes receivables and payable		(87)	15
Income taxes paid		(1,031)	(732)
Interest paid	3.8	(1,493)	(1,759)
Payments for settlement of derivatives	3.12	(542)	(492)
Net cash from operating activities		**7,183**	**6,160**
Cash flows used in investing activities			
Purchases of property, plant and equipment and intangible assets		(4,531)	(4,368)
Proceeds from the sale of property, plant and equipment		11	10
Net cash used in investing activities		**(4,520)**	**(4,358)**
Cash flows used in financing activities			
Capital distributions to shareholders other than dividends	3.7	-	(637)
Principal elements of lease payments	3.8	(260)	(237)
Loans received from credit institutions	3.8	21,413	700
Loans repaid to credit institutions and shareholder	3.8	(42,032)	(22,130)
Bond issued	3.8	25,647	22,167
Dividends paid to the Company´s shareholders	3.7	(7,796)	(850)
Net cash used in financing activities		**(3,028)**	**(987)**
Change in cash and cash equivalents		(365)	815
Cash and cash equivalents at the beginning of the year		**1,741**	**926**
Cash and cash equivalents at the end of the year		**1,376**	**1,741**

Rosa Villalobos
Manager

Charles Roemers
Manager

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 2021 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. (formerly GridServices, s.r.o., whose business name changed effective from 12 October 2020) through 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 a 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 the Grand Duchy of Luxembourg, 20, Boulevard Royal, L-2449 Luxembourg.

As at 31 December 2021 and 31 December 2020, 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"), registered office the Grand Duchy of Luxembourg, 20, Boulevard Royal, L-2449 Luxembourg. The ultimate parent company of the Group was 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 2021 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 Macquarie European Infrastructure Fund IV became the ultimate controlling party of the Group as at that date. Before that date, the GasNet Group was part of innogy Group.

On 25 February 2020, a Transitional Service Agreement ("TSA") was signed between the companies of the GasNet Group, innogy Česká republika a.s. and innogy Zákaznické služby, s.r.o. The purpose of the TSA was to provide a framework for the operational separation of the GasNet Group from the innogy group in the Czech Republic.

TSA has defined the transfer of software applications that were used and still are used and managed by innogy Česká republika a.s. for the whole innogy group in the Czech Republic. Moreover, 212 employees were transferred from innogy Česká republika a.s. in 2020, and further 27 customer support employees from innogy Zákaznické služby, s.r.o. were transferred to the GasNet, s.r.o. in 2021. The intangible assets were purchased by GasNet, s.r.o. and movable assets were purchased by the GasNet Group from innogy Česká republika a.s. During the year, more than 500 commercial contracts with relevance to the GasNet Group's activities were also split and negotiated on a bilateral basis with contractors. The Group assumed from innogy group document control system, financial management and risk management function, controlling function, bookkeeping, internal audit management, coordination of legal services and regulatory matters, IT function, security function, people protection, property and information, health and safety functions, internal and external communication, human resources management, comprehensive corporate, central purchasing and building management functions. Based on the framework defined in TSA, the buildings from innogy group were acquired at fair value, other fixed assets (software, equipment) were acquired at innogy group's net book value.

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, an effort reflected in 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 impact materially management judgments and estimates used in the preparations of these consolidated financial statements.

Presentation currency. These consolidated financial statements are presented in millions of Czech crowns ("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 regulation of the Group 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 decree issued by ERO.

The year 2021 was the first year of the 5th regulatory period, for which the final methodology parameters for price regulation were published on 9 June 2020. The main changes of this period compared to the rules of the 4th regulatory period are as follows: setting the trajectory of gradual adjustment of the regulated value of assets to the residual value of assets by 2025, new rules for determining allowed costs and setting a new value of WACC parameter for the whole period of 6.43%.

COVID-19. The existence of the novel coronavirus type causing the COVID-19 disease was confirmed in early 2020 and has spread globally. Even though the pandemic and especially the restrictive measures taken in order to mitigate the health impacts have caused disruptions to many businesses and economic activities for the year ended 31 December 2021, they have not significantly affected the Group's operations and cash flows.

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 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. 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 coupon and amortised discount or premium (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 Company manages its assets in order to generate cash flows – whether the Company'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 Company 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 Company 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 Company 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 Company assesses, on a forward-looking basis, the ECL for debt instruments measured at AC. The Company 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 Company 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 Company 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 Company 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 Company 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 Company may write off financial assets that are still subject to enforcement activity when the Company seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

Derivative financial instruments. *D*erivative 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 time to get ready for 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 carryforwards 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 position 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 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 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 section the 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 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 that 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 assesses 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, result 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 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. Licences for gas distribution 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 gas infrastructure from the Group 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 case. 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 other 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 2021 would be to increase it by CZK 801 million or decrease it by CZK 656 million (as at 31 December 2020: increase it by CZK 859 million or decrease it by CZK 703 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 gas meter installation 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.

1.4 Adoption of New or Revised Standards and Interpretations

The following amended standards or interpretations became effective from 1 January 2021, have been adopted by the Group but did not have any material impact on the Group.

