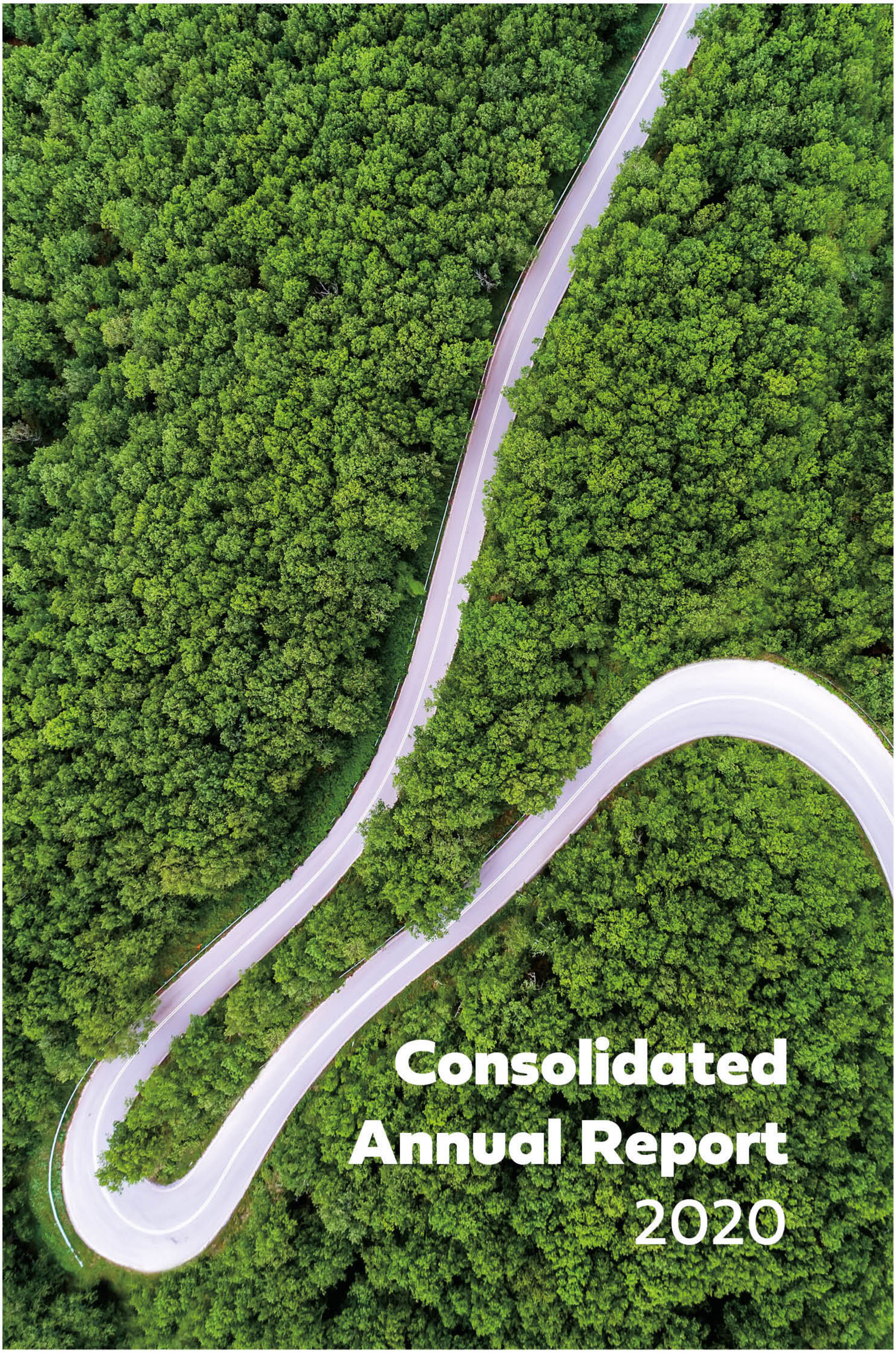


CZECH GRID HOLDING

## GasNet Group Key Ratios (CAS) 2020

| | |
|---|---|
| Total sales (CZK m) | 14,594 |
| EBITDA (CZK m) | 9,214 |
| Operating result (CZK m) | 6,589 |
| Profit before taxation (CZK m) | 5,429 |
| Profit after taxation (CZK m) | 4,403 |
| Investments (CZK m) | 4,943 |
| Number of employees (FTE) | 2,294 |

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 "GasNet Group" refers to the consolidated undertaking comprising Czech Grid Holding, a.s., GasNet, s.r.o and GridServices, s.r.o.

