Czech Grid Holding, a.s.
(formerly innogy Grid Holding, a.s.)

International Financial Reporting Standards
Consolidated Financial Statements and
Independent Auditor's Report

31 December 2018

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Independent auditor's report

to the shareholder of Czech Grid Holding, a.s.

Opinion

We have audited the accompanying consolidated financial statements of Czech Grid Holding, a.s. (formerly innogy Grid Holding, a.s.), with its registered office at Limuzská 3135/12, Praha 10 ("the Company") and its subsidiaries (together "the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the Consolidated Statement of Financial Position as at 31 December 2018 and 31 December 2017, Consolidated Statement of Profit or Loss and Other Comprehensive Income, Consolidated Statement of Changes in Equity and Consolidated Statement of Cash Flows for the years ended 31 December 2018 and 31 December 2017 and notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and 31 December 2017, of its consolidated financial performance and its consolidated cash flows for the years ended 31 December 2018 and 31 December 2017 in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Board of Directors and Supervisory Board of the Company for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as the Board of Directors 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 Directors 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 Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board of the Company is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives 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 auditor's 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 above stated requirements 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.

Independent auditor's report

As part of an audit in accordance with the above stated requirements, 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 controls.
- Obtain an understanding of internal controls 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 controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Directors' 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 auditor's 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 auditor's 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 notes, 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 or 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 the Board of Directors and Supervisory Board 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.

28 October 2019

PricewaterhouseCoopers Audit

represented by

Václav Prýmek

Soňa Hoblová
Statutory Auditor, Licence No. 2470

This report is addressed to the shareholder of Czech Grid Holding, a.s.

Consolidated Statement of Financial Position as at 31 December 2018

In millions of CZK	Note	31 December 2018	31 December 2017	1 January 2017
ASSETS				
Non-current assets				
Property, plant and equipment	3.1	45,339	44,114	42,526
Intangible assets	3.2	200	183	191
Other non-current assets		1	1	1
Total non-current assets		**45,540**	**44,298**	**42,718**
Current assets				
Inventories		24	23	23
Trade and other receivables	3.4	556	920	833
Loans issued	3.3	1,331	1,180	1,506
Cash and cash equivalents		5	7	2
Total current assets		**1,916**	**2,130**	**2,364**
TOTAL ASSETS		**47,456**	**46,428**	**45,082**
EQUITY				
Share capital	3.6	24,158	25,170	26,066
Other distributable reserves	3.6	82	82	789
Accumulated deficit		(5,216)	(6,885)	(9,307)
Total equity		**19,024**	**18,367**	**17,548**
LIABILITIES				
Non-current liabilities				
Borrowings	3.7	20,121	19,707	19,087
Deferred income tax liabilities	4.4	4,166	3,972	3,807
Provisions		28	58	15
Other non-current liabilities	3.8	255	272	289
Total non-current liabilities		**24,570**	**24,009**	**23,198**
Current liabilities				
Borrowings	3.7	890	888	886
Trade and other payables	3.10	1,783	1,984	2,272
Contract liabilities	3.5	642	384	460
Current income tax payable		72	355	347
Other taxes payable	3.9	411	391	347
Provisions		64	50	24
Total current liabilities		**3,862**	**4,052**	**4,336**
Total liabilities		**28,432**	**28,061**	**27,534**
TOTAL LIABILITIES AND EQUITY		**47,456**	**46,428**	**45,082**

Approved for issue and signed on behalf of Management Board on 28 October 2019.

Martin Gebauer
Chairman of the Board of Directors

Jiří Zrůst
Member of the Board of Directors

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

In millions of CZK	Note	2018	2017
Revenue	4.1	14,674	14,852

Other income		98	117
Capitalisation of internal costs	3.1	366	367
Net impairment reversals/(losses) on financial assets	3.4	(4)	2
Raw materials and consumables used	4.2.1	(176)	(170)
Employee benefits expense	4.2.2	(1,457)	(1,395)
Depreciation and amortisation	3.1, 3.2	(2,229)	(2,162)
Services	4.2.3	(2,457)	(2,730)
Other operating expenses	4.2.4	(878)	(789)
Operating profit		**7,937**	**8,092**
Finance income		3	4
Finance costs	4.3	(1,009)	(986)
Profit before income tax		**6,931**	**7,110**
Income tax expense	4.4	(1,318)	(1,341)
Profit for the year		**5,613**	**5,769**
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**5,613**	**5,769**

Consolidated Statement of Changes in Equity for the year ended 31 December 2018

In millions of CZK	Note	Share capital	Other distributable reserves	Accumulated deficit	Total
Balance as at 1 January 2017		**26,066**	**789**	**(9,307)**	**17,548**
Profit for the year		-	-	5,769	**5,769**
Total comprehensive income for 2017		-	-	5,769	**5,769**
Reduction of share capital	3.6	(896)	-	-	**(896)**
Distribution of other reserves	3.6	-	(707)	-	**(707)**
Dividends declared	3.6	-	-	(3,347)	**(3,347)**
Balance as at 31 December 2017		**25,170**	**82**	**(6,885)**	**18,367**
Profit for the year		-	-	5,613	**5,613**
Total comprehensive income for 2018		-	-	5,613	**5,613**
Reduction of share capital	3.6	(1,012)	-	-	**(1,012)**
Dividends declared	3.6	-	-	(3,944)	**(3,944)**
Balance as at 31 December 2018		**24,158**	**82**	**(5,216)**	**19,024**

Consolidated Statement of Cash Flows
for the year ended 31 December 2018

In millions of CZK	Note	2018	2017
Cash flows from operating activities			
Profit before income tax		6,931	7,110
Adjustments:			
Depreciation and impairment of property, plant and equipment	3.1	2,133	2,031
Amortisation and impairment of other intangible assets	3.2	96	131
Net impairment losses/(reversals) on financial assets	3.4	4	(2)
Net loss on disposals of property, plant and equipment	4.2.4	109	82
Finance income		(3)	(4)
Finance costs	4.3	1,009	986
Other non-cash operating costs		12	13
Operating cash flows before working capital changes		**10,291**	**10,347**
Decrease/(increase) in trade and other receivables		360	(85)
Increase in inventories		(1)	-
Decrease in other non-current liabilities	3.8	(17)	(17)
Increase/(decrease) in contract liabilities, trade and other payables		448	(57)
Increase/(decrease) in provisions		(16)	69
Increase in other taxes payable	3.9	20	44
Income taxes paid		(1,407)	(1,168)
Interest income received		1	4
Interest paid	3.7	(1,018)	(993)
Net cash from operating activities		**8,661**	**8,144**
Cash flows from investing activities			
Purchases of property, plant and equipment		(3,989)	(4,164)
Proceeds from the sale of property, plant and equipment		19	29
Loans granted to related parties	3.3	(4,624)	(3,592)
Loan repayments received from related parties	3.3	4,473	3,918
Net cash used in investing activities		**(4,121)**	**(3,809)**
Cash flows from financing activities			
Capital distributions to shareholders other than dividends	3.6	(1,012)	(983)
Dividends paid to the Company’s shareholders	3.6	(3,530)	(3,347)
Net cash used in financing activities		**(4,542)**	**(4,330)**
Cash and cash equivalents at the beginning of the year		**7**	**2**
Cash and cash equivalents at the end of the year		**5**	**7**

1 General Information

1.1 Czech Grid 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 2018 for Czech Grid Holding, a.s. (the "Company") and its subsidiaries GasNet, s.r.o. and GridServices, s.r.o. (the "Group" or "Czech Grid Group"). Both subsidiaries are 100% owned by Czech Grid Holding, a.s.

The Company was incorporated and is domiciled in the Czech Republic. The Company is a public joint stock company and was set up in accordance with Czech regulations. The Company's registered address is Prague 10 – Strašnice, Limuzská 3135/12, the Czech Republic.

As at 31 December 2018, 2017 and 2016, the Company's immediate parent company was innogy Česká republika a.s. with its share of 50.04%, the share of 34.96% was owned by CGN Holdings S.a.r.l. and 15% by CGN Holdings 2 S.a.r.l.