COVID-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020). The amendments provided lessees (but not lessors) with relief in the form of an optional exemption from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as a variable lease payment. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met: the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; any reduction in lease payments affects only payments due on or before 30 June 2021; and there is no substantive change to other terms and conditions of the lease. If a lessee chooses to apply the practical expedient to a lease, it would apply the practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances. The amendment is to be applied retrospectively in accordance with IAS 8, but lessees are not required to restate prior period figures or to provide the disclosure under paragraph 28(f) of IAS 8.

Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021). The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

- *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform*: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

- *End date for Phase 1 relief for non-contractually specified risk components in hedging relationships:* The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

- *Additional temporary exceptions from applying specific hedge accounting requirements:* The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

- *Additional IFRS 7 disclosures related to IBOR reform:* The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform. These amendments do not have a material impact on the consolidated financial statements for the year ending 31 December 2021 as the Group has no LIBOR exposure. The Group uses EURIBOR and PRIBOR for certain existing contracts and expects that both will continue to exist as a benchmark for the foreseeable future.

1.5 New Accounting Pronouncements

Certain new and amended standards and interpretations have been published, that could be relevant to these consolidated financial statements, but are effective for annual periods beginning on or after 1 January 2022.

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, not yet endorsed by EU). 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. The amendment does not have material impact on the financial statements of the Group.

Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments, 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.

The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives. The Group is currently assessing the impact of the amendments on the financial statements.

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, not yet endorsed by EU). The amendment to IAS 1 on classification of liabilities as current or non-current was issued in January 2020 with an original effective date 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 amendment is not expected to have material impact on the financial statements of the Group.

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 need not 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. The Group is currently assessing the impact of the amendments on the 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. The Group is currently assessing the impact of the amendments on the financial statements.

Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022. The Group has asessed the amendments on the financial statements and the impact is not significant.

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, not yet endorsed by EU). 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. The Group is currently assessing the impact of the amendments on the financial statements.

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 5,471 million in the year ended 31 December 2021 (2020: CZK 5,272 million), which represented 37 % in the year ended 31 December 2021 (2020: 36 %) of the total Group's revenue. Revenue from the other customers of the Group individually did not exceed 10 % of the total Group's revenue in both 2021 and 2020.

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:

In millions of CZK	Freehold Land	Buildings	Gas Network	Equipment	Construc-tion in progress	Total
Carrying amount as at 1 January 2020	**124**	**2,475**	**100,815**	**4,473**	**713**	**108,600**
Additions	96	483	2,500	731	440	4,250
Transfers	-	17	354	76	(447)	-
Disposals	-	(24)	(262)	(63)	-	(349)
Depreciation charge	-	(447)	(5,763)	(1,041)	-	(7,251)
Carrying amount as at 31 December 2020	**220**	**2,504**	**97,644**	**4,176**	**706**	**105,250**
Cost at as 31 December 2020	220	3,064	104,937	5,473	706	114,400
Accumulated depreciation	-	(560)	(7,293)	(1,297)	-	(9,150)
Carrying amount as at 31 December 2020	**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**

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 2021 in the amount of CZK 11 million (2020: CZK 16 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 1.95% in the year ended 31 December 2021 (2020: 2.29%). No assets are pledged.

The Group capitalised its own constructed fixed assets (mainly gas network) of CZK 456 million in the year ended 31 December 2021 (2020: CZK 449 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:

In millions of CZK	Acquired software	Acquired software under development	Other	Total
Carrying amount as at 1 January 2020	**319**	**46**	**49**	**414**
Additions	425	166	9	600
Transfers	37	(37)	-	-
Amortisation charge	(256)	-	(15)	(271)
Carrying amount as at 31 December 2020	**525**	**175**	**43**	**743**
Cost as at 31 December 2020	833	175	60	1,068
Accumulated amortisation	(308)	-	(17)	**(325)**
Carrying amount as at 31 December 2020	**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 to intangible assets in the year ended 31 December 2021 and 31 December 2020 related mainly to the assets acquired in the process of separating from the innogy Group and establishing an independent IT environment (for more information on separation from innogy Group see Note 1.1).

3.3 Leases

i) Amounts recognised in the balance sheet:

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

In millions of CZK	Gas Network	Subsurfice rights	Buildings	Motor vehicles	Land	Total
Carrying amount as at 1 January 2020	**976**	**843**	**469**	**28**	**7**	**2,323**
Additions	59	93	-	18	23	193
Disposals	-	-	(132)	-	-	(132)
Depreciation charge	(43)	(27)	(87)	(18)	(3)	(178)
Carrying amount as at 31 December 2020	**992**	**909**	**250**	**28**	**27**	**2,206**
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**

Increase of the lease liabilities reflects the additions to the right-of-use assets (including subsurface rights), which amounted during the year ended 31 December 2021 CZK 1,051 million, thereof subsurface rights related to gas network CZK 76 million (2019: CZK 93 million). The main part of increase 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 5th 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 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.

The disposal of right-of use assets in the year ended 31 December 2020 amounted to CZK 132 million and the related disposals of lease liability amounted to CZK 127 million (Note 3.8). The respective disposals were caused by the early termination of lease contracts. Loss on disposal of lease liability and right-of-use asset in the amount of CZK 5 million was presented in other operating expenses.

