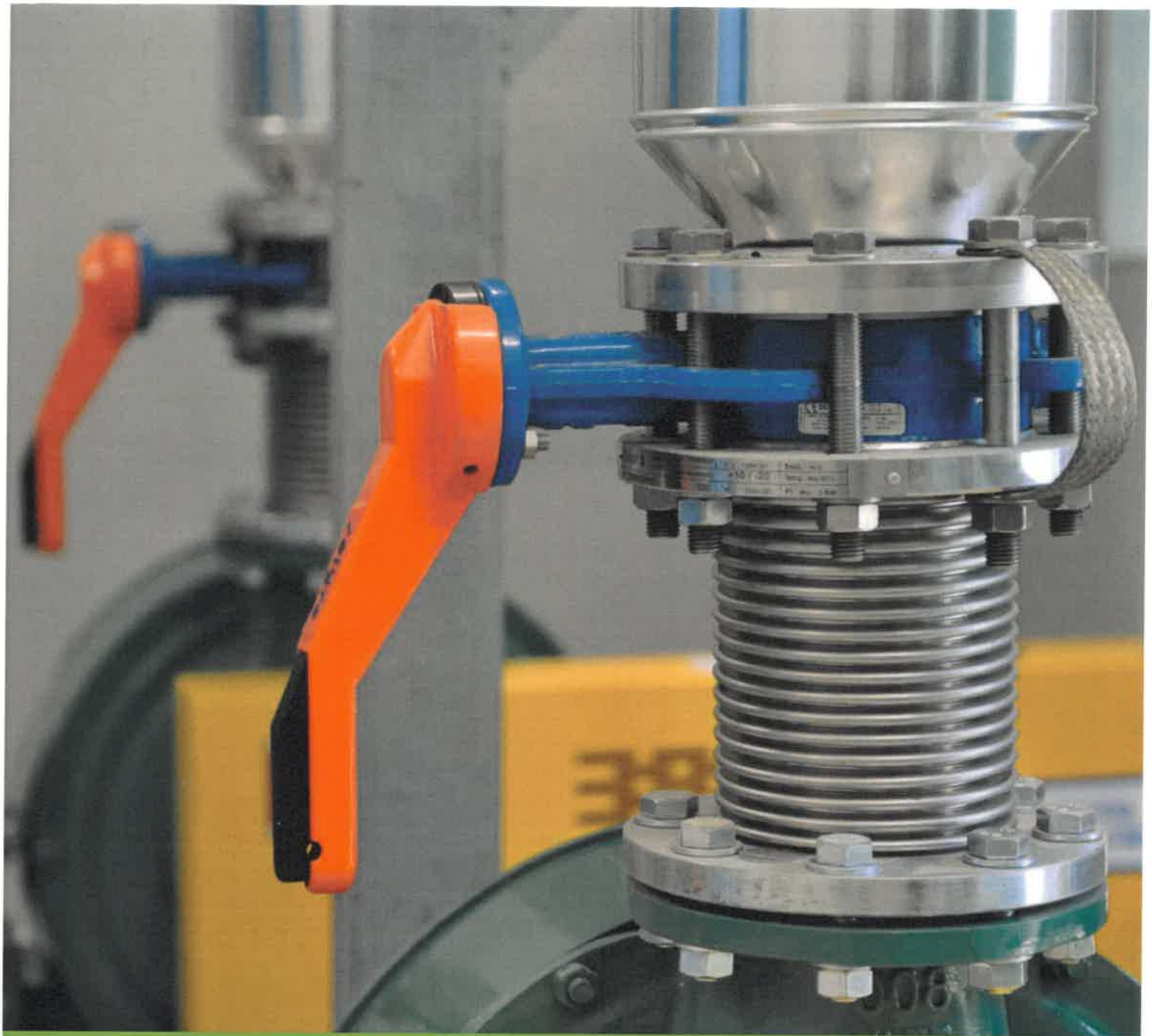

Czech Grid Holding

CONSOLIDATED ANNUAL REPORT 2019

CGH Group Key Ratios (CAS) 2019

Total sales (CZK m)	14,332
Production (CZK m)	14,886
EBITDA (CZK m)	9,467
Operating result (CZK m)	6,978
Profit before taxation (CZK m)	5,905
Profit after taxation (CZK m)	4,783
Investments (CZK m)	3,598
Number of employees (FTE)	2,182

Wherever used in the text, the term "Company" or "CGH" or "Czech Grid Holding" refers to Czech Grid Holding, a.s.
Wherever used in the text, the "CGH Group" refers to the consolidated undertaking comprising Czech Grid Holding, a.s., GasNet, s.r.o and GridServices, s.r.o.

Abbreviations

a.s.	Joint-stock company
s.r.o.	Limited liability company
OHS	Occupational health and safety
CAS	Czech Accounting Standards
IFRS	International Financial Reporting Standards
EBITDA	Earnings before interest, taxes, depreciation, and amortization
SLA	Service level agreement
CGH Group	Consolidated undertaking comprising Czech Grid Holding, a.s., GasNet, s.r.o. and GridServices, s.r.o.
innogy Group in the Czech Republic	innogy Česká republika a.s., innogy Energie, s.r.o., innogy Gas Storage, s.r.o., innogy Energo, s.r.o., innogy Grid Holding, a.s., GasNet, s.r.o., GridServices, s.r.o., innogy Zákaznické služby, s.r.o., and innogy TelNet Holding, s.r.o. (without companies of CGH Group as of 30. 9. 2019)
GasNet	GasNet, s.r.o. (subsidiary of Czech Grid Holding, a.s.)
GridServices	GridServices, s.r.o. (subsidiary of Czech Grid Holding, a.s.)
TSA	Transitional Service Agreement, dated 25 February 2020, by and between innogy Česká republika a.s., innogy Zákaznické služby, s.r.o. and Czech Grid Holding, a.s., GasNet, s.r.o., GridServices, s.r.o.

Contents

1. The Chairman's Statement

Ladies and Gentlemen,

The most important event in 2019 was without doubt a change in the Company's ownership structure. A consortium of investors headed by Macquarie Infrastructure and Real Assets (MIRA), which includes British Columbia Investment Management Corporation (BCI) and Allianz Capital Partners, representing Allianz Group insurance companies, increased its stake in innogy Grid Holding, a.s. (currently Czech Grid Holding, a.s.) to 100%. The transaction was completed in September 2019, following its approval by the European Commission. The consortium therefore gained the exclusive ownership of the Czech Grid Holding, the owner of the grid companies GasNet, s.r.o. and GridServices, s.r.o.

Upon the completion of this transaction, we ceased to be part of the innogy Group, and we began the process of building a strong, autonomous, and fully independent distribution company in the Czech Republic.

The key achievement in 2019 was the fact that we were able to pool resources to secure the operation of the gas distribution system in a safe, reliable, and cost-effective manner. Thanks to that, more than 2.3 million of our customers from the ranks of Czech households and businesses could rely on our supply of vitally important energy day after day.

Stability, consistency, and transparency are the key principles which govern our business and which we will apply and strengthen as part of our operations on the Czech gas market.

We paid close attention to occupational safety, particularly to preventing accidents at work, reducing the risk of traffic accidents, and reinforcing cooperation in this area with external suppliers. We continued to enlarge and improve the portfolio of services for end users of natural gas. A considerable amount of our activities focused on furnace subsidies and gas appliance servicing. We offered services via modern online applications, in line with our commitment to enlarging the service portfolio with a view to reinforcing the position of natural gas on the energy market.

To conclude, I want to thank all employees whose proactive attitude was instrumental in the fulfillment of our tasks. Thanks also go to our business partners and contractors for lasting, prosperous partnerships.

I trust that like in the previous year, we will together secure safe and reliable natural gas supplies in 2020.

Martin Gebauer
Chairman, Board of Directors

2. CGH Group Profile

The CGH Group is a consolidated undertaking comprising three companies. Two of them, GasNet, s.r.o. and GridServices, s.r.o., are sister companies controlled by Czech Grid Holding, a.s., a holding entity responsible for their management and administration.

The CGH Group distributes natural gas throughout the territory of the Czech Republic with the exception of Prague and South Bohemia. Further, the CGH Group oversees the operation and maintenance of the distribution system and the corresponding gas assets. The CGH Group's other business activities include comprehensive document management and administration, measuring natural gas consumption and quality, connecting and disconnecting customers, and, no less importantly, engineering services for the construction and reconstruction of natural gas distribution networks.

On 17 September 2019, the European Commission approved a transaction between RWE AG and E.ON SE, under which RWE AG sold its 76.79% ownership interest in innogy SE to E.ON, and the two groups exchanged other assets.