The Group's immediate parent does not prepare consolidated financial statements that are available for public use.

The ultimate parent company of the Group was RWE Aktiengesellschaft registered in Germany, who published its last consolidated financial statements for the year ended 31 December 2018.

On 30 September 2019, the General Meeting of the Company decided about a change of the Company name from innogy Grid Holding, a.s. to Czech Grid Holding, a.s. This change became effective on 15 October 2019.

Principal activity. The Group's main business activity is natural gas distribution system operations. 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.

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 Company is regulated by an independent regulatory body, ERO. There were several changes in the leadership of this office in 2018 and 2019.

The regulation of the Company is conducted by determination of the overall level of allowed revenues (the Revenue Cap) and the subsequent calculation of tariffs for distribution services for individual customers. These distribution prices (tariffs) are published annually in a price resolution issued by ERO.

The year 2018 was the third year of the fourth regulatory period. The year 2020 will most likely be the last year of the fourth regulatory period.

In the spring 2018, ERO presented findings of its cost inspection at the Group related to allowed costs in 2012 and 2013. The findings from the cost inspection did not have any direct financial impact on the Group. In 2019, ERO launched another cost-check at the Company that focused on allowed costs in 2016 and 2017.

In the autumn 2018, ERO initiated a discussion with regulated entities in the electricity and gas industries on regulatory principles to be applicable within the subsequent fifth regulatory period. During the spring and the beginning of the summer 2019, regulated entities jointly and individually met several times with experts from ERO and with members of the ERO Council. The discussion process was ongoing until July 2019.

As at 1 August 2019, the Government appointed Stanislav Trávníček as the new chairman of the ERO Council and, at the same time, two other members of the ERO Council were replaced.

As at 30 August 2019, ERO published the Draft of the Price Regulation Methodology and started a public consultation process as required in the Energy Act. Outcomes negotiated between ERO and regulated entities in the previous process have not been fully reflected in the Draft.

The public consultation process is divided into several stages. Until the end of October 2019 all regulated entities are invited to submit their comments to published documents. The participants have a second chance to submit additional comments on the proposed methodology until the end of December 2019. It is expected that, in the second phase, the ERO Council will invite representatives of regulated entities to further explain and discuss their comments and suggestions. In January 2020, ERO will organise a public hearing during which all those who sent comments can participate. In February, ERO will, in written form, resolve all the submitted comments and suggestions. By the end of February 2020 ERO is expected to publish a binding methodology for price regulation for the fifth regulatory period (2021-2025).

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. 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 management to exercise its judgement in the process of applying the Group's accounting policies. The 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, 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. 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.

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
Equipment	7 to 20
Furniture and fittings	3
Gas network	40

The assets' residual values and useful lives 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 them 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

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.

The fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not enough to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

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 the Statement of 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 in 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.

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.

Operating leases. Where the Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments are charged to profit or loss for the year on a straight-line basis over the lease term. 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.

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

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial the 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.

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 gross basis and disclosed separately as an asset and liability. Where 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.

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. Czech legislation identifies the basis of distribution as the net profit for the current year.

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 represents the majority of the Group's revenue from contracts with customers.

The Group recognises revenues once it has fulfilled (as it fulfils) its supply commitment by transferring the promised goods or service (the "asset") to the customer. The asset is transferred (being transferred) once the customer has gained (as it gains) control over the asset. 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 end gas consumers;
- A promise to conclude a contract with end gas consumers about the connection to the distribution network in order to 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 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 as described above (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 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 accounting policies of financial assets in section 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 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.

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 contribution 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.

Amendment of the consolidated financial statements after issuance. Any changes to these consolidated financial statements after issuance require the approval of the Group's management who authorized 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:

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 the 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 year ended 31 December 2018 would be to increase it by CZK 248 million or decrease it by CZK 204 million (2017: increase by CZK 237 million or decrease by CZK 198 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 end gas consumers;
- Conclude a contract with end gas consumers about the connection to the distribution network in order to 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 this services is 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);
- 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 First-time Adoption of IFRS

These consolidated financial statements, for the year ended 31 December 2018, are the Group's first annual consolidated financial statements that comply with IFRS. For periods up to and including the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with local generally accepted accounting principles ("Local GAAP").

Accordingly, the Group has prepared financial statements that comply with IFRS applicable as at 31 December 2018, together with the comparative period for the year ended 31 December 2017. In preparing the financial statements, the Group's opening statement of its financial position was prepared as at 1 January 2017, the Group's date of transition to IFRS. This note explains the principal adjustments made by the Group in restating its Local GAAP financial statements, including the statement of financial position as at 1 January 2017 and the financial statements for the year ended 31 December 2017.

Subject to certain exceptions, IFRS 1 requires the retrospective application of the version of standards and interpretations effective as at 31 December 2018 in preparing the opening IFRS consolidated statement of financial position as at 1 January 2017 and throughout all periods presented in its first IFRS consolidated financial statements. In preparing these consolidated financial statements, the Group has elected to apply the following optional exemption:

- ***Measurement of assets and liabilities.*** The Group became a first-time adopter later than its parent. Therefore, the Group chose the exemption to measure its assets and liabilities at the carrying amounts that were included in the parent's consolidated financial statements, based on the parent's date of transition to IFRS, after the elimination of any adjustments made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary, with the exception described below.

Following the requirement for retrospective application of versions of standards and interpretations effective as at 31 December 2018 during the first-time adoption, the Group retrospectively applied IFRS 15 - Revenues from contracts with customers and IFRS 9 - Financial Instruments. The parent applied these standards as at 1 January 2018 (IFRS 15 using a modified retrospective approach). There we no significant impact from the different approach to the adoption of IFRS 9 and IFRS 15.

The following reconciliations provide a quantification of the effect of the transition from Local GAAP to IFRS as at 1 January 2017:

In millions of CZK	**31 December 2017**	**1 January 2017**
EQUITY UNDER LOCAL GAAP	**31,039**	**31,127**
Effects of changes in accounting policies:		
(i) Goodwill	(7,620)	(8,124)
(ii) Property, plant and equipment: historical revaluation	(6,208)	(6,702)
(iii) Deferred tax liability	1,152	1,240
(iv) Other	4	7
EQUITY UNDER IFRS	**18,367**	**17,548**

The following reconciliations provide a quantification of the effect of the transition from Local GAAP to IFRS for the year ended 31 December 2017:

In millions of CZK	**2017**
PROFIT UNDER LOCAL GAAP	**4,861**
Effects of changes in accounting policies:	
(i) Goodwill amortisation	504
(ii) Property, plant and equipment: revaluation depreciation	494
(iii) Deferred tax expense	(92)
(iv) Other	2
TOTAL COMPREHENSIVE INCOME UNDER IFRS	**5,769**

In millions of CZK	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES UNDER LOCAL GAAP	**10,380**
Effects of changes in accounting policies:	
(i) Profit before income tax	990
(ii) Depreciation, result of disposal of property, plant and equipment	(483)
(iii) Amortisation of goodwill	(504)
(iv) Other	50
CASH FLOWS FROM OPERATING ACTIVITIES UNDER IFRS	**10,433**

The Group's investing and financing cash flows reported under Local GAAP did not significantly differ from IFRS.

The key adjustments for the differences between Local GAAP and IFRS were attributable to the following:

Goodwill/Business combinations. The Group's Czech consolidated financial statements include goodwill raised from the acquisition of the subsidiaries GasNet, s.r.o. and GridServices, s.r.o. in 2012 and 2013, respectively. These acquisitions do not fulfil the conditions of business combinations under IFRS 3 as these were in substance reorganisations. Therefore, the Group had to restate these transactions undertaken under previous GAAP during the first-time adoption of IFRS. The goodwill as recorded under Local GAAP has been eliminated in IFRS.