Subsurface rights relate to contracts with a landowner 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 placed on the field.

In millions of CZK	31 December 2021	31 December 2020
Lease liabilities		
Non-current	1,983	1,215
Current	190	165
Total lease liabilities	**2,173**	**1,380**

ii) Amounts recognised in the statement of profit or loss

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

In millions of CZK	2021	2020
Depreciation charge of right-of-use assets		
Buildings	73	84
Gas network	86	46
Subsurface rights	29	27
Motor vehicles	16	18
Land	7	3
Total depreciation charge	**211**	**178**
Interest expense (included in finance cost) – Note 4.3	**37**	**47**

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 2021 and 31 December 2020.

The total cash outflow for leases in 2021 was CZK 365 million (2020: CZK 335 million). Out of that, the amount CZK 78 million (2020: CZK 93 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 2021 would result in an increase of CZK 145 million or, respectively, a decrease in the amount of CZK 155 million in lease liabilities (as at 31 December 2020: increase in the amount of CZK 93 million, decrease in the amount of CZK 98 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 2021 would result in a decrease of CZK 64 million or, respectively, an increase in the amount of CZK 68 million in lease liabilities (as at 31 December 2020 decrease in the amount of CZK 37 million, increase in the amount of CZK 39 million).

3.4 Cash and Cash Equivalents

In millions of CZK	**31 December 2021**	**31 December 2020**
Cash at bank	1,376	1,741
Total cash and cash equivalents	**1,376**	**1,741**

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

In millions of CZK	**31 December 2021**	**31 December 2020**
A1	1,376	1,416
Aa3	-	325
Total cash and cash equivalents	**1,376**	**1,741**

There was no expected credit loss allowance recognised in respect of cash and cash equivalent as at 31 December 2021 and 2020, as the expected loss was assessed as insignificant.

No cash at bank was pledged as at 31 December 2021 (as at 31 December 2020: CZK 325 million).

3.5 Trade and Other Receivables

In millions of CZK	**31 December 2021**	**31 December 2020**
Trade receivables gross amount	563	517
Other financial receivables	6	4
Less credit loss allowance	(17)	(10)
Total financial assets within trade and other receivables	**552**	**511**
Prepayments	64	64
Total non-financial assets within trade and other receivables	**64**	**64**
Total trade and other receivables	**616**	**575**

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 2021 and 2020, 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.

	31 December 2021		
In % of gross value	**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**	

	31 December 2020		
In % of gross value	**Loss rate**	**Gross carrying amount**	**Lifetime ECL**
Trade receivables			
- current	0.07%	463	-
- less than 30 days overdue	1.00%	42	-
- 30 to 90 days overdue	40.00%	3	1
- 91 to 180 days overdue	87.00%	2	2
- 181 to 360 days overdue	90.00%	4	4
- over 360 days overdue	99.00%	3	3
Total trade receivables		**517**	**10**
Other financial receivables			
- current	0.5%	4	-
Total financial assets within trade and other receivables		**521**	**10**
Total credit loss allowance		(10)	
Total financial assets within trade and other receivables (net carrying amount)		**511**	

The trade receivables gross carrying amount included to the line "gross amount over 360 days overdue" as at 31 December 2021 and 2020 comprised mainly trade receivables that were more than 3 years overdue as at 31 December 2021 and 2020.

3.6 Contract Balances

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

In millions of CZK	**31 December 2021**	**31 December 2020**
Trade receivables	546	507

Trade receivables consist of Trade receivables gross amount less credit loss allowance (see Note 3.5).

In millions of CZK	**31 December 2021**	**31 December 2020**
Contract liabilities – advances from customers for gas distribution (third parties)	200	571
Contract liabilities – advances from customers (services)	-	2
Total current contract liabilities	**200**	**573**

As at 31 December 2021, total contract liabilities decreased by CZK 373 million compared to the balance as at 31 December 2020. One of the main causes was the change of methodology of the normal temperature calculation performed by energy market regulator between years 2020 and 2021, which according to the contracts signed with the customers affects the amount of advance payments received by the Group. Due to the increase of the level of normal temperature, the advance payments decreased. Further effect on the decrease of contract liabilities had the energy crisis in 2021 and the bankruptcy of gas traders (mainly Bohemia Energy) that caused significant amount of advances returned back to Bohemia Energy in comparison to new advances received from other Group's customers.

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

In millions of CZK	2021	2020
Revenue recognised that was included in the contract liability balance at the beginning of the period:		
Gas distribution (third parties)	571	754
Gas distribution (related parties)	-	-
Services	2	2
Total	**573**	**756**

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

In millions of CZK	Share Capital	Share premium	Legal reserves
At 1 January 2020	**1**	**27,856**	**0.07**
Share premium redemption	-	(637)	-
At 31 December 2020	**1**	**27,219**	**0,07**
At 31 December 2021	**1**	**27,219**	**0,07**

In thousands	Number of outstanding shares
At 22 March 2019	**350**
Increase in number of shares	350
At 1 January 2020	**700**
At 31 December 2020	**700**
At 31 December 2021	**700**

Share capital was represented by 700,000 ordinary shares with a nominal value of CZK 1 each as at 31 December 2021 and 2020, all 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 share premium during the year ended 31 December 2020 corresponded to a decrease of CZK 637 million paid in cash following to the decision taken by the General Meeting of the sole shareholder held on 27 April 2020 (CZK 253 million) and 28 October 2020 (CZK 384 million).