## Abbreviations

| | |
|---|---|
| OHS | Occupational health and safety |
| CAS | Czech Accounting Standards |
| IFRS | International Financial Reporting Standards |
| EBITDA | Earnings before interest, taxes, depreciation, and amortization |
| ERO | Energy Regulatory Office |
| GasNet Group | Consolidated undertaking comprising Czech Grid Holding, a.s., and its subsidiaries GasNet, s.r.o., and GasNet Služby, s.r.o. |
| GasNet | GasNet, s.r.o. (subsidiary of Czech Grid Holding, a.s.) |
| GasNet Služby | GasNet Služby, s.r.o. (subsidiary of Czech Grid Holding, a.s.) |
| MEIF 4 LP | Macquarie European Infrastructure Fund 4 LP |
| SLA | Service level agreement |
| 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,

Twenty-twenty was an exceptional and highly demanding year for Czech Grid Holding, a.s. Despite the challenges we faced, I am pleased to report that the past 12 months have been a clear success.

The COVID-19 pandemic has changed everything we had hitherto considered unalterable reality. It affected the personal and professional lives of everyone. All of us, including the staff of our subsidiaries GasNet and GasNet Služby, were faced with a challenge that put through a test the very purpose of our existence and our mission – securing the safe and reliable supply of natural gas. We prevailed. Despite the state of emergency and all of the imposed restrictions, millions of consumers were able to rely fully on our supply of vitally important energy. Every day, day after day. Last year's events underscored the Company's key role.

Twenty-twenty was also the first year during which we operated fully independently after leaving the innogy Group. Despite the unprecedented challenges, last year saw us successfully continue building the GasNet Group as a strong, independent energy corporation. Solid foundations were built to ensure future prosperity.

We unveiled a new corporate design for our brand. The brand is strong, proud, self-confident, and friendly. We now have a new identity and image. Together with the new corporate design, we launched the GasNet Group's Customer Service Line at 555 90 10 10. The line has simplified and accelerated communication with consumers and the general public.

Twenty-twenty was indeed an intense year. We joined forces, however, and successfully coped with all of the challenges it brought. We remained resolved, positive, and cohesive.

I want to thank employees of GasNet and GasNet Služby for their professionalism, hard everyday work, and proactive attitude. Thanks also go to our business partners and contractors for lasting, prosperous partnerships.

We have set a number of ambitious goals for the year 2021. I am confident that we will together succeed in fulfilling all of them, as we always have in the past.

**Martin Gebauer**
Chairman of the Board of Directors

## 2. GasNet Group Profile

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

The GasNet Group distributes natural gas throughout the territory of the Czech Republic with the exception of Prague and South Bohemia. Further, the GasNet Group oversees the operation and maintenance of the distribution system and the corresponding gas assets. The GasNet 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.

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

| | |
|---|---|
| Business Name: | Czech Grid Holding, a.s. |
| Registered Office: | Prosecká 855/68<br>Prague 9 – Prosek<br>190 00 |
| Identification Number: | 243 10 573 |
| Legal Form: | Joint-stock company |

### Establishment and Incorporation

Czech Grid Holding, a.s. (originally operating under the business name RWE Grid Holding, a.s. and subsequently under the business name innogy Grid holding, a.s. starting on 1 September 2016 and Czech Grid Holding, a.s. starting 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. GasNet Služby, s.r.o. (formerly GridServices, s.r.o. until 11 October 2020).

### 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.

As at 31 December 2020, 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 of the Company

### Board of Directors as at 31 December 2020:

| Name | Position | Appointment date |
|---|---|---|
| Martin Gebauer | Chairman | 13 July 2019 |
| Jaroslava Korpancová | Member | 1 October 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 |
| Gary Wheatley Mazzotti | Member | 7 March 2020 |

Supervisory Board as at 31 December 2020:

| Name | Position | Appointment date |
|---|---|---|
| Howard Charles Higgins | Member | 1 February 2018 |

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 |

## Changes in CGH Corporate Bodies in 2020

Effective as of 6 March 2020, the sole shareholder exercising the powers of the General Meeting discharged Christopher Train as Member of the Board of Directors. Effective as of 7 March 2020, the sole shareholder elected Gary Wheatley Mazzotti 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 |
| Company No.: | 272 95 567 |
| Legal form: | Limited liability company |

### Establishment of GasNet, s.r.o.

Established on 2 June 2006, the Company is registered under Reg. No. C 23083 in the Commercial Register maintained Ústí nad Labem Regional Court.