Property, plant and equipment. The Group used the carrying values of property, plant and equipment as included in the ultimate parent's consolidated financial statements. The measurement in the statutory consolidated financial statement differs due to previous revaluations done in accordance with Local GAAP and these revaluations are not reflected under IFRS.

Deferred tax liability. The adjustment to deferred tax liability relates to the difference in the carrying amount of property, plant and equipment as described above.

1.5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2019 or later, and which the Group has not adopted.

(a) New standards and interpretations and amendments thereto that have been published and adopted by the EU, but have not come into force yet and are not applied by the Group at the reporting date

IFRS 16, Leases (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the statement of profit or loss and other comprehensive income. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

The Group decided that it will apply the standard from its mandatory adoption date of 1 January 2019 using the modified retrospective method, without the restatement of comparatives. Right-of-use assets are measured at the amount of the lease liability on adoption, including any lease payments made at or before the commencement date and direct costs and any initial direct costs incurred.

As at 31 December 2018, the Group has non-cancellable lease commitments of CZK 115 million.

A reconciliation of the operating lease commitments disclosed in Note 6.1 to the recognised lease liability is as follows:

In millions of CZK	**31 December 2018 / 1 January 2019**
Total future minimum lease payments for non-cancellable operating leases (Note 6.1)	115
- Management estimation of non-cancellable lease payments	1,920
- Effect of discounting to present value	(545)
Total lease liabilities	**1,490**

Operating lease commitments as at 31 December 2018 are mostly related to lease contracts concluded for the indefinite period with 12 months of termination period. Management has estimated the lease terms for these contracts according to IFRS 16. The weighted average lease term related to these contracts as at 1 January 2019 was 17 years, which mainly reflects the effect of management's estimation of non-cancellable lease payments according to IFRS 16 in the amount of CZK 1,920 million presented in the table above.

For its lease commitments, the Group expects to recognise right-of-use assets of approximately CZK 2,264 million and lease liabilities of CZK 1,490 million as at 1 January 2019. The difference relates to right-of-use assets of CZK 774 million representing unamortised subsurface rights for which the consideration is paid by the Group to the land owner in full at the inception of the contract and which are recorded as part of the cost of the gas network as at 31 December 2018 and are to be reclassified to right-of-use assets as at 1 January 2019.

Overall net assets will not be affected: net current assets will be CZK 115 million lower due to the treatment of a portion of the liability as a current liability.

The Group expects that net profit for the year-ending 31 December 2019 will decrease by approximately CZK 16 million as a result of adopting the new lease standard. Operating cash flows will increase, and financing cash flows will decrease by approximately CZK 115 million as the interest from lease liabilities and repayments of the principal portion of the lease liabilities will be classified as cash flows from financing activities.

IFRIC 23 "Uncertainty over Income Tax Treatments" (issued on 7 June 2017 and effective for annual periods beginning on or after 1 January 2019). IAS 12 specifies how to account for current and deferred tax, but not how to reflect the effects of uncertainty. The interpretation clarifies how to apply the recognition and measurement requirements in IAS 12 when there is uncertainty over income tax treatments. An entity should determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments based on which approach better predicts the resolution of the uncertainty. An entity should assume that a taxation authority will examine amounts it has a right to examine and have full knowledge of all related information when making those examinations. If an entity concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the effect of uncertainty will be reflected in determining the related taxable profit or loss, tax bases, unused tax losses, unused tax credits or tax rates, by using either the most likely amount or the expected value, depending on which method the entity expects to better predict the resolution of the uncertainty. An entity will reflect the effect of a change in facts and circumstances or of new information that affects the judgments or estimates required by the interpretation as a change in accounting estimate. Examples of changes in facts and circumstances or new information that can result in the reassessment of a judgment or estimate include, but are not limited to, examinations or actions by a taxation authority, changes in rules established by a taxation authority or the expiry of a taxation authority's right to examine or re-examine a tax treatment. The absence of agreement or disagreement by a taxation authority with a tax treatment, in isolation, is unlikely to constitute a change in facts and circumstances or new information that affects the judgments and estimates required by the Interpretation. The Group doesn't expect impact from this interpretation.

Prepayment Features with Negative Compensation – Amendments to IFRS 9 (issued on 12 October 2017 and effective for annual periods beginning on or after 1 January 2019). The amendments enable measurement at amortised cost of certain loans and debt securities that can be prepaid at an amount below amortised cost, for example at fair value or at an amount that includes a reasonable compensation payable to the borrower equal to present value of an effect of increase in market interest rate over the remaining life of the instrument. In addition, the text added to the standard's basis for conclusion reconfirms existing guidance in IFRS 9 that modifications or exchanges of certain financial liabilities measured at amortised cost that do not result in the derecognition will result in an gain or loss in profit or loss. Reporting entities will thus in most cases not be able to revise effective interest rate for the remaining life of the loan in order to avoid an impact on profit or loss upon a loan modification. The Group doesn't expect impact from this amendment.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23 (issued on 12 December 2017 and effective for annual periods beginning on or after 1 January 2019). The narrow scope amendments impact four standards. IFRS 3 was clarified that an acquirer should remeasure its previously held interest in a joint operation when it obtains control of the business. Conversely, IFRS 11 now explicitly explains that the investor should not remeasure its previously held interest when it obtains joint control of a joint operation, similarly to the existing requirements when an associate becomes a joint venture and vice versa. The amended IAS 12 explains that an entity recognises all income tax consequences of dividends where it has recognised the transactions or events that generated the related distributable profits, e.g. in profit or loss or in other comprehensive income. It is now clear that this requirement applies in all circumstances as long as payments on financial instruments classified as equity are distributions of profits, and not only in cases when the tax consequences are a result of different tax rates for distributed and undistributed profits. The revised IAS 23 now includes explicit guidance that the borrowings obtained specifically for funding a specified asset are excluded from the pool of general borrowings costs eligible for capitalisation only until the specific asset is substantially complete. The Group doesn't expect impact from this amendment.

(b) New and amended standards and interpretations, which have been published, but not yet adopted by the European Union or not come into force as at the reporting date

Amendments to the Conceptual Framework for Financial Reporting (issued on 29 March 2018 and effective for annual periods beginning on or after 1 January 2020). The revised Conceptual Framework includes new chapters on measurement; guidance on reporting financial performance; improved definitions and guidance - in particular the definition of a liability; and clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Definition of a business – Amendments to IFRS 3 (issued on 22 October 2018 and effective for acquisitions from the beginning of annual reporting period that starts on or after 1 January 2020).The amendments revise the definition of a business. A business must have inputs and a substantive process that together significantly contribute to the ability to create outputs. The new guidance provides a framework to evaluate when an input and a substantive process are present, including for early stage companies that have not generated outputs. An organised workforce should be present as a condition for classification as a business if there are no outputs. The definition of the term 'outputs' is narrowed to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. It is also no longer necessary to assess whether market participants are capable of replacing missing elements or integrating the acquired activities and assets. An entity can apply a 'concentration test'. The assets acquired would not represent a business if substantially all the fair value of gross assets acquired is concentrated in a single asset (or a group of similar assets).

Definition of materiality – Amendments to IAS 1 and IAS 8 (issued on 31 October 2018 and effective for annual periods beginning on or after 1 January 2020). The amendments clarify the definition of material and how it should be applied by including guidance in the definition that until now has featured elsewhere in IFRS. In addition, the explanations accompanying the definition have been improved. Finally, the amendments ensure that the definition of material is consistent across all IFRS Standards. Information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

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

2 Segment Information

The main activity of the Group is gas distribution. Other activities include construction activities, changes and removal of constructions, repairs and revisions, etc. and are inseparably connected with the main activity of the Group.

The Board of Directors ("Management") of the Group is the "chief operating decision maker". Management assesses financial performance based on Group KPIs: EBIT, EBITDA, Profit after tax, OPEX, CAPEX, Distributed volume (GWh), Distributed margin, FCF. Management of the Group regularly reviews operating results of the whole Group and makes decisions about resources to be allocated to business activities and assesses Group's performance. Additionally, the means of controlling and assessing operating managers is carried out at the Group level. Their remuneration depends on fulfilment of the Group KPIs.