The Company is obliged to allocate at least 5 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.

On 28 October 2020, the General Meeting decided on the interim dividend distribution of CZK 850 million (CZK 1,214 per share). The interim dividend was recorded as a decrease in equity and was paid in 2020.

	As at 31 December 2021		As at 31 December 2020	
Shareholder structure	**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 as at 31 December 2021 and 2020.

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:

In millions of CZK	**31 December 2021**	**31 December 2020**
Term loans		
- Non-current portion	69,204	65,620
- Current portion	343	384
Total borrowings	**69,547**	**66,004**

In millions of CZK	**31 December 2021**	**31 December 2020**
Non-current borrowings		
Bonds		
- EUR Tranche	39,537	15,546
- CZK Tranche	6,739	6,779
Bank borrowings		
- Multiple lenders	8,884	21,551
Loans from shareholder		
- Czech Gas Network S.à r.l.	14,044	21,744
Total non-current borrowings	**69,204**	**65,620**
Current borrowings – interest accrued		
- Loans from shareholder Czech Gas Network S.à r.l.	132	269
- Bonds	211	115
Total current borrowings	**343**	**384**
Total borrowings	**69,547**	**66,004**

Current borrowings as at 31 December 2021 amount to CZK 343 million (31 December 2020: CZK 384 million) and consist of accrued interest payable on the loan notes issued by the Group to its shareholder of CZK 132 million (as at 31 December 2020: CZK 269 million) and accrued interest payable on the EUR Tranches and CZK Tranche of bonds of CZK 211 million (as at 31 December 2020: CZK 115 million).

Bank borrowings. Non-current bank borrowings consist of 1 tranche as at 31 December 2021 with the interest rate of 1.34 % p.a. (as at 31 December 2020: 4 tranches with weighted average interest rate of 1,38 % p.a.)

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

Nature	Lender	Maturity date	Interest rate	Currency	Carrying amount as at 31 December 2021
Facility A	Multiple lenders	18 May 2028	0.55% + PRIBOR 6m	CZK	8,884
Total					**8,884**

The interest rate of Facility A is composed of a margin of 0.55% and a floating rate (PRIBOR 6 months).

Non-current bank borrowings as at 31 December 2020 have maturities ranging from 2024 to 2026.

Nature	Lender	Maturity date	Interest rate	Currency	Carrying amount as at 31 December 2020
Facility A1	Multiple lenders	30 September 2024	1.25% + EURIBOR 6m	EUR	1,299
Facility B	Multiple lenders	30 September 2024	0.9% + PRIBOR 6m	CZK	9,776
Facility C	Multiple lenders	30 September 2026	1.1% + PRIBOR 6m	CZK	9,776
Capex Facility	Multiple lenders	30 September 2024	0.9% + PRIBOR 6m	CZK	700
Total					**21,551**

On 31 March 2021, following the issuance of Eurobonds, the Group repaid Facility A1 in full in the amount of CZK 1,307 million, partially repaid Facility B in the amount of CZK 1,886 million and repaid Facility C in full in the amount of CZK 9,875 million.

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 Company 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.

Total loss on the extinguishment of bank borrowings amounted CZK 267 million and was recognised in finance cost in the year ended 31 December 2021.

There is a possibility of drawing a capex commitment in the amount of CZK 1,000 million (CZK 6,350 million in 2020) and a revolving credit facility in the amount of CZK 500 million (CZK 500 million in 2020), none of which were drawn as at 31 December 2021 (CZK 700 million as at 31 December 2020).

On 30 June 2020, the Company partially reimbursed in advance the Facility A1 in the amount of CZK 15,380 million (equivalent to EUR 594 million). On 22 July 2020, the Company fully reimbursed in advance the Facility A2 in an amount of CZK 6,750 million. Loss on the extinguishment of bank borrowings amounted CZK 228 million and was recognised in finance cost in the year ended 31 December 2020.

For the information about 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 the only one: 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 2021	31 December 2020
EUR fixed interest rate bonds	The Company	16 July 2027	1.00%	14,899	15,661
CZK floating interest rate bonds	The Company	22 July 2026	1.0%+PRIBOR 6m	6,782	6,779
EUR bonds	The Company	31 March 2031	0.875%	12,423	-
EUR Green Notes	The Company	8 September 2029	0.450%	12,383	-
Total				**46,487**	**22,440**

As at 31 December 2021 non-current bond borrowings consisted of 4 tranches (2020: 2 tranches) with the fixed interest rate for the EUR tranches at the effective interest rate of 1.75% (1.04% as at 31 December 2020) and the floating interest rate for the CZK tranche at 1.45% as at 31 December 2021 (1.36% as at 31 December 2020).