GasNet, s.r.o. has a registered capital of CZK 4,462,720,000.

### 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. Because the Company has a natural monopoly in the gas distribution sector, its business is regulated by the Energy Regulatory Office. As a rule, the distribution price is set for one year based on the methodological principles in effect for a given regulatory period. The regulatory period usually lasts five years. 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.

Twenty-twenty was the last year of the Fourth Regulatory Period (2016-2020) during which regulatory rules for the Fifth Regulatory Period (2021-2025) were defined. The rules for determining certain price regulation parameters have been amended. The methodological changes mainly concern profit and eligible costs; other parameters remain unchanged. Apart from inflation, the time distribution of correction factors and, no less importantly, the Company's investment decisions will have the biggest effect on changes in the trajectory of forecasts of future development.

### 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 2020 and 2019 was as follows:

| Name | Position | Appointment date |
|---|---|---|
| Martin Gebauer | Chairman of the Executive Directors | 7 October 2019 |
| Thomas Merker | Executive Director | 30 September 2019 |
| Jan Valenta | Executive Director | 1 July 2015 |

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

In the year ended 31 December 2020, GasNet s.r.o. had no branch or division abroad.

## 2.4 General Information on GasNet Služby, s.r.o.

| | |
|---|---|
| Business Name: | GasNet Služby, s.r.o. |
| Registered Office: | Plynárenská 499/1<br>Brno-Center<br>Postal Code: 602 00 |
| Company No.: | 279 35 311 |
| Legal Form: | Limited liability company |

### Establishment of GridServices, s.r.o.

GasNet Služby, 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.

GasNet Služby, s.r.o. has a registered capital of CZK 75,000,000.

### Profile of GasNet Služby, s.r.o.

GasNet Služby 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 projects. The Company has its registered office in Brno and operates in all regions of the Czech Republic. The Company has been conducting as an independent entity since 1 January 2008.

### Governing Body

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

The composition of the governing body as at 31 December 2020 was as follows:

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

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 |

### 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 the Consolidated Financial Statements in accordance with the International Financial Reporting Standards as adopted by the European Union

Auditor and Audit Firm Responsible for Auditing the Consolidated Financial Statements of the GasNet Group for 2020.

**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 & Taxes, GasNet, s.r.o.
Based on SLA with GasNet, s.r.o.

**Board of Directors Responsible for the 2020 Consolidated Annual Report of the GasNet 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 22 March 2021

**Martin Gebauer**
Chairman of the Board of Directors

**Gary Wheatley Mazzotti**
Member, Board of Directors

# 3. 2020 GasNet Group Management Report

## 3.1 GasNet Group Results

### Consolidated Revenues, Expenses, and Profit

The GasNet Group's financial performance in 2020 was affected by the development of climatic conditions, as temperatures remained above the long-term average, particularly in February. CZK 14,594 million in sales of services accounted for the highest part of revenues. Proceeds from natural gas distribution totaled CZK 14,438 million, a CZK 272 million year-to-year increase. In 2020, the GasNet Group earned CZK 4,403 million in profit after taxes.

### Consolidated Assets

As at 31 December 2020, the GasNet Group's total asets amounted to CZK 52,681 million. The value of fixed assets as at 31 December 2020 amounted to CZK 50,646 million, a CZK 2,206 million increase from the balance on 31 December 2019. The value of fixed assets was mainly affected by the volume of investments into the reconstruction of gas assets and an increase in the balance of intangible fixed assets in connection with the process of separation the innogy Group and establishement of its own IT network.

### Consolidated Liabilities

As at 31 December 2020, the GasNet Group's total liabilities amounted to CZK 47,801 million, a CZK 17,618 million increase from the balance on 31 December 2019. The value of liabilities was mainly affected by an increase in long-term loans, in the amount of CZK 12,133.