As a result, the Group management views the whole Group as one operating segment.

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**	**Construction in progress**	**Total**
Cost as at 1 January 2017	131	2,945	64,003	10,256	889	78,224
Accumulated depreciation	-	(1,396)	(26,395)	(7,907)	-	(35,698)
Carrying amount as at 1 January 2017	**131**	**1,549**	**37,608**	**2,349**	**889**	**42,526**
Additions	1	74	2,718	530	411	3,734
Transfers	-	15	429	26	(470)	-
Disposals	(1)	(5)	(98)	(5)	(6)	(115)
Depreciation charge	-	(91)	(1,511)	(429)	-	(2,031)
Carrying amount as at 31 December 2017	**131**	**1,542**	**39,146**	**2,471**	**824**	**44,114**

In millions of CZK	**Freehold Land**	**Buildings**	**Gas Network**	**Equipment**	**Construction in progress**	**Total**
Cost as at 31 December 2017	131	3,010	66,786	10,617	824	81,368
Accumulated depreciation	-	(1,468)	(27,640)	(8,146)	-	(37,254)
Carrying amount as at 31 December 2017	**131**	**1,542**	**39,146**	**2,471**	**824**	**44,114**
Additions	1	56	2,474	528	426	3,485
Transfers	-	8	371	48	(427)	-
Disposals	-	(4)	(112)	(6)	(5)	(127)
Depreciation charge	-	(91)	(1,580)	(462)	-	(2,133)
Carrying amount as at 31 December 2018	**132**	**1,511**	**40,299**	**2,579**	**818**	**45,339**
Cost at as 31 December 2018	132	3,048	69,302	10,901	818	84,201
Accumulated depreciation	-	(1,537)	(29,003)	(8,322)	-	(38,862)
Carrying amount as at 31 December 2018	**132**	**1,511**	**40,299**	**2,579**	**818**	**45,339**

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 2018 in the amount of CZK 11 million (2017: CZK 9 million).

The Group capitalised own constructed fixed assets (mainly gas network) of CZK 366 million in the year ended 31 December 2018 (2017: CZK 367 million).

Operational risk. Operational risk is associated with uncertainty about the performance of infrastructure once it has been constructed, during the long-term operating phase of infrastructure projects. Such operational risk is very important, particularly when large construction costs and durations are involved and modifications to the infrastructure are costly. Operational risk relates to the procurement of goods, services and work orders from suppliers/contracts and includes also warranty risk of impossibility to fulfil the claims for the removal of defects within the warranty period. The Group counters this through diligent plant and project management, as well as high safety standards. In addition, the Group performs regular inspections, maintenance and repairs. Nevertheless, the occurrence of outages cannot be fully ruled out, for example, for equipment used to operate the network. If economically viable, the insurance policies should cover these risks.

The Group is keeping on top of operational IT risks through means of internal control systems that has been implemented. There are regular back-ups for key applications, defined test scenarios for guaranteeing the correct functioning of applications before deploying them to a production environment and roll-back scenarios in case inaccurate functioning of software occurs. Furthermore, there are quality assurance and standardisation proofs requested from IT providers, and eventually the Group has coordinated business continuity and disaster recovery plans for continuity of its operations.

The Group also focuses on operational risk stemming from any unauthorized offtake of gas. This risk is mainly mitigated operationally by means of prevention and detection of illegal offtakes (typically from B2C clients or SMEs). The unauthorized off-take can take a form of e.g. offtake without a measuring device or with a modified / damaged meter or can occur when bypassing a meter or can happen when a client repeatedly (without a good reason) does not allow the meter to be accessed. As an ex-post measure, there is a robust legal collection process in place with a high recovery/success rate.

3.2 Intangible Assets

In millions of CZK	**Software**	**Other**	**Total**
Cost as at 1 January 2017	500	164	664
Accumulated amortisation	(364)	(109)	(473)
Carrying amount as at 1 January 2017	**136**	**55**	**191**
Additions	105	18	123
Amortisation charge	(111)	(20)	(131)
Carrying amount as at 31 December 2017	**130**	**53**	**183**
Cost as at 31 December 2017	605	182	787
Accumulated amortisation	(475)	(129)	(604)
Carrying amount as at 31 December 2017	**130**	**53**	**183**
Additions	95	18	113
Transfers	(7)	7	0
Amortisation charge	(74)	(22)	(96)
Carrying amount as at 31 December 2018	**144**	**56**	**200**
Cost as at 31 December 2018	692	184	876
Accumulated amortisation	(548)	(128)	(676)
Carrying amount as at 31 December 2018	**144**	**56**	**200**

3.3 Loans Issued

In millions of CZK	**31 December 2018**	**31 December 2017**	**1 January 2017**
Loans issued	1,331	1,180	1,506
Total loans issued	**1,331**	**1,180**	**1,506**

Corporate loans as at 31 December 2018, 31 December 2017 and 1 January 2017 are of a short-term nature and are not collateralised. The Company estimates that the risk parameters in the ECL (expected credit loss) measurement, specifically EAD (estimated exposure at default), equal to 1 and LGD (loss given default), equal to 0 – i.e. EAD equals the outstanding loan balance as the entire principal of the loans is due at the end of the loan term and the loans are short-term, and estimated loss given default equals 0 as the borrowings from the same parties are much higher than the loans issued. As it relates to the PD parameter, given the short-term nature of all the loans, the Group estimates it to be virtually 0. The carrying amount of these loans is a reasonable approximation of their fair value.

All loans are issued to the shareholders of the Group.

No credit loss allowance to these loans as at 31 December 2018, 31 December 2017 and 1 January 2017 was recognised due to the insignificant PD value in all these years.

The following table discloses the changes in the gross carrying amount for loans issued carried at amortised cost between the beginning and the end of the reporting period:

In millions of CZK	**2018**	**2017**
As at 1 January	**1,180**	**1,506**
Loans granted	4,624	3,592
Loans repaid	(4,473)	(3,918)
As at 31 December	**1,331**	**1,180**

Movements in loans issued are presented in the cash-flow statement on a net basis since the turnovers for loans issued are large and the maturities are short.

All loans outstanding as at 31 December 2018 were drawn at the same date (31 December 2018). Loans outstanding as at 31 December 2017 were drawn on 29 December 2017 (outstanding as at 1 January 2017: drawn as at 30 December 2016). These loans bear interest of 0.15% p.a. The Group assessed the credit quality of these loans as strong with low expected credit risk. The following table contains an analysis of the credit risk exposure of loans issued measured at amortised cost.

The carrying amount of loans below also represents the Group's maximum exposure to credit risk on these loans:

In millions of CZK	**31 December 2018**	**31 December 2017**	**1 January 2017**
Neither past due nor impaired			
- innogy Česká republika, a.s	666	590	754
- CGN Holdings S.a.r.l.	465	413	526
- CGN Holdings 2 S.a.r.l	200	177	226
Total neither past due nor impaired	**1,331**	**1,180**	**1,506**
Total loans issued	**1,331**	**1,180**	**1,506**

3.4 Trade and Other Receivables

In millions of CZK	31 December 2018	31 December 2017	1 January 2017
Trade receivables from non-related parties	517	494	511
Trade receivables from related parties	65	172	90
Receivables from cash-pooling	86	378	365
Other financial receivables	6	16	3
Less credit loss allowance	(205)	(210)	(224)
Total financial assets within trade and other receivables	***469***	***850***	***745***
Other receivables	10	6	5
Prepayments	15	4	3
Prepayments made to related parties	62	60	80
Total non-financial assets within trade and other receivables	***87***	***70***	***88***
Total trade and other receivables	**556**	**920**	**833**

Receivables from cash-pooling comprise Cash pooling receivables from related parties.

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

To measure the expected credit losses, trade and other 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 month before 31 December 2018 (meaning 31 December 2017 and1 January 2018) 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 and other receivables is determined according to 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.