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

Tranche	Noteholder	Maturity date	Interest rate	31 December 2021	31 December 2020
Loan Notes A	CGN	30 September 2044	*4.90%*	-	7,795
Loan Notes B	CGN	30 September 2044	*4.90%*	14,176	14,218
Total				**14,176**	**22,013**

On 20 May 2021 Tranche Loan Notes A was fully repaid.

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:

In millions of CZK	**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**

In millions of CZK	Note	Bank borrowings	Loans from Shareholder	Bonds	Lease liabilities	Total liabilities from financing activities
Liabilities from financing activities as at 1 January 2020		**42,388**	**22,015**	**-**	**1,551**	**65,954**
Non-cash movements:						
Interest expenses	4.3	706	1,068	126	47	1,947
Interest capitalised	4.3, 3.1	16	-	-	-	16
Foreign exchange difference		285	-	147	-	432
Loss on extinguishment		228	-	-	-	228
Increase of lease		-	-	-	193	193
Termination of leases		-	-	-	(127)	(127)
Total non-cash movements		**1,235**	**1,068**	**273**	**113**	**2,689**
Cash movements:						
Issuance of bonds		-	-	22,167	-	22,167
Drawing of borrowings		700	-	-	-	700
Settlement of borrowings		(22,130)	-	-	-	(22,130)
Interest paid (expensed and capitalised)		(642)	(1,070)	-	(47)	(1,759)
Principal elements of lease payments		-	-	-	(237)	(237)
Total cash movements		**(22,072)**	**(1,070)**	**22,167**	**(284)**	**(1,259)**
Liabilities from financing activities as at 31 December 2020		**21,551**	**22,013**	**22,440**	**1,380**	**67,384**

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:

in millions of CZK	31 December 2021	31 December 2020
Financial liabilities:		
Non-current payable from gas network construction	81	67
Non-current payable from IT projects implementation	46	-
Total financial payables within other non-current liabilities	**127**	**67**
Non-financial liabilities:		
Deferred income from government grants	206	216
Other non-current liabilities	6	9
Total non-financial payables within other non-current liabilities	**212**	**225**
Total	**339**	**292**

Government grants were provided in 1999 for the development of the gas network. They 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 2021 (as at 31 December 2020: 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 2021 (2020: CZK 10 million).

3.10 Other Taxes Payable

In millions of CZK	31 December 2021	31 December 2020
Other taxes payable within one year comprise the following:		
Value-added tax	157	249
Personal income tax	23	18
Other taxes payable – current	**180**	**267**

3.11 Trade and Other Payables

In millions of CZK	31 December 2021	31 December 2020
Trade payables	1,100	1,323
Refundable deposits received	415	515
Other advances received	8	-
Other payables	5	5
Total financial payables within trade and other payables	**1,528**	**1,843**
Other payables	20	14
Liabilities to employees	308	206
Liabilities to social security and health insurance	55	47
Total non-financial payables within trade and other payables	**383**	**267**
Total trade and other payables	**1,911**	**2,110**

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.

As at 31 December 2021, liabilities to employees increased by CZK 102 million compared to the balance as at 31 December 2020 due to the increased number of employees, salary increase and a liability to employees of CZK 42 million due to accrual for bonuses made due to the fulfillment of lost time injury frequency (LTIF) target for year 2021.

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 month.
- 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 2020 the notional amount of all cross currency swaps the Group had entered into equalled EUR 548 million (equivalent of CZK 14,173 million) with maturities ranging between 2026 - 2027.

As of 31 December 2021, 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 2021, 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 of 31 December 2020 total notional amount of all interest rate swaps the Group had entered into equalled CZK 39,951 million with maturities ranging between 2024 and 2026, thereof CZK 6,750 million with effective date of settlements from 22 January 2021.

The fair value of cross-currency swap agreements (derivative liability) amounted to CZK 3,560 million as at 31 December 2021 (as at 31 December 2020: CZK 89 million).

The fair value of interest swap agreements (derivative asset) amounted to CZK 5,417 million (as at 31 December 2020: CZK 307 million), and the fair value of interest swap agreements (derivative liability) amounted to CZK 0 million as at 31 December 2021 (as at 31 December 2019: CZK 653 million).

In millions of CZK	**31 December 2021**	**31 December 2020**
Non-current assets		
Interest-rate swaps	4,622	307
Current assets		
Interest-rate swaps	795	-
Non-current liabilities		
Interest-rate swaps	-	(653)
Cross currency interest-rate swaps	(3,533)	(89)
Current liabilities		
Cross currency interest-rate swaps	(27)	-
Total net fair value of derivative financial instruments	**1,857**	**(435)**

(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:

In millions of CZK	**2021**	**2020**
Interest-rate swaps		
Fair value gain / (loss) on interest-rate swaps	5,482	(718)
Cross currency interest-rate swaps		
Fair value gain / (loss) on cross-currency interest-rate swaps	(3,732)	264
Net gain / (loss) on derivative financial instruments	**1,750**	**(454)**

The payments for realised derivatives amounted to CZK 542 million in the year ended 31 December 2021 (2020: CZK 492 million).