Following the approval of the transaction by the European Commission, on 30 September 2019 the preemptive right was exercised to sell Grid Group companies, including innogy Grid Holding, a.s., GasNet, s.r.o. and GridServices, s.r.o., to a consortium of investors headed by Macquarie Infrastructure and Real Assets (MIRA), which includes British Columbia Investment Management Corporation (BCI) and Allianz Capital Partners, representing Allianz Group insurance companies.

2.1 General Information on Czech Grid Holding, a.s.

Business Name:	**Czech Grid Holding, a.s.**
Registered Office:	Limuzská 3135/12, 100 98 Prague 10 – Strašnice
Identification Number:	243 10 573
Legal Form:	Joint-stock company

Establishment and Incorporation

Czech Grid Holding, a.s. (at that time operating under the business name RWE Grid Holding, a.s. and subsequently, starting in September 2016, under the business name innogy Grid holding, a.s. and finally the name was changed to its current form on 15 October 2019) was established on 30 May 2012. The Company is registered under Reg. No. B 18283 in the Commercial Register maintained by the Prague Municipal Court.

Company Profile

The core business of the Czech Grid Holding is the management and administration of the subsidiaries GasNet, s.r.o. and GridServices, s.r.o.

Foreign Branch or Division

The Company has no branch or division abroad.

Research and Development

The Company does not carry out research and development.

Shareholders and Issued Securities

The Company has issued 38,580,000 registered shares in certificated form with a nominal value of CZK 626.18 per share. The shares constitute the registered capital, which amounts to CZK 24,158,024,400. The Company holds no own shares.

On 11 March 2018, the companies RWE AG and E.ON SE made an announcement about the agreement, by which the Group RWE AG would sell its 76.79 % share in innogy SE to the E.ON Group. Following a competition's investigation, the European Commission authorised this transaction on 17 September 2019.

Following the approval of the above stated transaction by the European Commission, the association of investors led by Macquarie Infrastructure and Real Assets (MIRA), which previously held a 49.96 % share in the Company, exercised a contractual pre-emptive right for the remaining 50.04 % and became a single shareholder of the Company with the effective date 30 September 2019. This association of investors includes British Columbia Investment Management Corporation (BCI) and Allianz Capital Partners representing Allianz Group insurance companies.

As at 31 December 2019, the Company was 100%-owned by CZECH GAS NETWORKS INVESTMENTS S.À R.L., a company with registered office at 20 Boulevard Royal, L-2449 Luxembourg, Grand Duchy of Luxembourg, Registration No. B233444, Legal form: limited liability company (société à responsabilité limitée).

2.2 CGH Governing and Supervisory Bodies

Board of Directors as at 31 December 2019:

Name	Position	Appointment date
Martin Gebauer	Chairman	13 July 2019
Jaroslava Korpancová	Member	1 October 2019
Christopher Train	Member	25 November 2019
Lincoln Hillier Webb	Member	1 October 2019
William David George Price	Member	1 October 2019
Richard Dinneny	Member	1 October 2019
Jiří Zrůst	Member	1 February 2018

Supervisory Board as at 31 December 2019:

Name	Position	Appointment date
Howard Charles Higgins	Member	1 February 2018

Board of Directors as at 31 December 2018:

Name	Position	Appointment date
Martin Friedrich Herrmann	Chairman	1 February 2018
Thomas Merker	Member	1 February 2018
Jan Valenta	Member	1 February 2018
William David George Price	Member	21 March 2015
Mark William Braithwaite	Member	1 February 2018
Jiří Zrůst	Member	1 February 2018

Supervisory Board as at 31 December 2018:

Name	Position	Appointment date
Josef Benda	Chairman	1 February 2018
Ivan Cestr	Vice-Chairman	1 February 2018
Howard Charles Higgins	Member	1 February 2018

Changes in CGH Corporate Bodies in 2019

On 12 July 2019, the sole shareholder exercising rights and powers of the General Meeting discharged from office Member of the Board of Directors Mark William Braithwaite effective as of 12 July 2019, and elected into office Member of the Board of Directors Martin Gebauer effective as of 13 July 2019.

The sole shareholder acknowledged and approved the resignation and termination of office of Thomas Merker as Member of the Board of Directors of the Company, effective as of 30 September 2019. At the same time, the sole shareholder acknowledged and approved the resignation and termination of office of Jan Valenta as Member of the Board of Directors of the Company effective as of 30 September 2019.

On 30 September 2019, the sole shareholder acknowledged the fact that the Company's Board of Directors had reviewed and approved the resignation and termination of office of Martin Friedrich Herrmann as Member and Chairman of the Board of Directors of the Company effective as of 17 September 2019.

Subsequently, Martin Gebauer was elected the Company's Chairman of the Board of Directors effective as of 3 October 2019.

Furthermore, the sole shareholder discharged William David George Price as Member of the Board of Directors of the Company effective as of 30 September 2019.

At the same time, the sole shareholder amended the Company's Articles of Association as of 1 October 2019, increasing the number of members of the Board of Directors to seven (7) and reducing the number of members of the Supervisory Board to one (1).

As of the same date, 1 October 2019, the sole shareholder elected William David George Price, Jaroslava Korpancová, Richard Dinneny and Lincoln Hillieri Webb as Members of the Board of Directors.

On 30 September 2019, the sole shareholder reviewed and approved the resignation and termination of office of Ivan Cestr as Member and Deputy Chairman of the Supervisory Board of the Company effective as of 30 September 2019, and at the same time reviewed and approved the resignation and termination of office of Josef Benda as Member and Chairman of the Supervisory Board of the Company effective as of 30 September 2019.

Effective as of 25 November 2019, the sole shareholder elected Christopher Train as Member of the Board of Directors.

2.3 General Information on GasNet, s.r.o.

Business Name:	GasNet, s.r.o.
Registered Office:	Klíšská 940/96 Klíše, Ústí nad Labem Postal Code 400 01
Identification Number:	272 95 567
Legal form:	Limited liability company

Establishment of GasNet, s.r.o.

Distribution companies associated under the innogy Group were established on 1 January 2007 to comply with the European Union's laws and the ensuing amendment to the Energy Act requiring the unbundling of gas distribution from trading in companies holding the respective licenses.

At establishment time, the innogy Group consisted of six regional distribution companies – STP Net, s.r.o., SČP Net, s.r.o., ZČP Net, s.r.o., VČP Net, s.r.o., SMP Net s.r.o., and JMP Net, s.r.o.

To streamline the structure, STP Net, s.r.o. and ZČP Net, s.r.o. merged in October 2009 into SČP Net, s.r.o., which was subsequently rebranded as RWE GasNet, s.r.o.

In November 2013, VČP Net s.r.o., SMP Net s.r.o., and JMP Net s.r.o. were wound up by deletion from the Commercial Register. Since that time, gas distribution in the innogy Group has been carried out by a single entity, RWE GasNet, s.r.o. whose business name changed to GasNet, s.r.o. effective as of 1 October 2016.

GasNet, s.r.o. has a registered capital of CZK 4,462,720,000. The Company holds no treasury shares.

Profile of GasNet, s.r.o.

GasNet, s.r.o. distributes gas in the entire territory of the Czech Republic with the exception of Prague and South Bohemia. The gas distribution activity of the Company is regulated by an independent regulatory body, ERO. The regulation of the Company is conducted by determining the overall level of allowed revenues (the Revenue Cap) and the subsequent calculating of tariffs for distribution services for individual customers. These distribution prices (tariffs) are published annually in a price resolution issued by ERO. The year 2019 was the fourth year of the fourth regulatory period. The year 2020 will most likely be the last year of the fourth regulatory period.

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 had a second chance to submit additional comments on the proposed methodology through 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 organised a public hearing during which all those who sent comments could participate. In February, ERO addressed all the submitted comments and suggestions and closed the consultation process by publishing the results of the consultations on its website. However, the final parameters of the methodology for price regulation for the fifth regulatory period (2021-2025) is not expected to be published before the end of April 2020.

Governing Body

GasNet, s.r.o. has three Executive Directors who constitute a collective body.

The composition of the governing body as at 31 December 2019 was as follows:

Name	Position	Appointment date
Martin Gebauer	Chairman of the Executive Directors	30 September 2019
Thomas Merker	Executive Director	30 September 2019
Jan Valenta	Executive Director	1 July 2015

The composition of the governing body as at 31 December 2018 was as follows:

Name	Position	Appointment date
Jan Valenta	Chairman of the Executive Directors	1 July 2015
Dušan Malý	Executive Director	1 December 2016

Foreign Branch or Division of GasNet, s.r.o.

In the year ended 31 December 2019, GasNet s.r.o. had no branch or division abroad.