In % of gross value	31 December 2018 Loss rate	Gross carrying amount	Lifetime ECL
Trade receivables from non-related parties			
- current	0.21%	259	-
- less than 30 days overdue	5.00%	45	1
- 30 to 90 days overdue	85.00%	5	4
- 91 to 180 days overdue	90.00%	4	3
- 181 to 360 days overdue	95.49%	15	14
- over 360 days overdue	98.00%	189	183
Total trade receivables from non-related parties (gross carrying amount)		**517**	**205**
Trade receivables from related parties and receivables from cash pooling			
- current	0.12%	151	-
Other financial receivables			
- current	0.5%	6	-
Total financial assets within trade and other receivables (gross carrying amount)		**674**	**205**
Total credit loss allowance		(205)	
Total financial assets within trade and other receivables (net carrying amount)		**469**	

	31 December 2017		
In % of gross value	**Loss rate**	**Gross carrying amount**	**Lifetime ECL**
Trade receivables from non-related parties			
- current	0.21%	274	1
- less than 30 days overdue	5.00%	5	-
- 30 to 90 days overdue	85.00%	6	5
- 91 to 180 days overdue	90.00%	6	5
- 181 to 360 days overdue	95.49%	10	9
- over 360 days overdue	98.00%	193	190
Total trade receivables from non-related parties (gross carrying amount)		**494**	**210**
Trade receivables from related parties and receivables from cash pooling			
- current	0.07%	550	-
Other financial receivables			
- current	0.4%	16	-
Total financial assets within trade and other receivables (gross carrying amount)		**1,060**	**210**
Total credit loss allowance		(210)	
Total financial assets within trade and other receivables (net carrying amount)		**850**	

In % of gross value	1 January 2017 Loss	Gross carrying amount	Lifetime
Trade receivables from non-related parties			
- current	0.21%	281	1
- less than 30 days overdue	5.00%	7	1
- 30 to 90 days overdue	85.00%	5	5
- 91 to 180 days overdue	90.00%	8	8
- 181 to 360 days overdue	95.49%	12	12
- over 360 days overdue	98.00%	198	197
Total trade receivables from non-related parties (gross carrying amount)		**511**	**224**
Trade receivables from related parties and receivables from cash pooling			
- current	0.09%	455	-
Other financial receivables			
- current	0.4%	3	-
Total financial assets within trade and other receivables (gross carrying amount)		**969**	**224**
Total credit loss allowance		(224)	
Total financial assets within trade and other receivables (net carrying amount)		**745**	

Trade receivables from non-related parties over 360 days overdue comprise mainly trade receivables more than 3 years overdue as at 1 January 2017, 31 December 2017 and 31 December 2018.

The following table explains the changes in the credit loss allowance for trade and other receivables under the simplified ECL model between the beginning and the end of the annual period:

in millions of CZK	**2018**	**2017**
Credit loss allowance		
Balance as at 1 January	**(210)**	**(224)**
New originated or purchased	(27)	(29)
Reversal	23	31
Total credit loss allowance charge in profit or loss for the period	**(4)**	**2**
Write-offs	9	12
Balance as at 31 December	**(205)**	**(210)**

3.5 Contract Balances

In millions of CZK	**Note**	**31 December 2018**	**31 December 2017**	**1 January 2017**

Trade receivables	377	456	377

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

In millions of CZK	Note	31 December 2018	31 December 2017	1 January 2017
Contract liabilities – advances from customers for gas distribution (third parties)		440	279	305
Contract liabilities – advances from customers for gas distribution (related parties)	6.2	200	104	154
Contract liabilities – advances from customers (services)		2	1	1
Total current contract liabilities		**642**	**384**	**460**

Total contract liabilities decreased by CZK 76 million as at 31 December 2017 compared to the balance as at 1 January 2017 due to an increase in gas consumption by customers caused by lower temperatures in December 2017 and partly compensated by price increases.

As at 31 December 2018, total contract liabilities increased by CZK 258 million compared to the balance as at 31 December 2017 due to price increases (price increase also triggers an increase in the required advance payments) and unusually low levels of advances received from customers as at 31 December 2017 as a consequence of the factor described above.

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	2018	2017
Revenue recognised that was included in the contract liability balance at the beginning of the period:		
Gas distribution (third parties)	279	305
Gas distribution (related parties)	104	154
Services	1	1
Total	**384**	**460**

The Group need not 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.

3.6 Share Capital

In millions of CZK	Number of outstanding shares (in thousands)	Ordinary shares	Other reserves
At 1 January 2017	**38,580**	**26,066**	**789**
Decrease in nominal value		(896)	-
Distribution of other reserves		-	(707)
At 31 December 2017	**38,580**	**25,170**	**82**
Decrease in nominal value		(1,012)	-
At 31 December 2018	**38,580**	**24,158**	**82**

As at 24 May 2017, the General Meeting approved the distribution of capital contributions in the amount of CZK 707 million. Settlement of capital distributions to shareholders other than dividends is presented below:

In millions of CZK	2018	2017
Payables to shareholders related to capital distributions to shareholders other than dividends as at 1 January	-	-
Decrease in nominal value of shares	1,012	896
Distribution of other reserves	-	707
Total capital distributions to shareholders other than dividends for the year	**1,012**	**1,603**
Paid during the year	(1,012)	(983)
Settlement through increase in borrowings (Note 3.7)	-	(620)
Payables to shareholders related to capital distributions to shareholders other than dividends as at 31 December	-	-

The total number of ordinary shares is 38,580 thousand shares as at 31 December 2018, 31 December 2017 and 1 January 2017 with a par value of CZK 626.18 per share (as at 31 December 2017: CZK 652.42 per share; as at 1 January 2017: CZK 675.66 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

Structure of shareholders as at 31 December 2018:	Number of shares (in thousands)	Share (%)
innogy Česká republika a.s.	19,305	50.04
CGN Holdings S.a.r.l	13,488	34.96
CGN Holdings 2 S.a.r.l.	5,787	15.00
Total	**38,580**	**100**

The structure of shareholders was the same as at 31 December 2017 and 1 January 2017.

Dividends declared and paid during the year were as follows:

In millions of CZK	2018 Ordinary	2017 Ordinary
Dividends payable as at 1 January	-	-
Dividends declared during the year	3,944	3,347
Dividends paid during the year	(3,530)	(3,347)
Settlement through increase in borrowings (Note 3.7)	(414)	-
Dividends payable as at 31 December	**-**	**-**
Dividends per share declared during the year (in CZK)	**102.26**	**86.73**

All dividends are declared and paid in CZK. In accordance with Czech legislation, the Company distributes profits as dividends based on financial statements prepared in accordance with Czech Accounting Rules. The statutory accounting reports of the Company are the basis for profit distribution and other appropriations. Czech legislation identifies the basis of distribution as the net profit. For 2018, the current year net statutory profit for the Company as reported in the published annual statutory reporting forms was CZK 4,957 million (2017: CZK 3,960 million) and the closing balance of the accumulated profit including the current year net statutory profit was CZK 4,972 million (2017: CZK 3,960 million). However, this legislation and other statutory laws and regulations are open to legal interpretation and, accordingly, management believes at present that it would not be appropriate to disclose the amount of distributable reserves in these consolidated financial statements.

In order to optimise the Company's capital structure and to reduce the surplus of own resources, on 13 February 2017, the General Meeting decided to decrease the Company's share capital from CZK 26,066 million to CZK 25,170 million. The decrease in the share capital was carried out as a reduction of the nominal value of all shares from CZK 675.66 to CZK 652.42 per share via exchange for shares with the lower nominal value and recorded in the Commercial Register on 20 June 2017.

In order to optimise the Company’s capital structure and to reduce the surplus of own resources, on 24 November 2017, the General Meeting decided to decrease the Company’s share capital from CZK 25,170 million to CZK 24,158 million. The decrease in the share capital was carried out as a reduction of the nominal value of all shares from CZK 652.42 to CZK 626.18 per share via exchange for shares with the lower nominal value and recorded in the Commercial Register on 6 April 2018.