On 6 November 2020, the Company's Board of Directors approved the interim financial statements as at 31 October 2020 and decided on declaration of interim dividends in the total amount of CZK 16,254 million by distribution from the interim reporting period net profit under Czech Accounting Rules. On 10 November 2020, there was a settlement of CZK 11,380 million through increase in borrowings. The amount of CZK 4,874 million was outstanding as at 31 December 2020 and on 1 January 2021 was settled through increase in long-term borrowings which was agreed between the parties on 15 December 2020.

## 3.2 GasNet Group Investments

Throughout 2019, the GasNet Group executed investment projects worth in total CZK 4,943 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 GasNet Group, based on Gas Distribution License No. 220604925 granted on 1 January 2007 and updated under Annex 036 issued by the Energy Regulatory Office on 4 December 2020 in accordance with the Energy Act (Act No. 458/200), as in effect.

| **Overview of Gas Assets** | | **2020** | **2019** | **2018** | **2017** |
|---|---|---|---|---|---|
| Length of operated pipelines | | | | | |
| Local networks | km | 42,703 | 42,661 | 42,647 | 42,591 |
| Service lines | km | 11,139 | 11,119 | 11,110 | 11,092 |

| | | | | | |
|---|---|---|---|---|---|
| Long-distance lines | km | 11,179 | 11,205 | 11,236 | 11,277 |
| Transfer and very-high-pressure regulating stations | units | 55 | 55 | 55 | 53 |
| High-pressure regulating stations | units | 2,756 | 2,763 | 2,767 | 2,751 |
| Medium-pressure regulating stations | units | 772 | 781 | 787 | 801 |
| Cadastral communities with a distribution license | units | 6,888 | 6,888 | 6,895 | 6,895 |

## 3.4 Business and Communication

### Separation from the innogy Group

The Company's operations in 2020 were affected by the transformation process. On 25 February 2020, a Transitional Service Agreement was signed between GasNet Group companies, innogy Česká republika a.s., and innogy Zákaznické služby, s.r.o. The agreement laid down a framework for the separation of the Company's operations from the innogy Group.

Resulting from the ownership structure change and aiming to improve efficiency, services were transferred from the innogy Group to GasNet in accordance with the TSA. The entire process was successfully concluded at the end of 2020.

On 12 October 2020, GasNet unveiled a new brand design that represents its corporate identity and brings together GasNet, s.r.o. and GasNet Služby, s.r.o., both of which began to operate under the same brand starting on the above date. At the same time, the content of the websites of both companies was merged, and relevant changes were incorporated into all printed documents.

### COVID-19

In March 2020, the first cases of infection by the SARS-CoV-2 virus causing the COVID-19 disease were detected. The disease subsequently spread on a global scale. The pandemic and, more importantly, restrictions adopted to mitigate its health impacts caused widespread disruptions in business and economic activities in 2020; however, they have not significantly affected the business operations of the Company or the GasNet Group as a whole.

Despite the incidence of COVID-19, the Company met all of its planned business targets. The pandemic resulted in a broader use of digital communication, a trend the Company will continue to pursue in the future.

### Risk management and anti-corruption policy

GasNet 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.

GasNet 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.

## 3.5 Human Resources

Staffing Levels

The Company had no employees in 2020. In 2020, the subsidiaries GasNet, s.r.o. and GasNet Služby, s.r.o. had 283 and 2,011 employees, respectively (full-time equivalent).

Wages

Throughout the reported year, wages at the GasNet 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 GasNet Group are subject under the Collective Agreement for the years 2018-2020 and all its annexes.

## 3.6 OHS and Environmental Protection

The Company's business operation with environmental impact are concentrated in the two subsidiaries, GasNet, s.r.o. and GasNet Služby, s.r.o. The Company's operations can be characterized by an active and responsible attitude to the environment, a concept to which we require suppliers to adhere as well.

An important part of that effort is improving employees' awareness of environmental issues to ensure that they know the impact and consequences of their work on the natural world. Compliance with legal requirements is a standard employed throughout the GasNet Group.

The GasNet Group's long-term objective is to reduce emissions of nitrogen and carbon oxides produced by natural gas combustion processes in transfer and regulating stations. Thanks to investments into technology upgrades, the trend of decreasing emissions continued in the reported year.