2.4 General Information on GridServices, s.r.o.

Business Name:	GridServices, s.r.o.
Registered Office:	Plynárenská 499/1 Brno-Center Postal Code: 602 00
Identification Number:	279 35 311
Legal Form:	Limited liability company

Establishment of GridServices, s.r.o.

GridServices, s.r.o. was established on 26 July 2007 and is registered under Reg. No. C 57165 in the Commercial Register maintained by the Brno Regional Court.

GridServices, s.r.o. has a registered capital of CZK 75,000,000. The Company holds no treasury shares.

Profile of GridServices, s.r.o.

GridServices is responsible for the operation and maintenance of the gas assets and distribution system operated by GasNet, including management, document administration, measurement of consumption and quality of natural gas, and customer connection and disconnection. In addition, the Company provides engineering services related to infrastructure construction and reconstruction. The Company has its registered office in Brno and conducts business in all regions of the Czech Republic. The Company has been operating as an independent entity since 1 January 2008.

Governing Body

GridServices, s.r.o. has three Executive Directors who constitute a collective body.

The composition of the governing body as at 31 December 2019 was as follows:

Name	Position	Appointment date
Martin Gebauer	Chairman of the Executive Directors	30 September 2019
Pavel Káčer	Executive Director	1 October 2009
Dušan Malý	Executive Director	30 September 2019

The composition of the governing body as at 31 December 2018 was as follows:

Name	Position	Appointment date
Pavel Káčer	Executive Director	1 October 2009

Foreign Branch or Division of GridServices, s.r.o.

GridServices, s.r.o. has no branch or division abroad.

2.5 Persons Responsible for the Annual Report and for the Audit of Financial Statements

Auditor and Audit Firm Responsible for Auditing the Consolidated Financial Statements of the CGH Group for 2019.

Audit Firm:
PricewaterhouseCoopers Audit, s.r.o.
Hvězdova 1734/2c
140 00 Prague 4
Registered in the Register of Audit Firms
of the Czech Chamber of Auditors, Licence No. 021

Auditor in Charge:
Soňa Hoblová
Statutory Auditor
Licence No. 2470

Person Responsible for Accounting
Lucie Čejková, Senior Manager, Accounting, innogy Česká republika a.s.
Based on SLA with innogy Česká republika a.s.

Board of Directors Responsible for the 2019 Consolidated Annual Report of the CGH Group
We, the undersigned, hereby certify that information disclosed in this Annual Report is true and that no facts of material importance have been omitted or misrepresented.

Prague, dated 28 February 2020

Martin Gebauer
Chairman, Board of Directors

Jiří Zrůst
Member, Board of Directors

3. 2019 CGH Group Management Report

3.1 CGH Group Results

Consolidated Revenues, Expenses, and Profit

Earnings before interest and taxes (EBIT) in 2019 amounted to CZK 5,905 million, a CZK 1,026 million decrease from 2018.

The CGH Group reported CZK 4,783 million in earnings after taxes (EAT), a year-over-year decrease by CZK 830 million.

In 2019, income from natural gas distribution and other services amounted to CZK 14,332 million, CZK 342 million less than in 2018 (2.4% decrease).

Consolidated Assets

As at 31 December 2019, the CGH Group reported CZK 49,967 million in total assets, a CZK 2,511 million (5.3%) increase from the balance at the end of 2018.

Fixed assets accounted for the largest part of total assets, amounting to some 91.9%. Fixed assets mainly consist of gas pipeline networks.

Consolidated Liabilities

On the side of liabilities, equity increased slightly by CZK 760 million, which translates into a 4% increase over 2018. Non-current liabilities increased by CZK 2,124 million to CZK 26,694 million, while current liabilities decreased by CZK 373 million.

3.2 CGH Group Investments

Throughout 2019, the CGH Group executed investment projects worth in total CZK 3,598 million in accordance with the approved investment plan. Most of the funds was invested into distribution system renovation.

3.3 Distribution System

The distribution system is operated by GasNet, s.r.o., a company from the CHG Group, based on Gas Distribution License No. 220604925 granted on 1 January 2007 and updated under Annex 032 issued by the Energy Regulatory Office on 1 October 2019 in accordance with the Energy Act (Act No. 458/200), as in effect.

Overview of Gas Assets		**2019**	**2018**
Length of operated pipelines			
Local networks	km	42,661	42,647
Service lines	km	11,119	11,110
Long-distance lines	km	11,205	11,236
Transfer and very-high-pressure regulating stations	Units	55	55
High-pressure regulating stations	Units	2,763	2,767
Medium-pressure regulating stations	Units	781	787
Cadastral communities with distribution licence	Units	6,888	6,895

3.4 Business and Communication

Business
In 2019, growth on the liberalized natural gas market slowed down vis-à-vis the rapid development in previous years. The extent of supplier switching recorded by GasNet, s.r.o., a company from the CGH Group, was below the levels achieved in 2017 and 2018, when over 200 thousand supplier switches were made annually. Still, the 186,000 supplier switches in 2019 evidence that a large number of consumers continue to monitor the development of prices and services offered by individual natural gas suppliers.

A change in the ownership structure that took place in September 2019 necessitated the following measures in business operations. Work began on dividing the single customer information system we shared in the framework of the former corporate arrangement into two separate applications, and on related modifications of customer service processes, including the insourcing of services aimed at securing support services formerly provided by innogy Zákaznické služby, s.r.o. and innogy Česká repunlika a.s.

Communication
The most important event for the CGH Group, which was highly demanding as regards clear communication toward business partners, was the abovementioned change of the CGH Group's owner. Most importantly, business partners were assured that the parameters of existing partnerships would not change and that all hitherto used communication channels would remain operational, including our website, portal, customer service line, e-mail addresses, and contact points. We also emphasized the fact that the CGH Group had been separated from the innogy brand.

Risk management and anti-corruption policy
CGH Group companies record all risks in the Risk Catalogue. All risks are also recorded in a matrix of risks, which helps to identify the most serious risks in terms of the probability of their occurrence and size of potential damage. For reach risk, the owner of the risk is clearly defined and is responsible for managing the risk. In 2019, the management of the companies of CGH Group did not identify any risks for the existence of CGH Group.

CGH Group companies use a Fraudulent Action Prevention Program, which was complemented starting in November 2011 with a Dishonest Action Prevention Program aimed at preventing actions that go against the Company's interests. Such actions include fraud, occupational health and safety violations, discrimination, and corruption. Detailed information is available to employees in the policy Investigation into Suspicions of Dishonest Actions against the Company's Interests. The program is overseen by the assigned Compliance Officer together with the Internal Audit Department.

3.5 Human Resources

Staffing Levels
In 2019, the CGH Group had 2,182 employees (FTE).

Wages
Throughout the reported year, wages at the CGH Group developed in accordance with the remuneration and wage increase principles agreed in the current Collective Agreement and its annexes.

Social Policy

The Company fulfilled obligations to which member companies of the CGH Group are subject under the Collective Agreement for the years 2018-2020 and all its annexes.

3.6 OHS and Environmental Protection

One of our highest priorities, environmental protection is reflected in all aspects of the CGH Group's operations, processes, and decisions. CGH Group companies are committed not only to complying with legislative requirements, but also to continually improving employees' awareness of environmental issues to provide them with general knowledge of ecology laws and the environmental impact of their actions.

In line with the CGH Group's long-term target of upgrading technologies and, consequently, reducing emissions, 2019 saw the continuation of investments into the refurbishment and modernization of assets at selected gas transfer stations. State-of-the-art technologies were deployed as part of modernization projects.

Occupational health and safety is one of the CGH Group's priorities. In 2019, no serious injuries were sustained by core employees of CGH Group companies.

Close attention was paid to contractors, which included training for construction site supervisors, extensive courses for workers working on gas assets, and intensification of OHS inspections on construction sites. These efforts improved significantly the level of safety on worksites.

Inspections carried out by government authorities of CGH Group companies found no violations of environmental laws and regulations.

There was no serious incident in the framework of operations of of CGH Group companies with an adverse impact on the environment in 2019.

3.7 Outlook

All of the CGH Group's efforts will focus on improving the safety and reliability of natural gas supply to customers, taking into account financial considerations. In the forthcoming year, investments will be made into network renovation. All reconstruction projects are planned based on an assessment of the technical condition of pipelines in accordance with network capacity calculations and long-term forecasts pertaining to the development of gas consumption in given localities.

A high standard of operating safety will be maintained through the ongoing elimination of technical risks during planned network renewal project. A contribution in this regard will be made by a predictive model that selects gas assets to be reconstructed based on past experience with the development of defects in specific facilities and helps allocate funds in an effective manner with the aim of reducing the incidence of leaks to a minimum.