On 18 May 2018, the General Meeting approved the financial statements for 2017 and decided about the distribution of the profit for 2017 of CZK 3,960 million.

On 24 May 2019, the General Meeting approved the financial statements for 2018 and decided about the distribution of the profit for 2018 of CZK 4,957 million and about the extent of payment of dividends in amount of CZK 4,023 million. The dividends in the amount of CZK 3,434 million were settled in cash and CZK 589 million were settled through increase in borrowings.

3.7 Borrowings

Borrowings comprise loans received from the shareholders, as follows:

In millions of CZK	**31 December 2018**	**31 December 2017**	**1 January 2017**
Term loans			
- Non-current portion	20,121	19,707	19,087
- Current portion	890	888	886
Total borrowings	**21,011**	**20,595**	**19,973**

All the Group's borrowings are denominated in CZK and bear a fixed interest rate.

In millions of CZK	**31 December 2018**	**31 December 2017**	**1 January 2017**
Non-current borrowings			
- innogy Česká republika, a.s	10,069	9,861	9,551
- CGN Holdings S.a.r.l.	7,034	6,890	6,673
- CGN Holdings 2 S.a.r.l	3,018	2,956	2,863
Total non-current borrowings	**20,121**	**19,707**	**19,087**

Non-current borrowings consist of 8 tranches as at 31 December 2018 (as at 31 December 2017: 7 tranches and as at 1 January 2017 6 tranches) with weighted average interest rate of 4,925 % p.a. as at 31 December 2018 (as at 31 December 2017: 4,947 % p.a.; as at 1 January 2017: 5,003 % p.a.).

Non-current borrowings as at 31 December 2018, as at 31 December 2017 and 1 January 2017 had maturities ranging from 2023 to 2030.

In millions of CZK	**31 December 2018**	**31 December 2017**	**1 January 2017**
Current borrowings			
- innogy Česká republika, a.s	445	444	443
- CGN Holdings S.a.r.l.	311	311	310
- CGN Holdings 2 S.a.r.l	134	133	133
Total current borrowings	**890**	**888**	**886**

Current borrowings as at 31 December 2018 had a maturity date on 31 May 2019 (as at 31 December 2017: 31 May 2018, as at 1 January 2017: 31 May 2017). They bore an interest of 2,870 % p.a. as at 31 December 2018 (as at December 2017: 1,620 % p.a., as at 1 January 2017: 1,140 % p.a.).

Current borrowings represent mainly specific borrowings arranged to finance assets under construction: the total loan facility under this agreement was CZK 1,400 million as at 31 December 2018, as at 31 December 2017 and as at 1 January 2017. It was received for the purposes of construction of gas network and bore floating interest rate 3M PRIBOR + 0.8% as at 31 December 2018, 31 December 2017 and 1 January 2018.

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	Liabilities from financing activities 2018	2017
Liabilities from financing activities as at 1 January		**20,595**	**19,973**
Settlement of the liability from unpaid dividends	3.6	414	-
Settlement of the liability from unpaid capital distributions to shareholders other than dividends	3.6	-	620
Interest expenses	4.3	1,009	986
Interest capitalised	4.3	11	9
Interest paid (expensed and capitalised)		(1,018)	(993)
Liabilities from financing activities as at 31 December		**21,011**	**20,595**

Fair values are disclosed in Note 5.4 - Fair Value Disclosures.

3.8 Other Non-current Liabilities

The balance of non-current liabilities comprises the following:

in millions of CZK	31 December 2018	31 December 2017	1 January 2017
Deferred income from government grants	237	243	253
Other non-current liabilities	18	29	36
Total	**255**	**272**	**289**

3.9 Other Taxes Payable

In millions of CZK	31 December 2018	31 December 2017	1 January 2017
Other taxes payable within one year comprise the following:			
Value-added tax	395	380	328
Personal income tax	16	11	19
Other taxes payable – current	**411**	**391**	**347**

3.10 Trade and Other Payables

In millions of CZK	31 December 2018	31 December 2017	1 January 2017
Trade payables to non-related parties	597	931	1,285
Deposits received	612	529	403
Trade payables to related parties	260	256	281
Accrued liabilities	96	89	82
Other payables	5	5	7
Total financial payables within trade and other payables	**1,570**	**1,810**	**2,058**
Other payables	16	17	20
Liabilities to employees	156	123	151
Liabilities to social security and health insurance	41	34	43
Total non-financial payables within trade and other payables	**213**	**174**	**214**
Total trade and other payables	**1,783**	**1,984**	**2,272**

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	2018	2017
Revenue from gas distribution	14,573	14,794
Revenues from rendering of other services and sale of goods	101	58
Total revenue	**14,674**	**14,852**

The Group recognised 97% of total gas distribution revenue from wholesale traders of gas and 3% from end consumers of gas distribution both in the year ended 31 December 2017 and 31 December 2018.

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

In millions of CZK	2018	2017
Revenues from gas distribution		
Large and medium sized consumers category	5,398	5,299
Small sized consumers category	2,199	2,378
Households category	6,976	7,117
Total revenue	**14,573**	**14,794**

Revenues from gas distribution were recognised over time in the year ended 31 December 2017 and 31 December 2018.

4.2 Expenses

4.2.1 Raw materials and consumables used

In millions of CZK	2018	2017
Spare parts and materials	108	89
Fuel	46	59
Consumables	22	22
Total raw materials and consumables	**176**	**170**

4.2.2 Employee benefits expense

In millions of CZK	2018	2017
Wages and salaries	1,038	1,008
Statutory pension contributions	220	206
Statutory health insurance and social security	130	121
Supplementary pension insurance	38	39
Other employee benefits	31	21
Total employee benefits expense	**1,457**	**1,395**

4.2.3 Services

In millions of CZK	2018	2017
Gas transportation	776	1043
Shared service center	575	581
Gas network maintenance	374	367
IT and network services	381	360
Energy market operation fees	133	162
Billing services	50	51
Travel expenses	36	34
Phone costs	21	24
Car fleet maintenance	24	20
Training expenses	11	12
Consultancy fees	21	10
Other services	55	66
Total services	**2,457**	**2,730**

Shared service centre expenses comprise particular types of services, mainly Call centre, Asset management, HR, Legal, Finance, Back-office, Procurement and other services.

4.2.4 Other operating expenses

In millions of CZK	2018	2017
Operating losses within gas transportation	370	266
Lease expenses	261	262
Net loss on disposal of property, plant and equipment	109	82
Utilities	67	70
Other taxes and charges	12	24
Insurance expenses	10	10
Other items	49	75
Total other operating expenses	**878**	**789**

4.3 Finance Costs

In millions of CZK	2018	2017
Interest expense	1,020	995
Less capitalised finance costs	(11)	(9)
Total finance costs recognised in profit	**1,009**	**986**

4.4 Income Taxes

(a) Components of income tax expense

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

In millions of CZK	**2018**	**2017**
Current tax	1,124	1,176
Deferred tax	194	165
Income tax expense for the year	**1,318**	**1,341**

(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 2018 and 2017 income is 19%. The reconciliation between the expected and the actual taxation charge is provided below.

In millions of CZK	**2018**	**2017**
Profit before tax	**6,931**	**7,110**
Theoretical tax charge at statutory rate of 19%:	1,317	1,351
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(10)	(19)
- Non-deductible expenses	11	9
Income tax expense for the year	**1,318**	**1,341**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations in the Czech Republic 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	**1 January 2018**	**(Charged) to profit or loss**	**31 December 2018**
Tax effect of deductible/(taxable) temporary differences			
Difference between tax and accounting value of Property, plant and equipment (different tax depreciation)	(4,007)	(190)	(4,197)
Provisions for liabilities and charges	35	(4)	31
Net deferred tax liability	**(3,972)**	**(194)**	**(4,166)**
Recognised deferred tax asset	35	(4)	31
Recognised deferred tax liability	(4,007)	(190)	(4,197)
Net deferred tax liability	**(3,972)**	**(194)**	**(4,166)**

In the context of the Group's current structure, 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.