4 Profit or Loss Items

4.1 Analysis of Revenue by Category

Analysis of revenue by category is presented as follows:

In millions of CZK	2021	2020
Revenue from gas distribution	14,895	14,439
Revenues from rendering of other services	174	155
Total revenue (recognised over time)	**15,069**	**14,594**

As at 31 December 2021, the Group recognised 97% of total gas distribution revenue from wholesale traders of gas (as at 31 December 2020: 96%) and 3% from end consumers of gas distribution (as at 31 December 2020: 4%).

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:

In millions of CZK	2021	2020
Revenues from gas distribution		
Large and medium sized consumers category	5,407	5,354
Small sized consumers category	2,225	2,126
Households category	7,263	6,959
Total revenue	**14,895**	**14,439**

Revenues from gas distribution and other services were recognised over time in the year ended 31 December 2021 and 2020.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

In millions of CZK	2021	2020
Wages and salaries	1,567	1,380
Statutory pension contributions	314	272
Statutory health insurance and social security	160	138
Other employee benefits	70	51
Supplementary pension insurance	41	39
Total employee benefits expense	**2,152**	**1,880**

The following is the breakdown by professional categories as at 31 December 2021 and 2020:

Number of employees	2021	2020
Blue Collar	917	936
Other	1,484	1,435
Total number of employees	**2,401**	**2,371**

4.2.2 Services

In millions of CZK	2021	2020
Gas transportation	1,064	1,261
IT and network services	460	534
Gas network maintenance	336	365
Energy market operation fees	179	157
Other services	105	98
Consultancy and other fees	99	274
Other maintenance	38	-
Travel expenses	32	28
Car fleet maintenance	30	23
Training expenses	16	8
Phone costs	14	21
Shared service centre	-	514
Billing services	-	61
Total services	**2,373**	**3,344**

Shared service centre expenses comprise particular types of services, mainly the Call centre, Asset management, HR, Legal, Finance, Back-office, Procurement and other services. Before the transition to the innogy group in the Czech Republic those services were purchased from the innogy group and after the transition those activities are performed by internal employees.

4.2.3 Other operating expenses

In millions of CZK	2021	2020
Net loss on disposal of property, plant and equipment	302	351
Other items	112	16
Operating losses within gas transportation	99	346
Utilities	83	88
Lease expenses (low value and short-term leases)	68	51
Insurance expenses	17	12
Other taxes and charges	14	13
Total other operating expenses	**695**	**877**

4.2.4 Auditor’s fees

In millions of CZK	2021	2020
Audit services	13	10
Other audit related services	10	7
Total auditor’s fees	**23**	**17**

4.3 Finance Costs

In millions of CZK	**2021**	**2020**
Interest costs		
Interest expense on borrowings	1,432	1,916
Interest expense on the lease liability	37	47
Less capitalised finance costs	(11)	(16)
Net interest costs recognised in profit or loss	**1,458**	**1,947**
Other finance costs		
Foreign exchange losses	-	607
Loss on loans extinguishment	267	228
Net loss on trading derivatives	-	454
Total finance costs recognised in profit or loss	**1,725**	**3,236**

4.4 Finance income

In millions of CZK	**2021**	**2020**
Net exchange gain on foreign currency balances and transactions	1,730	-
Net gain on interest rate swaps and cross currency swaps	1,750	-
Interest income	6	-
Other finance income	-	9
Total finance income	**3,486**	**9**

4.5 Income Taxes

(a) Components of income tax expense

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

In millions of CZK	**2021**	**2020**
Current tax	979	870
Deferred tax	(724)	(858)
Income tax expense for the year	**255**	**12**

(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 2021 and 2020 income is 19%.

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

In millions of CZK	2021	Effective tax rate %	2020	Effective tax rate %
Income / (Loss) before tax	**4,772**		**(2,122)**	
Theoretical tax charge at statutory rate of 19%:	907	19	(403)	19
Tax effect of items which are not deductible or assessable for taxation purposes:				
- Income which is exempt from taxation	(662)	(16.39)	(16)	0.75
- Non-deductible expenses	10	2.73	431	(20.32)
Income tax expense for the year	**255**	**5.34**	**12**	**(0.57)**

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 net gain on interest rate swaps and cross currency swaps). Non-deductible expenses in the year ended 31 December 2020 were related to finance costs not deductible for tax purposes.

(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.

In millions of CZK	31 December 2019	Credited to profit or loss	31 December 2020
Tax effect of deductible / (taxable) temporary differences			
Difference between tax base and carrying value of Property, plant and equipment (different tax depreciation)	(16,317)	798	(15,519)
Provisions for liabilities and charges	28	23	51
Right of use assets and lease liabilities	(22)	37	15
Net deferred tax liability recognised	**(16,311)**	**858**	**(15,453)**
Total deferred tax asset	28	38	66
Total deferred tax liability	(16,339)	820	(15,519)
Net deferred tax liability recognised	**(16,311)**	**858**	**(15,453)**

In millions of CZK	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)**

The current portion of net deferred tax liability mainly related to different tax depreciation of property, plant and equipment amounted to CZK 503 million as at 31 December 2021 (CZK 631 million as at 31 December 2020).