3.8 Subsequent Events

For the time being the Czech Grid Group continues to use the services provided by innogy Česká republika a.s. and innogy Zákaznické služby, s.r.o. The related contracts (SLAs) will be terminated gradually under subsequently agreed conditions throughout 2020 and 2021, in line with relevant conditions and principles defined in the Transitional Service Agreement ("TSA") between the Czech Grid Group and innogy Česká republika a.s. and innogy Zákaznické služby, s.r.o. The TSA was concluded on 25 February 2020. The purpose of the TSA is to provide a framework for the operational separation of the Czech Grid Group from the innogy group in the Czech Republic. The TSA foresees a separation in 2020 of over 60 software applications, so far being used or managed by innogy Česká republika, a.s. for the former integrated innogy group in the Czech Republic. Up to 230 employees (FTE) will be transferred from innogy group in the Czech Republic to the Czech Grid Group and another up to 125 employees (FTE) will be transferred from innogy Zákaznické služby, s.r.o. (Customer Care) to the Czech Grid Group. The plan considers also a purchase of 25 selected buildings from innogy Česká republika, a.s. by Czech Grid Group as well as movable assets. Moreover, around 500 commercial contracts with relevance to the Czech Grid Group's activities have to be split and negotiated on a bilateral basis with contractors.

Events in the regulatory framework are disclosed in section 2.3 General Information on GasNet, s.r.o.

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

4. International Financial Reporting Standards

Consolidated Financial Statements and Independent Auditor's Report

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 2019

Contents

Consolidated Statement of Financial Position as at 31 December 2019

In millions of CZK	Note	31 December 2019	31 December 2018
ASSETS			
Non-current assets			
Property, plant and equipment	3.1	45,895	45,339
Right-of-use assets	3.3	2,324	-
Intangible assets	3.2	220	200
Other non-current assets		1	1
Total non-current assets		**48,440**	**45,540**
Current assets			
Inventories		6	24
Trade and other receivables	3.5	661	556
Income tax prepayment		38	-
Loans issued	3.4	-	1,331
Cash and cash equivalents	5.2	822	5
Total current assets		**1,527**	**1,916**
TOTAL ASSETS		**49,967**	**47,456**
EQUITY			
Share capital	3.7	24,158	24,158
Other distributable reserves	3.7	82	82
Accumulated deficit		(4,456)	(5,216)
Total equity		**19,784**	**19,024**
LIABILITIES			
Non-current liabilities			
Borrowings	3.8	20,710	20,121
Lease liabilities	3.3	1,357	-
Deferred income tax liabilities	4.4	4,360	4,166
Provisions		26	28
Other non-current liabilities	3.9	241	255
Total non-current liabilities		**26,694**	**24,570**
Current liabilities			
Borrowings	3.8	800	890
Lease liabilities	3.3	194	-
Trade and other payables	3.11	1,513	1,783
Contract liabilities	3.6	756	642
Current income tax payable		23	72
Other taxes payable	3.10	190	411
Provisions		13	64
Total current liabilities		**3,489**	**3,862**
Total liabilities		**30,183**	**28,432**
TOTAL LIABILITIES AND EQUITY		**49,967**	**47,456**

Approved for issue and signed on behalf of Management Board on 28 February 2020.

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 2019

In millions of CZK	Note	2019	2018
Revenue	4.1	14,332	14,674
Other income		103	98
Capitalisation of internal costs	3.1	451	366
Net impairment reversals/(losses) on financial assets	3.5	2	(4)
Raw materials and consumables used	4.2.1	(188)	(176)
Employee benefits expense	4.2.2	(1,538)	(1,457)
Depreciation and amortisation	3.1, 3.2, 3.3	(2,489)	(2,229)
Services	4.2.3	(2,963)	(2,457)
Other operating expenses	4.2.4	(732)	(878)
Operating profit		**6,978**	**7,937**
Finance income		10	3
Finance costs	4.3, 3.3	(1,083)	(1,009)
Profit before income tax		**5,905**	**6,931**
Income tax expense	4.4	(1,122)	(1,318)
Profit for the year		**4,783**	**5,613**
Other comprehensive income for the year		-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,783**	**5,613**

Consolidated Statement of Changes in Equity for the year ended 31 December 2019

In millions of CZK	Note	Share capital	Other distributable reserves	Accumulated deficit	Total
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	3.7	(1,012)	-	-	**(1,012)**
Dividends declared	3.7	-	-	(3,944)	**(3,944)**
Balance as at 31 December 2018		**24,158**	**82**	**(5,216)**	**19,024**
Profit for the year		-	-	4,783	**4,783**
Total comprehensive income for 2019		-	-	4,783	**4,783**
Dividends declared	3.7	-	-	(4,023)	**(4,023)**
Balance as at 31 December 2019		**24,158**	**82**	**(4,456)**	**19,784**

Consolidated Statement of Cash Flows
for the year ended 31 December 2019

In millions of CZK	Note	2019	2018
Cash flows from operating activities			
Profit before income tax		5,905	6,931
Adjustments:			
Depreciation and impairment of property, plant and equipment	3.1	2,208	2,133
Amortisation and impairment of other intangible assets	3.2	103	96
Depreciation of right-of-use assets	3.3	178	-
Net impairment losses/(reversals) on financial assets	3.5	(2)	4
Net loss on disposals of property, plant and equipment	4.2.4	69	109
Finance income		(10)	(3)
Finance costs	4.3	1,083	1,009
Other non-cash operating costs		-	12
Operating cash flows before working capital changes		**9,534**	**10,291**
Decrease/(increase) in trade and other receivables		(103)	360
Decrease/(increase) in inventories		18	(1)
Decrease in other non-current liabilities	3.9	(14)	(17)
(Decrease)/increase in contract liabilities, trade and other payables		(33)	448
(Decrease)/increase in provisions		(53)	(16)
(Decrease)/increase in other taxes payable	3.10	(221)	20
Income taxes paid		(1,015)	(1,407)
Interest income received		10	1
Interest paid	3.8, 3.3	(1,194)	(1,018)
Net cash from operating activities		**6,929**	**8,661**
Cash flows from investing activities			
Purchases of property, plant and equipment		(3,791)	(3,989)
Proceeds from the sale of property, plant and equipment and intangible assets		13	19
Lease payments for subsurface rights	3.3	(88)	-
Loans granted to related parties	3.4	(2,831)	(4,624)
Loan repayments received from related parties	3.4	4,162	4,473
Net cash used in investing activities		**(2,535)**	**(4,121)**
Cash flows from financing activities			
Capital distributions to shareholders other than dividends	3.7	-	(1,012)
Principal elements of lease payments	3.3	(143)	-
Dividends paid to the Company's shareholders	3.7	(3,434)	(3,530)
Net cash used in financing activities		**(3,577)**	**(4,542)**
Change in cash and cash equivalents		817	(2)
Cash and cash equivalents at the beginning of the year		**5**	**7**
Cash and cash equivalents at the end of the year		**822**	**5**

Notes to the Consolidated Financial Statements

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 2019 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, 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.à r.l. and 15% by CGN Holdings 2 S.à r.l. The ultimate parent company of the Group was RWE Aktiengesellschaft registered in Germany.

As at 22 February 2019, 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 to RWE Czech Gas Grid Holding B.V.

On 11 March 2018, the companies RWE AG and E.ON SE made an announcement about the agreement, by which the Group RWE AG would sell its 76.79 % share in innogy SE to the E.ON Group. Following a competition's investigation, the European Commission authorised this transaction on 17 September 2019.

Following the approval of the above stated transaction by the European Commission, the association of investors led by Macquarie Infrastructure and Real Assets (MIRA), which previously held a 49.96 % share in the Company, exercised a contractual pre-emptive right for the remaining 50.04 % and became a single shareholder of the Company with the effective date 30 September 2019. This association of investors includes British Columbia Investment Management Corporation (BCI) and Allianz Capital Partners representing Allianz Group insurance companies.

For the time being the Czech Grid Group continues to use the services provided by innogy Česká republika a.s. and innogy Zákaznické služby, s.r.o. The related contracts (SLAs) will be terminated gradually under subsequently agreed conditions throughout 2020 and 2021, in line with relevant conditions and principles defined in the Transitional Service Agreement ("TSA") between the Czech Grid Group and innogy Česká republika a.s. and innogy Zákaznické služby, s.r.o.

As at 30 September 2019, those shares were sold to Czech Gas Networks Investments S.à r.l. As at 31 December 2019, the immediate parent company of the Group was Czech Gas Networks Investments S.à r.l.

The Group's immediate parent was incorporated on 22 March 2019, and it is currently preparing its first consolidated financial statement for the year ended 31 December 2019 according to International Financial Reporting Standards.