In 2020, there was no serious incident with an adverse impact on the environment caused by the operations of the Company and its subsidiaries.

The health and safety of our employees, suppliers' workers, and all third parties and members of the public is the Company's highest priority to which we assign key importance.

In 2020, this key principle was expressed and underscored through an update of the Occupational Safety Policy.

Despite ongoing emphasis on occupational safety, three serious incidents occurred, including a fatal accident involving a subcontractor. There were eight work accidents among the Company's workforce. These incidents prompted us to launch an broad, intensive occupational safety campaign and to create a comprehensive strategy for the entire Company, where all current processes have been reviewed and new processes established with a view to encompassing the safety aspects of work performed by both our own and suppliers' workers.

Other long-term activities we organize include defensive driving training and regular communication regarding current safety risks. More than 150 workers underwent hands-on first-aid training using simulated situations, which they are liable to encounter in the workplace.

## 3.7 Outlook

Activities carried out by the GasNet Group will mainly focus on improving the security and reliability of natural gas supply to consumers, where emphasis will be placed on availability, simplicity, and the maximum use of modern communication technologies.

Investments are expected to be made in a similar volume as in 2020; the bulk will once again go into network reconstruction projects. 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.

As regards the development of the distribution system, the goal is to support projects aimed at increasing efficiency and reducing costs in individual localities, including residential buildings and industrial facilities, and to support ventures of strategic importance, such as building CNG stations and, where applicable, installing cogeneration units. We see considerable potential for significantly increasing the distribution volume in the conversion of some of the existing coal-fired heating facilities to natural gas. Likewise, we focus closely on preventing a further rise in the number of dormant service lines and, conversely, making efforts aimed at gradually activating service lines currently not in use.

In the forthcoming years, we expect increased interest in the connection of biomethane production facilities to the network. In the long-term outlook, we are aware that the GasNet distribution system will have to be adapted for the distribution of a mixture of renewable methane and hydrogen. Even though that will happen in a relatively distant future, we have started preparations already.

## 3.8 Subsequent Events

On 5 February 2021, a change of the Company's registered office was recorded in the Commercial Register. The former registered office at Limuzská 3135/12, 100 98 Prague 10 – Strašnice was changed to Prosecká 855/68, 190 00 Prague 9 – Prosek.

Effective as of 29 January 2021, a change took place in the composition of the Company's Board of Directors. Richard Dinneny ended his term of office as Member of the Board of Directors, and Jerry Divoky was elected as Member of the Board of Directors.

Effective as of 28 February 2021, the sole shareholder exercising the powers of the General Meeting of GasNet, s.r.o. decided to discharge Jan Valenta as its Executive Director. Further, effective as of 1 March 2021, the sole shareholder appointed Pavel Dočekal as Executive Director.

Effective as of 1 March 2021, the sole shareholder exercising the powers of the General Meeting of GasNet Služby, s.r.o. appointed Thomas Merker as Executive Director.

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

## 4. Consolidated Financial Statements in accordance with the International Financial Reporting Standards as adopted by the European Union as at 31 December 2020

## Contents

## Consolidated Statement of Financial Position as at 31 December 2020

| *In millions of CZK* | Note | 31 December 2020 | 31 December 2019 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 3.1 | 47,736 | 45,895 |
| Right-of-use assets | 3.3 | 2,206 | 2,324 |
| Intangible assets | 3.2 | 703 | 220 |
| Other non-current assets | | 1 | 1 |
| **Total non-current assets** | | **50,646** | **48,440** |
| **Current assets** | | | |
| Inventories | | 5 | 6 |
| Trade and other receivables | 3.5 | 614 | 661 |
| Other taxes receivable | | 62 | - |
| Current income tax prepayment | | - | 38 |
| Cash and cash equivalents | 3.4 | 1,416 | 822 |
| **Total current assets** | | **2,097** | **1,527** |
| **TOTAL ASSETS** | | **52,743** | **49,967** |
| **EQUITY** | | | |
| Share capital | 3.7 | 24,158 | 24,158 |
| Other distributable reserves | 3.7 | 82 | 82 |
| Accumulated deficit | | (19,360) | (4,456) |
| **Total equity** | | **4,880** | **19,784** |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 3.8 | 38,517 | 20,710 |
| Lease liabilities | 3.3 | 1,215 | 1,357 |
| Deferred income tax liabilities | 4.4 | 4,517 | 4,360 |
| Provisions | | 17 | 26 |
| Other non-current liabilities | 3.9 | 292 | 241 |
| **Total non-current liabilities** | | **44,558** | **26,694** |
| **Current liabilities** | | | |
| Borrowings | 3.8 | - | 800 |
| Lease liabilities | 3.3 | 165 | 194 |
| Trade and other payables | 3.11 | 2,095 | 1,513 |
| Contract liabilities | 3.6 | 573 | 756 |
| Current income tax payable | | 122 | 23 |
| Other taxes payable | 3.10 | 252 | 190 |
| Provisions | | 98 | 13 |
| **Total current liabilities** | | **3,305** | **3,489** |
| **Total liabilities** | | **47,863** | **30,183** |
| **TOTAL LIABILITIES AND EQUITY** | | **52,743** | **49,967** |