The tax effect of the movements in the temporary differences for the year ended 31 December 2017 are:

In millions of CZK	**1 January 2017**	**(Charged)/ credited to profit or loss**	**31 December 2017**
Tax effect of deductible/(taxable) temporary differences			
Difference between tax and accounting value of Property, plant and equipment (revaluation, different tax depreciation)	(3,825)	(182)	(4,007)
Provisions for liabilities and charges	18	17	35
Net deferred tax liability	**(3,807)**	**(165)**	**(3,972)**
Recognised deferred tax asset	18	17	35
Recognised deferred tax liability	(3,825)	(182)	(4,007)
Net deferred tax liability	**(3,807)**	**(165)**	**(3,972)**

5 Risk Management

5.1 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting are as follows as at 31 December 2018:

	Gross amounts before offsetting in the statement of financial position	**Gross amounts set off in the statement of financial position**	**Net amount after offsetting in the statement of financial position**
In millions of CZK	**(a)**	**(b)**	**(c) = (a) – (b)**
Assets – Trade and other receivables	469	-	469
Total assets subject to offsetting	**469**	**-**	**469**
Liabilities - Trade and other payables	1,570	-	1,570
Total liabilities subject to offsetting	**1,570**	**-**	**1,570**

Financial instruments subject to offsetting were as follows as at 31 December 2017:

In millions of CZK	**Gross amounts before offsetting in the statement of financial position** (a)	**Gross amounts set off in the statement of financial position** (b)	**Net amount after offsetting in the statement of financial position** (c) = (a) – (b)
Assets – Trade and other receivables	850	-	850
Total assets subject to offsetting	**850**	**-**	**850**
Liabilities - Trade and other payables	1,810	-	1,810
Total liabilities subject to offsetting	**1,810**	**-**	**1,810**

Financial instruments subject to offsetting were as follows as at 1 January 2017:

In millions of CZK	**Gross amounts before offsetting in the statement of financial position** (a)	**Gross amounts set off in the statement of financial position** (b)	**Net amount after offsetting in the statement of financial position** (c) = (a) – (b)
Assets – Trade and other receivables	745	-	745
Total assets subject to offsetting	**745**	**-**	**745**
Liabilities - Trade and other payables	2,058	-	2,058
Total liabilities subject to offsetting	**2,058**	**-**	**2,058**

The amount set off in the statement of the financial position reported in column (b) is the lower of the gross amount before offsetting reported in column (a) and the amount of the related instrument that is eligible for offsetting.

The Group does not have any enforceable master netting or similar arrangements. Nevertheless, applicable legislation allows an entity to unilaterally set off trade receivables and payables that are due for payment, denominated in the same currency and outstanding with the same counterparty. Also, the Group has had past practice in setting off these trade receivables and payables with the exception of a counterparty's insolvency situation and intends to continue doing so in the future. These fall in the scope of the disclosure as they were set off in the statement of financial position.

5.2 Financial Risk Management

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.

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 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 Creditreform or Crefoport. 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 guarantee providers (for banks and parent companies).

Expected credit loss ("ECL") measurement. Measurement of ECLs is an accounting estimate that involves 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 Company 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 for calculating 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 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.

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Company 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 Company 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.

Quantitative credit risk disclosure for Loans issued is presented in the Note 3.3, for Trade and other receivables it is presented in the Note 3.4. Bank balances payable on demand are of low credit risk, hence scenario analysis was not performed for them.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in interest bearing assets and liabilities which are exposed to general and specific market movements. Currency risk is not significant for the Group since payables and receivables of the Group are denominated in a foreign currency only exceptionally.

Interest rate risk. The volatility of market interest rates can have a significant effect on the profit, which can be positive or negative depending on the development. This relates primarily to float and fixed-interest shareholder loans. An increase in interest rates causes the Group's financing costs to rise. Current borrowings arranged to finance assets under construction (see Note 3.7) bore a floating interest rate. If the interest rates as at 31 December 2018 were 50 basis points higher / (lower) for loans at floating interest with all other variables held constant, net profit for the year ended 31 December 2018 would decrease / (increase) by CZK 4 million (2017: CZK 4 million).

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 the several years and in each year a new loan financing the development project is issued with a maturity of 12 years.

All of the long-term Group's debt instruments (shareholder loans) have a fixed interest rate except for a shareholder loan concluded each year in the amount of CZK 800 million which matures within one year and is always refinanced by a new shareholder loan.

The table below summarises the Group's exposure to interest rate risks. The table presents the aggregated amounts of the 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 than1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Non-monetary**	**Total**
31 December 2018							
Loans issued	3.3	1,331	-	-	-	-	1,331
Borrowings	3.7	-	(890)	-	(20,121)	-	(21,011)
Net interest sensitivity gap as at 31 December 2018		**1,331**	**(890)**	**-**	**(20,121)**	**-**	**(19,680)**
31 December 2017							
Loans issued	3.3	1,180	-	-	-	-	1,180
Borrowings	3.7	-	(888)	-	(19,707)	-	(20,595)
Net interest sensitivity gap as at 31 December 2017		**1,180**	**(888)**	**-**	**(19,707)**	**-**	**(19,415)**
1 January 2017							
Loans issued	3.3	1,506	-	-	-	-	1,506
Borrowings	3.7	-	(886)	-	(19,087)	-	(19,973)
Net interest sensitivity gap as at 1 January 2017		**1,506**	**(886)**	**-**	**(19,087)**	**-**	**(18,467)**

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 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.

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 2018 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 2018 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	1,570	**1,570**	1,200	370	-	-	-
Borrowings	21,011	**29,248**	90	253	1,557	8,452	18,896
Total	**22,581**	**30,818**	**1,290**	**623**	**1,557**	**8,452**	**18,896**

The maturity analysis of financial liabilities based on undiscounted cash flows as at 31 December 2017 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	1,810	**1,810**	1,397	409	4	-	-
Borrowings	20,595	**29,630**	88	247	1,545	3,956	23,794
Total	**22,405**	**31,440**	**1,485**	**656**	**1,549**	**3,956**	**23,794**

The maturity analysis of financial liabilities based on undiscounted cash flows as at 1 January 2017 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	2,058	**2,058**	1,361	691	6	-	-
Borrowings	19,973	**29,669**	86	241	1,529	3,875	23,938
Total	**22,031**	**31,727**	**1,447**	**932**	**1,535**	**3,875**	**23,938**

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 amount 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 2018 was CZK 19,024 million (as at 31 December 2017: CZK 18,367 million and as at 1 January 2017: CZK 17,548 million).

In maintaining or adjusting its capital structure, the Group complies with the Capital Structure Policy as defined in the Shareholders' Agreement. The Capital Structure Policy 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 is calculated as total liabilities divided by RAB (Regulated Asset Base). During 2018, the Group's strategy, which was unchanged from 2017, was to maintain the gearing ratio 45% of RAB. As at 31 December 2018, as at 31 December 2017 and as at 1 January 2017, the actual gearing ratio based on RAB was 45%.

The Group has complied with all externally imposed capital requirements throughout 2018 and 2017.

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 valuations 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 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.

There were no recurring nor non-recurring fair value measurements as at 1 January 2017, 31 December 2017 or 31 December 2018.

Financial Assets and liabilities not measured at fair value but for which fair value is disclosed

Fair values analysed by level in the fair value hierarchy and the carrying value of assets and liabilities not measured at fair value are as follows:

	31 December 2018		31 December 2017		1 January 2017	
In millions of CZK	Level 3 fair value	Carrying value	Level 3 fair value	Carrying value	Level 3 fair value	Carrying value
ASSETS						
Other financial assets at AC						
- Loans issued	1,331	1,331	1,180	1,180	1,506	1,506
TOTAL ASSETS	**1,331**	**1,331**	**1,180**	**1,180**	**1,506**	**1,506**
LIABILITIES						
Borrowings						
- Borrowings	21,221	21,011	22,458	20,595	23,588	19,973
TOTAL LIABILITIES	**21,221**	**21,011**	**22,458**	**20,595**	**23,588**	**19,973**

Trade and other receivables' carrying values approximate to their fair values.