As of 30 September 2019, Macquarie European Infrastructure Fund IV became the ultimate parent company of the Group.

The ultimate parent company of the Group as at 31 December 2018 was RWE Aktiengesellschaft, registered in Germany. The last consolidated financial statements it published were 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 operating a natural gas distribution system. The Group operates a distribution system serving an area, defined in its license, which is the largest in the Czech Republic in terms of the area covered by and the length of the operated gas pipelines. The distribution system operator's key obligations include providing for the safe, reliable and economical operation and the maintenance, replacement and development of the distribution system in the delineated area, while gaining funds for these activities by selling distribution capacity.

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

The year 2019 was the fourth 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 the 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 other 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.

On 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 had a second chance to submit additional comments on the proposed methodology through 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 organised a public hearing during which all those who sent comments could participate. In February, ERO addressed all the submitted comments and suggestions and closed the consultation process by publishing the results of the consultations on its website. However, the final parameters of the methodology for price regulation for the fifth regulatory period (2021-2025) is not expected to be published before the end of April 2020.

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 that management exercises its judgement in the process of applying the Group's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 1.3.

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

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

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

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

Property, plant and equipment. Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Property, plant and equipment include assets under construction for future use as property, plant and equipment.

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

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

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

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

	Useful lives in years
Buildings	14 to 50
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 it to use.

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

	Useful lives in years
Software	3
Other	up to 6

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

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

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

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

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

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

Financial assets – classification and subsequent measurement – cash-flow characteristics. Where the business model is to hold assets to collect contractual cash flows or to hold contractual cash flows and sell, the Company assesses whether the cash flows represent solely payments of principal and interest

("SPPI"). Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are consistent with the SPPI feature. In making this assessment, the Company considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e. interest includes only consideration for credit risk, the time value of money, other basic lending risks and profit margin.

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

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

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

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

For trade receivables, the Group applies a simplified approach 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.

Leases. In 2019, the Group applied IFRS 16 Leases for the first time. The impact of the change is described in Note 1.4.

The Group's leasing activities and how these are accounted for

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

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

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

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

(a) fixed payments (including in-substance fixed payments), less any lease incentives receivable
(b) variable lease payment that are based on an index or a rate
(c) amounts expected to be payable by the lessee under residual value guarantees

(d) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and

(e) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

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

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

(f) the amount of the initial measurement of lease liability

(g) any lease payments made at or before the commencement date less any lease incentives received, and

(h) any initial direct costs, and restoration costs.

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

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

The Group does not provide residual value guarantees within leases.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor), i.e. when a lease does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, were charged to profit or loss on a straight-line basis over the period of the lease.

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

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

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

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

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

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

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

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

Value-added tax. Output value-added tax related to sales is payable to tax authorities on the earlier of (i) collection of receivables from customers or (ii) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. Tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial position on a 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 represent 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; and
- a promise to connect the end customer to the distribution network, e.g. install the measuring equipment (gas meter). The gas meter remains in the ownership of the Group.

The distribution of gas and gas meter 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 (per volume of distributed gas).

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

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

Revenues from distribution services are divided into several categories.

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

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

The normal credit term is 14 days upon delivery.

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

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

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

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

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

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

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

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

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

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

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

1.3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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 2019 would be to increase it by CZK 248 million or decrease it by CZK 204 million (2018: 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; and
- To connect the end gas consumers to the distribution network e.g. install the measuring equipment (gas meter). The gas meter remains in the ownership of the Group.

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

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

The Group records revenue based on

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

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

Segment reporting. 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 the key performance indicators of the whole Group. 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's key performance indicators.

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

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

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

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

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

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

A 10% increase or decrease in the discount rate as at 31 December 2019 would result in a decrease of CZK 36 million or, respectively, an increase in the amount of CZK 38 million in lease liabilities (as at 1 January 2019: decrease in the amount of CZK 39 million, increase in the amount of CZK 41 million).

1.4 Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied IFRS 16 for the first time.

The Group has adopted IFRS 16 retrospectively from 1 January 2019 but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as at 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.05%.

For leases previously classified as finance leases the Group recognised the carrying amount of the lease asset and lease liability as the carrying amount of the right of use asset and the lease liability at the date of initial application.

In millions of CZK	
Operating lease commitments disclosed as at 31 December 2018	115
Effect of management's assessment of lease term under IFRS 16	1,920
Effect of discounting to present value	(545)
Accruals for lease payments	54
Lease liability recognised as at 1 January 2019	**1,544**
Of which are:	
Current lease liabilities	169
Non-current lease liabilities	1,375

Operating lease commitments as at 31 December 2018 are mostly related to lease contracts concluded for an indefinite period with a 12-month 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 assessment of the lease term under IFRS 16 in the amount of CZK 1,920 million presented in the table above.

The associated right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018.

The recognised right-of-use assets relate to the following types of assets as at

In millions of CZK	**1 January 2019**
Gas network	965
Subsurface rights	774
Buildings	502
Motor vehicles	16
Land	7
Total right-of-use assets	**2,264**

Right-of-use assets of CZK 774 million as at 1 January 2019 represent 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 were recorded as part of the cost of tangible fixed assets (gas network) as at 31 December 2018 and have been reclassified to right-of-use assets as at 1 January 2019.

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets as at the date of initial application.

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

(i) property, plant and equipment – decrease by CZK 774 million

(j) right-of-use assets – increase by CZK 2,264 million

(k) lease liabilities – increase by CZK 1,544 million

(l) trade and other payables – decrease by CZK 54 million

There was no net impact on retained earnings on 1 January 2019.

Adjusted EBITDA (operating profit less depreciation and amortisation) for the year ended 31 December 2019 increased by CZK 180 million as a result of the change in the accounting policy.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

(m) the use of a single discount rate to a portfolio of leases with reasonably similar characteristics reliance on previous assessments on whether leases are onerous,

(n) the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 (and not containing purchase option) as short-term leases,

(o) the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application,

(p) low value assets recognition exemption to leases of IT-equipment and small items of office furniture that are considered to be low value, and

(q) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

IFRIC 23 "Uncertainty over Income Tax Treatments". 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 interpretation did not have an impact on the consolidated financial statements of the Group.

Prepayment Features with Negative Compensation – Amendments to IFRS 9. 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 a 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. These amendments did not have an impact on the consolidated financial statements of the Group.

Annual Improvements to IFRSs 2015-2017 cycle - amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23. The narrow scope amendments impact four standards. IFRS 3 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. The recognition in profit or loss is only possible if the distribution is in the scope of IFRS 9. 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. These amendments did not have an impact on the consolidated financial statements of the Group.

1.5 Standards issued but not yet effective

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2020 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

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. The amendments are not expected to affect significantly the Group's consolidated financial statements.

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. The amendments are not expected to affect significantly the Group's consolidated financial statements.

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary relief, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are not expected to affect significantly the Group's consolidated financial statements.

(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

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).

Amendments IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing its own equity instruments.

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

2 Entity-wide disclosures

The Group derived revenue from the customer innogy Energie, s.r.o. in the amount of CZK 5,264 thousand in the year ended 31 December 2019 (2018: CZK 5,647 thousand), which represented 37% in the year ended 31 December 2019 (2018: 38%) of the total Group's revenue. Revenue from the other customers of the Group individually did not exceed 10% of the total Group's revenue both in 2019 and 2018.

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 2018	131	3,010	66,786	10,617	824	81,368
Accumulated depreciation	-	(1,468)	(27,640)	(8,146)	-	(37,254)
Carrying amount as at 1 January 2018	**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**

In millions of CZK	Freehold Land	Buildings	Gas Network	Equipment	Construction in progress	Total
Cost as at 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**
Effect of IFRS 16 adoption (Note 1.4)	-	-	(774)	-	-	(774)
Carrying amount as at 1 January 2019	**132**	**1,511**	**39,525**	**2,579**	**818**	**44,565**
Additions	8	76	2,401	633	502	3,620
Transfers	-	13	343	49	(405)	-
Disposals	-	(2)	(67)	(13)	-	(82)
Depreciation charge	-	(93)	(1,613)	(502)	-	(2,208)
Carrying amount as at 31 December 2019	**140**	**1,505**	**40,589**	**2,746**	**915**	**45,895**
Cost at as 31 December 2019	140	3,125	70,919	11,178	915	86,277
Accumulated depreciation	-	(1,620)	(30,330)	(8,432)	-	(40,382)
Carrying amount as at 31 December 2019	**140**	**1,505**	**40,589**	**2,746**	**915**	**45,895**

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 2019 in the amount of CZK 21 million (2018: CZK 11 million).