Approved for issue and signed on behalf of Board of Directors on 22 March 2021.

Martin Gebauer
Chairman of the Board of Directors

Gary Wheatley Mazzotti
Member of the Board of Directors

## Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020

| *In millions of CZK* | Note | 2020 | 2019 |
|---|---|---|---|
| **Revenue** | 4.1 | 14,594 | 14,332 |
| Other income | | 64 | 103 |
| Work performed by the Group and capitalised | 3.1 | 449 | 451 |
| Net impairment reversals on financial assets | 3.5 | - | 2 |
| Raw materials and consumables used | 4.2.1 | (202) | (188) |
| Employee benefits expense | 4.2.2 | (1,879) | (1,538) |
| Depreciation and amortisation | 3.1, 3.2, 3.3 | (2,625) | (2,489) |
| Services | 4.2.3 | (3,203) | (2,963) |
| Other operating expenses | 4.2.4 | (609) | (732) |
| **Operating profit** | | **6,589** | **6,978** |
| Finance income | | 7 | 10 |
| Finance costs | 4.3, 3.3 | (1,167) | (1,083) |
| **Profit before income tax** | | **5,429** | **5,905** |
| Income tax expense | 4.4 | (1,026) | (1,122) |
| **Profit for the year** | | **4,403** | **4,783** |
| **Other comprehensive income for the year** | | - | - |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **4,403** | **4,783** |

## Consolidated Statement of Changes in Equity
## for the year ended 31 December 2020

| *In millions of CZK* | **Note** | **Share capital** | **Other distributable reserves** | **Accumulated deficit** | **Total** |
|---|---|---|---|---|---|
| **Balance as at 1 January 2019** | | **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** |
| Profit for the year | | - | - | 4,403 | **4,403** |
| **Total comprehensive income for 2020** | | - | - | 4,403 | **4,403** |
| Dividends declared | 3.7 | - | - | (19,307) | **(19,307)** |
| **Balance as at 31 December 2020** | | **24,158** | **82** | **(19,360)** | **4,880** |