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 2021 and 31 December 2020.

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 7,362 million as at 31 December 2021 (as at 31 December 2020: CZK 2,569 million).

100% of Cash and cash equivalents balance is placed within 3 banks as at 31 December 2021 and 31 December 2020. Credit risk concentration in rescpect 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, the 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). Furthermore, the Credit Limits are scaled down based on the counterparty's equity. 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.

If a counterparty's rating does not fall into the best rating range, there is a possibility to arrange an unsecured Credit Limit only if all the defined financial covenants are fulfilled (Debt ≤ 0.8 x equity; EBIT/Interest costs ≥ 2.7; 3 x EBITDA ≥ 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 quarantee providers (for banks and parent companies). As at 31 December 2021 and 2020 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, 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 unlikeliness-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 disclosure for Trade and other receivables it is presented in Note 3.5, for Cash and cash equivalents it is presented in Note 3.4.

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 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 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.

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.

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.

The fair value of cross-currency swap agreements (derivative liability) amounted to CZK 3,560 million as at 31 December 2021 (CZK 89 million as at 31 December 2020).

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

In millions of CZK	**31 December 2021 EUR**	**31 December 2020 EUR**
Assets		
- Cash and cash equivalents	142	290
Liabilities		
- Borrowings	(39,706)	(17,059)
- Cross-currency swap agreements (notional amount)	35,174	14,173

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.

In millions of CZK	**Impact on post tax profit 2021**	**Impact on post tax profit 2020**
EUR / CZK exchange rate - increase 10% (CZK depreciates)	(483)	(215)
EUR / CZK exchange rate - decrease 10% (CZK appreciates)	483	215

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 each 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.

In 2020, the Group restated the interest rate swap agreements for the interest payments under the CZK bonds and under the CZK floating leg of existing cross-currency interest-rate swaps.

The fair value of interest swap agreements (derivative asset) amounted to CZK 5,417 million as at 31 December 2021 (as at 31 December 2020: CZK 307 million) and the fair value of interest swap agreements (derivative liability) amounted to CZK 0 million as at 31 December 2021 (CZK 653 million as at 31 December 2020).

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:

In millions of CZK	**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)**

In millions of CZK	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 2020							
Variable rate borrowings	3.8	-	-	-	(11,775)	(16,513)	(28,288)
Fixed rate borrowings – repricing or maturity dates	3.8	-	-	-	-	(37,332)	(37,332)
Net interest sensitivity gap as at 31 December 2020		**-**	**-**	**-**	**(11,775)**	**(53,845)**	**(65,620)**

Swaps currently in place cover approximately 90% of the variable loan principal outstanding. The swap contracts require settlement of 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 2021 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 2021 and equity as at 31 December 2021 would have been CZK 49 million lower / higher (2020: CZK 9.5 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 floating interest and are insignificant.

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.

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 2021 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 2021 is as follows:

In millions of CZK	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 maturity analysis of financial liabilities based on undiscounted cash flows as at 31 December 2020 is as follows:

In millions of CZK	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	**1,843**	**1,843**	841	990	12	-	-
Bank borrowings	**21,551**	**23,881**	-	-	305	12,991	10,585
Bonds	**22,440**	**24,129**	49	-	192	1,020	22,868
Loans from shareholder	**22,013**	**47,683**	-	-	1 348	4,224	42,111
Lease liability	**1,380**	**1,899**	55	28	124	482	1,210
Other non-current liabilities	**67**	**-**	-	-	-	67	-
Total	**69,294**	**99,435**	**945**	**1,018**	**1,981**	**18,784**	**76,774**

The tables below show the cash flow from derivatives as at 31 December 2021 and 2020. The inflow from gross settled cross-currency interest-rate swaps is expressed in CZK but settled in EUR currency. 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 2021:

In millions of CZK	**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)**

As at 31 December 2020:

In millions of CZK	**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	-	15 737	-	-	252	1,023	14,462
outflow	(89)	(15,826)	-	-	(253)	(1,029)	(14,544)
Net settled interest-rate swaps							
Net outflow	(346)	(347)	-	-	(80)	(266)	(1)
Total	**(436)**	**(436)**	**-**	**-**	**(81)**	**(272)**	**(83)**

During 2021, the Company has refinanced 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:

In millions of CZK	**31 December 2021**	**31 December 2020**
Revolving credit facility line	500	500
Capex facility line	1,000	5,650

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, the capex facility was not drawn (CZK 700 million as of 31 December 2020) and nor the revolving credit facility (CZK 0 million as of 31 December 2020) .

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 2021 was CZK 20,553 million (2020: CZK 23,832 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's 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 2021, the actual value of FFO net leverage was 6.18 (as at 31 December 2020: 5.4).

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 2021 and 31 December 2020.

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 2021 and 31 December 2020.

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 2021 and 31 December 2020.