The Group capitalised its own constructed fixed assets (mainly gas network) of CZK 451 million in the year ended 31 December 2019 (2018: CZK 366 million).

As at 1 January 2019, the Group transferred the carrying amount of subsurface rights for which a consideration is paid by the Group to the landowner in full at the inception of the contract covering the right-of-use assets in the amount of CZK 774 million (Note 1.4).

3.2 Intangible Assets

In millions of CZK	Software	Other	Total
Cost as at 1 January 2018	605	182	787
Accumulated amortisation	(475)	(129)	(604)
Carrying amount as at 1 January 2018	**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 1 January 2019	**144**	**56**	**200**
Additions	66	57	123
Transfers	1	(1)	0
Amortisation charge	(86)	(17)	(103)
Carrying amount as at 31 December 2019	**125**	**95**	**220**
Cost as at 31 December 2019	759	240	999
Accumulated amortisation	(634)	(145)	(779)
Carrying amount as at 31 December 2019	**125**	**95**	**220**

3.3 Leases

i) Amounts recognised in the balance sheet

The statement of financial position shows the following amounts related to leases:

In millions of CZK	31 December 2019	1 January 2019
Right-of-use assets		
Gas network	979	965
Subsurface rights	842	774
Buildings	470	502
Motor vehicles	26	16
Land	7	7
Total right-of-use assets	**2,324**	**2,264**

In millions of CZK	31 December 2019	1 January 2019
Lease liabilities		
Current	194	169
Non-current	1,357	1,375
Total lease liabilities	**1,551**	**1,544**

Additions to the right-of-use assets during the 2019 financial year were CZK 238 million.

		Liabilities from financing activities	
In millions of CZK	Note	2019	2018
Lease liabilities as at 31 December under IAS 17		-	-
Recognised on adoption of IFRS 16	1.4	1,544	-
Lease liabilities as at 1 January		**1,544**	-
Interest on the lease liability	4.3	49	-
Acquisition of leases		150	-
Cash flows		(192)	-
Lease liabilities as at 31 December 2019		**1,551**	-

ii) Amounts recognised in the statement of profit or loss

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

In millions of CZK	2019	2018
Depreciation charge of right-of-use assets		
Buildings	93	-
Gas network	45	-
Subsurface rights	24	-
Motor vehicles	15	-
Land	1	-
Total depreciation charge	**178**	**-**
Interest expense (included in finance cost) – Note 4.3	**49**	**-**

Expenses related to the short-term leases, expenses related to leases of low-value assets and expenses related to variable lease payments are insignificant for the Group in the year ended 31 December 2019.

The total cash outflow for leases in 2019 was 280 CZK million. Out of that, the amount CZK 88 million was paid in advance for the whole length of the contract, therefore, no lease liability was recognised in respect of these lease contracts.

3.4 Loans Issued

In millions of CZK	31 December 2019	31 December 2018
Loans issued	-	1,331
Total loans issued	**-**	**1,331**

Corporate loans as at 31 December 2018 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 2019 and 31 December 2018 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	2019	2018
As at 1 January	**1,331**	**1,180**
Loans granted	2,831	4,624
Loans repaid	(4,162)	(4,473)
As at 31 December	**-**	**1,331**

All loans outstanding as at 31 December 2019 and 31 December 2018 were drawn at the same date (31 December 2019 and 31 December 2018). 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 2019	31 December 2018
Neither past due nor impaired		
- innogy Česká republika, a.s	-	666
- CGN Holdings S.à r.l.	-	465
- CGN Holdings 2 S.à r.l.	-	200
Total neither past due nor impaired	**-**	**1,331**
Total loans issued	**-**	**1,331**

3.5 Trade and Other Receivables

In millions of CZK	31 December 2019	31 December 2018
Trade receivables from non-related parties	556	517
Trade receivables from related parties	-	65
Receivables from cash-pooling	-	86
Other financial receivables	19	6
Less credit loss allowance	(191)	(205)
Total financial assets within trade and other receivables	**384**	**469**
Other receivables	6	10
Prepayments	271	15
Prepayments made to related parties	-	62
Total non-financial assets within trade and other receivables	**277**	**87**
Total trade and other receivables	**661**	**556**

Receivables from cash-pooling comprised 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 months before 31 December 2019 and 31 December 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 the provision matrix presented in the table below. The provision matrix is based on the number of days that an asset is past due, adjusted for forward-looking information on the GDP of the Czech Republic.

In % of gross value	31 December 2019 Loss rate	Gross carrying amount	Lifetime ECL
Trade receivables from non-related parties			
- current	0.14%	354	-
- less than 30 days overdue	5.00%	5	-
- 30 to 90 days overdue	80,00%	3	2
- 91 to 180 days overdue	90.00%	1	1
- 181 to 360 days overdue	95.49%	1	1
- over 360 days overdue	97.50%	192	187
Total trade receivables from non-related parties		**556**	**191**
Trade receivables from related parties and receivables from cash pooling			
- current	-	-	-
Other financial receivables	0.5%	19	-
- current			
Total financial assets within trade and other receivables		**575**	**191**
Total credit loss allowance		(191)	
Total financial assets within trade and other receivables (net carrying amount)		**384**	

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		**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		**674**	**205**
Total credit loss allowance		(205)	
Total financial assets within trade and other receivables (net carrying amount)		**469**	

Trade receivables from non-related parties over 360 days overdue comprise mainly trade receivables more than 3 years overdue as at 31 December 2018 and 31 December 2019.

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	2019	2018
Credit loss allowance		
Balance as at 1 January	**(205)**	**(210)**
New originated or purchased	(30)	(27)
Reversal	32	23
Total credit loss allowance charge in profit or loss for the period	**2**	**(4)**
Write-offs	12	9
Balance as at 31 December	**(191)**	**(205)**

3.6 Contract Balances

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

In millions of CZK	Note	31 December 2019	31 December 2018
Trade receivables		365	377

Trade receivables consist of Trade receivables from non-related parties, Trade receivables from related parties less credit loss allowance (see Note 3.5).

In millions of CZK	Note	31 December 2019	31 December 2018
Contract liabilities – advances from customers for gas distribution (third parties)		754	440
Contract liabilities – advances from customers for gas distribution (related parties)	6.2	-	200
Contract liabilities – advances from customers (services)		2	2
Total current contract liabilities		**756**	**642**

As at 31 December 2019, total contract liabilities increased by CZK 114 million compared to the balance as at 31 December 2018 due to the decrease in gas consumption by customers caused by higher temperatures in December 2019 than expected.

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	2019	2018
Revenue recognised that was included in the contract liability balance at the beginning of the period:		
Gas distribution (third parties)	440	279
Gas distribution (related parties)	200	104
Services	2	1
Total	**642**	**384**

The Group needs 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.

3.7 Share Capital

In millions of CZK	Number of outstanding shares (in thousands)	Ordinary shares	Other reserves
At 31 December 2017	**38,580**	**25,170**	**82**
Decrease in nominal value		(1,012)	-
At 31 December 2018	**38,580**	**24,158**	**82**
At 31 December 2019	**38,580**	**24,158**	**82**

Settlement of capital distributions to shareholders other than dividends is presented below

In millions of CZK	2019	2018
Payables to shareholders related to capital distributions to shareholders other than dividends as at 1 January	-	-
Decrease in nominal value of shares	-	1,012
Total capital distributions to shareholders other than dividends for the year	-	**1,012**
Paid during the year	-	(1,012)
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 2019 and 31 December 2018 with a par value of CZK 626.18 per share (as at 31 December 2018: CZK 626.18 per share). All issued ordinary shares are fully paid. Each ordinary share carries one vote.

Structure of shareholders as at 31 December 2019:	Number of shares (in thousands)	Share (%)
Czech Gas Networks Investments S.à r.l.	38,580	100
Total	**38,580**	**100**

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.à r.l.	13,488	34.96
CGN Holdings 2 S.à r.l.	5,787	15.00
Total	**38,580**	**100**

On 30 September 2019, CGN Holdings 2 S.à r.l. transferred its 15% ownership interest in the Group to CGN Holdings S.à r.l. On 22 February 2019, innogy Česká republika a.s. transferred its 50.04% ownership interest to RWE Czech Gas Grid Holding B.V. As at 30 September 2019, RWE Czech Gas Grid Holding

B.V sold its 50.04% ownership interest in the Group to CGN Holdings S.à r.l. After that, 100% ownership interest in the Group was immediately transferred to Czech Gas Networks Investments S.à r.l.