The fair values in level 3 of the fair value hierarchy were estimated using the discounted cash-flow valuation technique. The fair value of floating-rate instruments that are not quoted in an active market was 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.

Financial assets carried at amortised cost. The fair value of floating-rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is 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.

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 2018, 31 December 2017 and 1 January 2017, all of the Group's financial liabilities and financial assets were carried at amortised cost.

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 was 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. Transfer pricing documentation has been regularly prepared by external tax advisors.

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 2018, 31 December 2017 and 1 January 2017.

Capital expenditure commitments. As at 31 December 2018, the Group has contractual capital expenditure commitments in respect of property, plant and equipment of CZK 2,314 million (2017: CZK 1,966 million; as at 1 January 2017: CZK 1,854 million).

Operating lease commitments. Where the Group is the lessee, the future minimum lease payments under non-cancellable operating leases are as follows:

In millions of CZK	**31 December 2018**	**31 December 2017**	**1 January 2017**
Not later than 1 year	105	107	112
Later than 1 year and not later than 5 years	10	8	14
Later than 5 years	-	-	-
Total operating lease commitments	**115**	**115**	**126**

The Group leases network lines from municipalities, companies and private individuals. Contracts for operating lease for the gas lines are concluded for indefinite period with one-year notice period. Lease expense of gas lines mentioned above amounted to CZK 67 million in 2018 (2017: CZK 68 million).

The Group leased vehicles and properties in amount of CZK 17 million in 2018 (2017: CZK 15 million).

Other lease expenses amounted to CZK 31 million in 2018 (2017: CZK 32 million).

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.

The Group is owned by innogy Česká republika a.s., by CGN Holdings S.a.r.l. and by CGN Holdings Company 2 S.a.r.l. (see Note 3.6 Share Capital). As at 31 December 2018, the outstanding balances with related parties were as follows:

In millions of CZK	**Major immediate parent company innogy Česká republika a.s.**	**Other significant shareholders**	**Other related parties***
Trade receivables (included in trade and other receivables)	-	-	127
Receivable from cash-pooling (included in trade and other receivables)	86	-	-
Loans issued	666	665	-
Borrowings	10,514	10,497	-
Trade and other payables	200	-	60
Contract liabilities – advances from customers for gas distribution	-	-	200

* Other related parties in these financial statements are other entities controlled by RWE Aktiengesellschaft

As at 31 December 2017, the outstanding balances with related parties were as follows:

In millions of CZK	**Major immediate parent company innogy Česká republika a.s.**	**Other significant shareholders**	**Other related parties**
Trade receivables (included in trade and other receivables)	-	-	232
Receivable from cash-pooling (included in trade and other receivables)	378	-	-
Loans issued	590	590	-
Borrowings	10,306	10,289	2
Trade and other payables	104	-	152
Contract liabilities – advances from customers for gas distribution	-	-	104

As at 1 January 2017, the outstanding balances with related parties were as follows:

In millions of CZK	**Major immediate parent company innogy Česká republika a.s.**	**Other significant share-holders**	**Other related parties**
Trade receivables (included in trade and other receivables)	-	-	172
Receivable from cash-pooling (included in trade and other receivables)	365	-	-
Loans issued	753	753	-
Borrowings	9,995	9,978	-
Trade and other payables	83	-	198
Contract liabilities – advances from customers for gas distribution (related parties)	-	-	154

The income and expense items with related parties for the year ended 31 December 2018 were as follows:

In millions of CZK	**Note**	**Major immediate parent company innogy Česká republika a.s.**	**Other significant shareholders**	**Other related parties**
Revenue	(i)	3	-	5,658
Other income		-	-	1
Raw materials and consumables used	(ii)	1	-	434
Services	(ii)	910	-	292
Other expenses		-	-	6
Finance income	(iv)	1	1	-
Finance costs	(iv)	505	501	-

The income and expense items with related parties for the year ended 31 December 2017 were as follows:

In millions of CZK	**Note**	**Major immediate parent company innogy Česká republika a.s.**	**Other significant shareholders**	**Other related parties**
Revenue	(i)	3	-	6,049
Other revenue		1	-	1
Raw materials and consumables used	(ii)	4	-	343
Services	(iii)	909	-	287
Other operating expenses		-	-	6
Finance income	(iv)	2	1	-
Finance costs	(iv)	493	490	-

(i) Revenue is represented by price-regulated transactions i.e. standard business terms
(ii) Raw materials and consumables used are recognised at market terms
(iii) Services are transactions based on service-level agreements
(iv) Finance income and costs are recognised at market terms

Dividends declared and paid in 2018 and 2017 are disclosed in Note 3.6 - Share Capital.

Key management compensation. Key management represents 3 Statutory Directors of the subsidiaries and 6 Non-executive Directors of the Board of Directors as at 31 December 2018, 31 December 2017 and 1 January 2017.

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. 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 3 Executive Directors is set out below:

In millions of CZK	**2018** Expense	**2018** Trade and other payables	**2017** Expense	**2017** Trade and other payables	**1 January 2017** Trade and other payables
Short-term benefits:					
- Salaries	9	-	10	-	7
- Short-term bonuses	5	7	6	6	-
- Social security costs	3	-	3	-	-
- Other social costs	-	-	0	-	-
Other long-term employee benefits:					
- Long-term bonus scheme	2	2	2	2	1
Total key management compensation	**19**	**9**	**21**	**8**	**8**

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, in kind consideration in the form of using the cars leased by the Group amounted to CZK 2 million and presented as a personnel expense in the year ended 31 December 2018 (2017: CZK 2 million).

6.3 Principal Subsidiaries, Associates and Joint Venture

The Group's principal subsidiaries as at 31 December 2018 (31 December 2017 and 1 January 2017) 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
GridServices, s.r.o.	Construction activities, repairs, revisions of designated gas and electrical equipment.	100%	100%	Czech Republic
GasNet, s.r.o.	Gas distribution	100%	100%	Czech Republic

The Group did not hold a share in a joint venture or an associate as at 31 December 2018, 31 December 2017 and 1 January 2017.

7 Events after the Reporting Period

Within the framework of the internal restructuring of RWE or innogy Groups, a 50.04% stake in Czech Grid Holding, a.s. owned by innogy Česká republika a.s. was transferred as at 22 February 2019 to RWE Czech Gas Grid Holding B.V. As at 30 September 2019, those shares were sold to Czech Gas Networks Investments Sarl.

Events in the regulatory framework are disclosed in Note 1 - General information.

Approved dividends for the distribution of the profit for 2018 are disclosed in Note 3.6.

The change in the Company name from 15 October 2019 from innogy Grid Holding, a.s. to Czech Grid Holding, a.s. is disclosed in Note 1.1.

Changes of the Board of Directors

On 12 July 2019, Mr. Mark William Braithwaite, a member of the Board of Directors, resigned. On 13 July 2019, the General Meeting appointed Mr. Martin Gebauer as a member of the Board of Directors.

On 17 September 2019, Mr. Martin Herrmann resigned as a member and Chairman of the Board of Directors. On 30 September 2019, two members, Mr. Thomas Merker and Mr. Jan Valenta, resigned from the Board of Directors.

On 1 October 2019, the General Meeting re-appointed Mr. William David George Price and appointed Mr. Lincoln Hillier Webb, Mr. Richard Dinneny and Mrs. Jaroslava Korpancova as members of the Board of Directors. On 3 October 2019, Mr. Martin Gebauer was appointed the Chairman of the Board of Directors.

Changes of the Supervisory Board

On 30 September, two members of Supervisory Board, Mr. Josef Benda and Mr. Ivan Cestr, resigned. On 1 October 2019, the number of members of the Supervisory Board decreased to one member (Mr. Howard Charles Higgins).