Recurring fair value measurements in millions of CZK	**31 December 2021 Level 2 fair value**	**31 December 2020 Level 2 fair value**
ASSETS		
Derivatives		
- interest-rate swaps	4,622	307
TOTAL ASSETS	**4,622**	**307**
LIABILITIES		
Derivatives		
- interest-rate swaps	-	(653)
- Cross currency interest swap	(3,560)	(89)
TOTAL LIABILITIES	**(3,560)**	**(742)**

The fair value of EUR fixed interest rate bonds issued (Note 3.8) amounts to CZK 39,920 million as at 31 December 2021 (as at 31 December 2020: CZK 16,447 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 2021 the fair value of the loans from shareholder amounts to CZK 16,741 million. As at 31 December 2020 their fair values were not materially different from their carrying amounts, as there was no significant fluctuation in the market long-interest rate between 30 September 2019 and 31 December 2020.

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 2021 and 2020, 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 andTrade 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 2021 and 2020, all the Group's financial liabilities and financial assets 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 2021 and 2020.

Capital expenditure commitments. As at 31 December 2021, the Group had contractual capital expenditure commitments in respect of property, plant and equipment of CZK 3,438 million (2020: CZK 2,651 million).

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

As at 31 December 2020, there were several collateral and other credit risk mitigation arrangements provided by the Company to Komerční Banka, a.s., as follows:

- The pledge agreement dated 27 September 2019 over 100% of the Company's shares and future distributions. The number of shares held in the Company was 700,000 and their total face value amounted to CZK 1 million (2020: 700,000 and the face value of CZK 1 million), for details refer to Note 3.7;
- All the future payments related to shareholder loans (Loan Note B) or distribution to the shareholder are subordinated to the repayment of principal and interest from bank borrowings (first ranking pledge);
- A first ranking pledge over the bank accounts of the Company (refer to Note 3.4).

Together with the repayments of bank borrowings (see note 3.8) the Group has withdrawn from those pledges.

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 2021 and 2020, 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 2021 and 2020.

The outstanding balances with related parties for the year ended 31 December 2021 and 2020 were as follows:

In millions of CZK	**Note**	**Immediate parent company CGN S.à r.l.** **31 December 2021**	**Immediate parent company CGN S.à r.l.** **31 December 2020**
Borrowings	3.8	14,176	22,013
Trade and other receivables		3	-

Loans from the shareholder were provided at market terms.

The expense items with related parties for the year ended 31 December 2021 and 2020 were as follows:

In millions of CZK	**Note**	**Immediate parent company CGN S.à r.l.** **31 December 2021**	**Immediate parent company CGN S.à r.l.** **31 December 2020**
Finance costs	3.8	840	1,068

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

Key management compensation. Key management represents 4 Senior Executives of the subsidiaries, 6 Non-executive Managers of the Group's Board of Managers and 7 Non-executive Directors of Czech Grid Holding, a.s. as at 31 December 2021 and 2020.

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 4 Senior Executives in the year ended 31 December 2021 and 2020 is set out below:

	2021			**2020**		
In millions of CZK	**Expense**	**Provisions**	**Trade and other payables**	**Expense**	**Provisions**	**Trade and other payables**
Short-term benefits:						
- Salaries	19	-	-	20	-	-
- Short-term motivation program	12	-	15	5	-	19
- Social security costs	6	-	-	4	-	-
Other long-term employee benefits:						
- Long-term motivation program	24	31	-	3	7	-
Total key management compensation	**61**	**31**	**15**	**32**	**7**	**19**

Short-term bonuses fall due wholly 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 3 million and presented as a depreciation of the right-of-use assets in the year ended 31 December 2021 (2020: CZK 3 million).

6.3 Principal Subsidiaries

The Group's principal subsidiaries as at 31 December 2021 and 31 December 2020 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

In late February 2022 ongoing political tension between Russia and Ukraine escalated in a conflict with a military invasion of Russian forces in Ukraine. The worldwide reaction to Russia's violation of international law and aggression against Ukraine was the imposition of extensive sanctions and limitations on business activity. We consider these acts as non-adjusting post balance sheet events. Overall effect of the recent development is increased volatility in the financial and commodity markets, as well as consequences on the economy in general. The Group considered the business risks comprising adverse effects of economic sanctions imposed on Russia, business interruptions (including supply chain), increased occurrences of cyber-attacks, legal and regulatory compliance risk and many others, and has assessed that their direct impact on the Group is not significant at this time.

The Group has assessed several scenarios concerning interruption of Russian natural gas supplies to the Czech Republic. Even in case of the worst scenario, i.e. complete interruption of gas supplies to the Czech market, there is no material going concern uncertainty.

Moreover, the Group has implemented preventive measures to reduce expenditures and has prepared a set of reactive measures, which would be applied in case of gas supply shortages.

To support the prudence principle and to reduce the liquidity risk, the shareholders of the Group have decided to withhold any upstream distribution from the Group until further notice, both in a form of dividend as well as of interest on shareholder loan.

Gas network operators are in close contact and keep monitoring the whole situation.In case natural gas supplies to the Czech Republic are disrupted all gas network operators are ready to act according to the valid legislation that clearly states concrete steps on how to proceed in such extraordinary situations.

No other events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2021.