Dividends declared and paid during the year were as follows:

In millions of CZK	2019 Ordinary	2018 Ordinary
Dividends payable as at 1 January	-	-
Dividends declared during the year	4,023	3,944
Dividends paid during the year	(3,434)	(3,530)
Settlement through increase in borrowings (Note 3.8)	(589)	(414)
Dividends payable as at 31 December	-	-
Dividends per share declared during the year (in CZK)	**104.28**	**102.26**

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 2019, the current year net statutory profit of the Company has not yet been published. For 2018, the net statutory profit for the Company as reported in the published annual statutory financial statements was CZK 4,957 million and the closing balance of the retained earnings including the current year net statutory profit was CZK 4,972 million.

On 24 May 2019, the General Meeting approved the separate financial statements of the Company under local accounting rules for 2018 with the profit for the year 2018 of CZK 4,957 million and decided about the distribution of dividends in amount of CZK 4,023 million from that profit. The dividends in the amount of CZK 3,434 million were settled in cash and CZK 589 million were settled through increase in borrowings.

3.8 Borrowings

Borrowings comprise loans provided by the shareholders, as follows:

In millions of CZK	31 December 2019	31 December 2018
Term loans		
- Non-current portion	20,710	20,121
- Current portion	800	890
Total borrowings	**21,510**	**21,011**

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

In millions of CZK	**31 December 2019**	**31 December 2018**
Non-current borrowings		
- innogy Česká republika, a.s	-	10,069
- CGN Holdings S.à r.l.	-	7,034
- CGN Holdings 2 S.à r.l.	-	3,018
- Czech Gas Networks Investments S.à r.l.	20,710	-
Total non-current borrowings	**20,710**	**20,121**

Non-current borrowings consist of 9 tranches as at 31 December 2019 (as at 31 December 2018: 8 tranches) with weighted average interest rate of 4.92 % p.a. as at 31 December 2019 (as at 31 December 2018: 4.925 % p.a.).

Non-current borrowings as at 31 December 2019 and 31 December 2018 had maturities ranging from 2023 to 2031.

In millions of CZK	**31 December 2019**	**31 December 2018**
Current borrowings		
- innogy Česká republika, a.s	-	445
- CGN Holdings S.à r.l.	-	311
- CGN Holdings 2 S.à r.l.	-	134
- Czech Gas Networks Investments S.à r.l.	800	-
Total current borrowings	**800**	**890**

Current borrowings as at 31 December 2019 had a maturity date on 29 May 2020 (as at 31 December 2018: 31 May 2019). They bore an interest of 3,430 % p.a. as at 31 December 2019 (as at December 2018: 2,870 % 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 2019 and as at 31 December 2018. It was received for the purposes of construction of gas network and bore floating interest rate 3M PRIBOR +1,25 % margin as at 31 December 2019 (31 December 2018: 3M PRIBOR + 0,8 % margin).

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 in the statement of cash flows:

In millions of CZK	Note	Liabilities from financing activities 2019	2018
Liabilities from financing activities as at 1 January		**21,011**	**20,595**
Settlement of the liability from unpaid dividends	3.7	589	414
Interest expenses	4.3	1,034	1,009
Interest capitalised	4.3	21	11
Interest paid (expensed and capitalised)		(1,145)	(1,018)
Liabilities from financing activities as at 31 December		**21,510**	**21,011**

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

3.9 Other Non-current Liabilities

The balance of non-current liabilities comprises the following:

in millions of CZK	31 December 2019	31 December 2018
Deferred income from government grants	227	237
Other non-current liabilities	14	18
Total	**241**	**255**

3.10 Other Taxes Payable

In millions of CZK	31 December 2019	31 December 2018
Other taxes payable within one year comprise the following:		
Value-added tax	177	395
Personal income tax	13	16
Other taxes payable – current	**190**	**411**

3.11 Trade and Other Payables

In millions of CZK	31 December 2019	31 December 2018
Trade payables to non-related parties	783	597
Deposits received	416	612
Trade payables to related parties	-	260
Accrued liabilities	111	96
Other payables	6	5
Total financial payables within trade and other payables	**1,316**	**1,570**
Other payables	15	16
Liabilities to employees	143	156
Liabilities to social security and health insurance	39	41
Total non-financial payables within trade and other payables	**197**	**213**
Total trade and other payables	**1,513**	**1,783**

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	2019	2018
Revenue from gas distribution	14,166	14,573
Revenues from rendering of other services and sale of goods	166	101
Total revenue	**14,332**	**14,674**

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 2018 and 31 December 2019.

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	2019	2018
Revenues from gas distribution		
Large and medium sized consumers category	5,238	5,398
Small sized consumers category	2,213	2,199
Households category	6,715	6,976
Total revenue	**14,166**	**14,573**

Revenues from gas distribution were recognised over time in the year ended 31 December 2018 and 31 December 2019.

4.2 Expenses

4.2.1 Raw materials and consumables used

In millions of CZK	2019	2018
Spare parts and materials	125	108
Fuel	43	46
Consumables	20	22
Total raw materials and consumables	**188**	**176**

4.2.2 Employee benefits expense

In millions of CZK	2019	2018
Wages and salaries	1,089	1,038
Statutory pension contributions	226	220
Statutory health insurance and social security	139	130
Supplementary pension insurance	37	38
Other employee benefits	47	31
Total employee benefits expense	**1,538**	**1,457**

4.2.3 Services

In millions of CZK	2019	2018
Gas transportation	1,150	776
Shared service centre	595	575
Gas network maintenance	396	374
IT and network services	386	381
Energy market operation fees	129	133
Billing services	54	50
Travel expenses	35	36
Phone costs	21	21
Car fleet maintenance	63	24
Training expenses	11	11
Consultancy fees	69	21
Other services	54	55
Total services	**2,963**	**2,457**

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

4.2.4 Other operating expenses

In millions of CZK	2019	2018
Operating losses within gas transportation	500	370
Lease expenses	-	261
Net loss on disposal of property, plant and equipment	69	109
Utilities	98	67
Other taxes and charges	13	12
Insurance expenses	15	10
Other items	37	49
Total other operating expenses	**732**	**878**

4.3 Finance Costs

In millions of CZK	2019	2018
Interest expense on borrowings	1,055	1,020
Interest expense on the lease liability	49	-
Less capitalised finance costs	(21)	(11)
Total finance costs recognised in profit	**1,083**	**1,009**

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	**2019**	**2018**
Current tax	928	1,124
Deferred tax	194	194
Income tax expense for the year	**1,122**	**1,318**

(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 2019 and 2018 income is 19%. The reconciliation between the expected and the actual taxation charge is provided below.

In millions of CZK	**2019**	**2018**
Profit before tax	**5,905**	**6,931**
Theoretical tax charge at statutory rate of 19%:	1,122	1,317
Tax effect of items which are not deductible or assessable for taxation purposes:		
- Income which is exempt from taxation	(11)	(10)
- Non-deductible expenses	11	11
Income tax expense for the year	**1,122**	**1,318**

(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 2019**	**Adoption of IFRS 16**	**(Charged) to profit or loss**	**31 December 2019**
Tax effect of deductible/(taxable) temporary differences				
Difference between tax and accounting value of Property, plant and equipment (different tax depreciation)	(4,197)	21	(190)	(4,366)
Provisions for liabilities and charges	31	-	(3)	28
Right of use assets and lease liabilities	-	(21)	(1)	(22)
Net deferred tax liability	**(4,166)**	**-**	**(194)**	**(4,360)**
Recognised deferred tax asset	31	21	(46)	6
Recognised deferred tax liability	(4,197)	(21)	(148)	(4,366)
Net deferred tax liability	**(4,166)**	**-**	**(194)**	**(4,360)**

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

The tax effect of the movements in the temporary differences for the year ended 31 December 2018 are

In millions of CZK	1 January 2018	(Charged)/ credited 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 (revaluation, 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)**

5 Risk Management

5.1 Offsetting Financial Assets and Financial Liabilities

Financial instruments subject to offsetting are as follows as at 31 December 2019:

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	384	-	384
Total assets subject to offsetting	**384**	**-**	**384**
Liabilities - Trade and other payables	1,316	-	1,316
Total liabilities subject to offsetting	**1,316**	**-**	**1,316**

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

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	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**

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 Crefoport (originally Credit reform). 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 the determination methodology, models and data inputs. The following components have a major impact on credit loss allowance: definition of default, significant increase in credit risk, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"). The 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 Note 3.4; for Trade and other receivables it is presented in Note 3.5. Cash and cash equivalents are presented by bank balances payable on demand held in the bank Československá obchodní banka, a. s. with a Moody's credit rating of A1 as at 31 December 2019 and 31 December 2018. These balances were of low credit risk; hence a 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 the payables and receivables of the Group are only occasionally denominated in a foreign currency.

Interest rate risk. The volatility of market interest rates can have a significant effect on 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 fixed on a 3-month basis. If the interest rates as at 31 December 2019 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 2019 and 2018 would not be affected.

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 the Group's long-term 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 than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**More than 1 year**	**Total**
31 December 2019						
Loans issued	3.4	-	-	-	-	-
Borrowings	3.8	-	(800)	-	(20,710)	21,510
Net interest sensitivity gap as at 31 December 2019		**-**	**(800)**	**-**	**(20,710)**	**21,510**
31 December 2018						
Loans issued	3.4	1,331	-	-	-	1,331
Borrowings	3.8	-	(890)	-	(20,121)	(21,011)
Net interest sensitivity gap as at 31 December 2018		**1,331**	**(890)**	**-**	**(20,121)**	**(19,680)**

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 2019 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 2019 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	1,316	1,316	1,115	201	-	-	-
Borrowings	21,510	28,972	-	171	1,587	8,341	18,873
Lease liability	1,551	2,037	16	33	145	633	1,210
Total	**24,377**	**32,325**	**1,131**	**405**	**1,732**	**8,974**	**20,083**

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**

5.3 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Group managed as at 31 December 2019 was CZK 19,784 million (as at 31 December 2018: CZK 19,024 million).

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities divided by RAB (Regulated Asset Base). During 2019, the Group's strategy, which was unchanged from 2018, was to maintain the gearing ratio 45% of RAB. As at 31 December 2019 and as at 31 December 2018, the actual gearing ratio based on RAB was 45%.

The Group has complied with all externally imposed capital requirements throughout 2019 and 2018.

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 31 December 2018 or 31 December 2019.

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 2019		31 December 2018	
In millions of CZK	Level 3 fair value	Carrying value	Level 3 fair value	Carrying value
ASSETS				
Other financial assets at AC				
- Loans issued	-	-	1,331	1,331
TOTAL ASSETS	**-**	**-**	**1,331**	**1,331**
LIABILITIES				
Borrowings				
- Borrowings	22,557	21,510	21,221	21,011
TOTAL LIABILITIES	**22,557**	**21,510**	**21,221**	**21,011**

Carrying values of Trade and other receivables, Trade and other payables 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 2019 and 31 December 2018, all 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 2019 and 31 December 2018.

Capital expenditure commitments. As at 31 December 2019, the Group has contractual capital expenditure commitments in respect of property, plant and equipment of CZK 2,385 million (2018: CZK 2,314 million).

Operating lease commitments.

For 2019, see the paragraph adoption of IFRS 16, Note 1.4.

In 2018, where the Group was the lessee, the future minimum lease payments under non-cancellable operating leases were as follows:

In millions of CZK	**31 December 2018**
Not later than 1 year	105
Later than 1 year and not later than 5 years	10
Later than 5 years	-
Total operating lease commitments	**115**

The Group leases network lines from municipalities, companies and private individuals. Contracts for an 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.

The Group leased vehicles and properties in the amount of CZK 17 million in 2018.

Other lease expenses amounted to CZK 31 million in 2018.

6.2 Balances and Transactions with Related Parties

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

As at 31 December 2018, the Group was owned by innogy Česká republika a.s., by CGN Holdings S.à r.l. and by CGN Holdings Company 2 S.à r.l. (see Note 3.7 Share Capital).

In February 2019, innogy Česká republika a.s. transferred its ownership interest to RWE Czech Gas Grid Holding B.V. As at 30 September 2019, the ownership interest was sold to CGN Holdings S.à r.l. and immediately transferred to Czech Gas Networks Investments S.à r.l. (see Note 3.7 Share Capital).

As at 31 December 2019, the Group was owned by Czech Gas Networks Investments S.à r.l.

As at 31 December 2019, the outstanding balances with related parties were as follows:

In millions of CZK	**Major immediate parent company Czech Gas Networks Investments S.à r.l.**	**Other significant shareholders**	**Other related parties**
Trade receivables (included in trade and other receivables)	-	-	-
Receivable from cash-pooling (included in trade and other receivables)	-	-	-
Loans issued	-	-	-
Borrowings	21,510	-	-
Trade and other payables	-	-	-
Contract liabilities – advances from customers for gas distribution	-	-	-

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

Details of Loans issued and Borrowings are disclosed in Notes 3.4 and 3.8.

The income and expense items with related parties for the year ended 31 December 2019 were as follows:

In millions of CZK	Note	Major immediate parent company*				Other significant shareholders **	Other related parties***
		innogy Česká republika a.s.	RWE Czech Gas Grid Holding B.V	Czech Gas Networks Investments S.à r.l.	Total		
Revenue	(i)	1	-	-	**1**	-	3,604
Other income		-	-	-	**-**	-	1
Services	(ii)	133	-	-	**133**	-	647
Other expenses		2	-	-	**2**	-	512
Finance income	(iv)	-	1	-	**1**	1	-
Finance costs	(iv)	83	264	261	**608**	424	-

*Major immediate parent companies of the Group in 2019 were:

- innogy Česká republika a.s. within the period from 1 January 2019 to 22 February 2019
- RWE Czech Gas Grid Holding B.V within the period from 23 February 2019 to 30 September 2019
- Czech Gas Networks Investments S.à r.l. starting from 1 October 2019

**Other significant shareholders were CGN Holdings S.à r.l. and CGN Holdings 2 S.à r.l. in the period from 1 January 2019 to 30 September 2019.

***Other related parties in these financial statements are other entities controlled by RWE Aktiengesellschaft that was the ultimate parent of the Czech Grid Group in the period between 1 January 2019 and 30 September 2019.

For more details related to the change of the major immediate parent company, refer to Note 3.7

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
Services	(ii)	910	-	294
Other operating expenses	(iii)	1	-	438
Finance income	(iv)	1	1	-
Finance costs	(iv)	505	501	-

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

Dividends declared and paid in 2019 and 2018 are disclosed in Note 3.7 - Share Capital.

Key management compensation. Key management represents 4 Senior Executives of the subsidiaries and 7 Non-executive Directors of the Board of Directors as at 31 December 2019 and (As at 31 December 2018: 3 Senior Executives of the subsidiaries and 6 Non-executive Directors of the Board of Directors).

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 the remuneration of the 4 Senior Executives in the year ended 31 December 2019 (2018: 3 Senior Executives) is set out below.

	2019		2018	
In millions of CZK	**Expense**	**Trade and other payables**	**Expense**	**Trade and other payables**
Short-term benefits:				
- Salaries	11	-	9	-
- Short-term bonuses	6	7	5	7
- Social security costs	4	-	3	-
Other long-term employee benefits:				
- Long-term bonus scheme	3	2	2	2
Total key management compensation	**24**	**9**	**19**	**9**

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 3 million and presented as a depreciation of the right-of-use assets in the year ended 31 December 2019 (2018: CZK 2 million in Other operating expenses).

6.3 Principal Subsidiaries

The Group's principal subsidiaries as at 31 December 2019 (31 December 2018) 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 2019 and 31 December 2018.

7 Events after the Reporting Period

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

On 25 February 2020, the companies of the Czech Grid Group concluded a so called Transitional Service Agreement with innogy Česká republika, a.s. and innogy Zákaznické služby, s.r.o (see also Note 1 – General information). The purpose of the TSA is to provide a framework for the operational separation of the Czech Grid Group from the innogy group in the Czech Republic. The TSA foresees a separation in 2020 of over 60 software applications, so far being used or managed by innogy Česká republika, a.s. for the former integrated innogy group in the Czech Republic. Up to 230 employees (FTE) will be transferred from innogy group in the Czech Republic to the Czech Grid Group and another up to 125 employees (FTE) will be transferred from innogy Zákaznické služby, s.r.o. (Customer Care) to the Czech Grid Group. The plan considers also a purchase of 25 selected buildings from innogy Česká republika, a.s. by Czech Grid Group as well as movable assets. Moreover, around 500 commercial contracts with relevance to the Czech Grid Group's activities have to be split and negotiated on a bilateral basis with contractors.

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., 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 2019, the Consolidated Statements of Profit or Loss and Other Comprehensive Income, Changes in Equity and Cash Flows for the year ended 31 December 2019 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 2019, of its consolidated financial performance and its consolidated cash flows for the year ended 31 December 2019 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.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the consolidated Annual Report other than the consolidated financial statements and auditor's report therein. The Board of Directors is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge about the Group obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Board of Directors, Supervisory Board and Audit Committee 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. The Audit Committee of the Company is responsible for monitoring of the consolidated financial statements preparation 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.

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.

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- 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 Audit Committee 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 February 2020

PricewaterhouseCoopers Audit, s.r.o.

represented by

Václav Prýmek

Soňa Hoblová
Statutory Auditor, Licence No. 2470

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

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