## Consolidated Statement of Cash Flows
## for the year ended 31 December 2020

| *In millions of CZK* | **Note** | **2020** | **2019** |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Profit before income tax | | 5,429 | 5,905 |
| Adjustments: | | | |
| Depreciation and impairment of property, plant and equipment | 3.1 | 2,324 | 2,208 |
| Amortisation and impairment of other intangible assets | 3.2 | 117 | 103 |
| Depreciation of right-of-use assets | 3.3 | 184 | 178 |
| Net impairment reversals on financial assets | 3.5 | - | (2) |
| Net loss on disposals of property, plant and equipment | 4.2.4 | 83 | 69 |
| Finance income | | (7) | (10) |
| Finance costs | 0 | 1,167 | 1,083 |
| Other non-cash items | | (8) | - |
| **Operating cash flows before working capital changes** | | **9,289** | **9,534** |
| Decrease/(increase) in trade and other receivables | | 47 | (103) |
| Decrease in inventories | | 1 | 18 |
| Increase/(decrease) in other non-current liabilities | 3.9 | 51 | (14) |
| Decrease in contract liabilities, trade and other payables | | (66) | (33) |
| (Decrease)/increase in provisions | | 76 | (53) |
| Decrease in other taxes receivable and payable | | - | (221) |
| Income taxes paid | | (732) | (1,015) |
| Interest income received | | 7 | 10 |
| Interest paid | 3.8, 3.3 | (1,183) | (1,194) |
| **Net cash from operating activities** | | **7,490** | **6,929** |
| **Cash flows used in investing activities** | | | |
| Purchases of property, plant and equipment and intangible assets | | (4,369) | (3,791) |
| Proceeds from the sale of property, plant and equipment | | 10 | 13 |
| Lease payments for subsurface rights | 3.3 | (93) | (88) |
| Loans granted to related parties | 6.2 | - | (2,831) |
| Loan repayments received from related parties | 6.2 | - | 4,162 |
| **Net cash used in investing activities** | | **(4,452)** | **(2,535)** |
| **Cash flows used in financing activities** | | | |
| Principal elements of lease payments | 3.3 | (144) | (143) |
| Dividends paid to the Company's shareholders | 3.7 | (2,300) | (3,434) |
| **Net cash used in financing activities** | | **(2,444)** | **(3,577)** |
| Change in cash and cash equivalents | | 594 | 817 |
| **Cash and cash equivalents at the beginning of the year** | | **822** | **5** |
| **Cash and cash equivalents at the end of the year** | | **1,416** | **822** |

**Notes to the Consolidated Financial Statements**

# 1 General Information

## 1.1 GasNet 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 2020 for Czech Grid Holding, a.s. (the “Company”) and its subsidiaries GasNet, s.r.o. and GasNet Služby, s.r.o. (formerly Grid Services, s.r.o., whose business name changed effective from 12 October 2020 to GasNet Služby, s.r.o.). The entities Gzech Grid Holding a.s., GasNet, s.r.o. and GasNet Služby, s.r.o. are together referred to as “the GasNet Group” or “the 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 9 - Prosek, Prosecká 855/68, the Czech Republic.

As at 31 December 2020 and 2019, the Company was 100% owned by Czech Gas Networks Investments S.à r.l.; the 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).

Czech Gas Networks Investments S.à.r.l. became the sole shareholder of the Company on 30 September 2019 after a pre-emption right to acquire the remaining 50.04 percent of the shares was exercised. The Group’s immediate parent was incorporated on 22 March 2019 and prepares its consolidated financial statement for the year ended 31 December 2020 according to International Financial Reporting Standards as adopted by the European Union.

On 30 September 2019, Macquarie European Infrastructure Fund IV became the ultimate controlling party of the Group. Before that date, the Group was part of innogy group.

The GasNet Group continued to use services provided by innogy Česká republika a.s. and innogy Zákaznické služby, s.r.o. in 2020. As a result of the division of innogy Group in the Czech Republic, these contracts were being terminated gradually in 2020.

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

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

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

***Presentation currency.*** These consolidated financial statements are presented in millions of Czech crowns ("CZK"), unless stated otherwise.

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

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

The year 2020 was the last year of the 4th regulatory period. During this year, ERO completed several years of work on a Price Regulation Methodology by signing-off on the final version. Price Regulation Methodology will be binding for the 5th regulatory period which runs from 2021 to 2025.

The final methodology parameters for price regulation for the 5th regulatory period were published on 9 June 2020.

They follow with the expectations which included, amongst others, a pre-agreed trajectory of Regulated Asset Base (RAB) reconciliation to net book values of fixed assets until 2025, setting a new value of 6.43% for the regulatory WACC parameter for the whole period, and a balanced framework for allowed operating costs covering inflation and efficiency requirements. Overall, tariff stability is expected to be maintained, while providing sufficient cash flow to finance the Group's capital expenditures needed to renew the network.

***COVID-19.*** The existence of the novel coronavirus causing the COVID-19 disease was confirmed in early 2020. The COVID-19 pandemic has developed rapidly in 2020 with a significant number of cases. Measures taken by various governments to contain the virus have impacted economic activity. The Group has taken a number of steps to monitor and mitigate the effects of COVID-19, such as safety and health measures for our employees and securing a safe and reliable supply of natural gas to its customers. At this stage, the impact on the Group's business and results has not been significant and, based on its experience to date, the Group expects this to remain the case. The Group met all of its planned business and communication targets. The pandemic resulted in a broader use of digital communication, a trend the Group will continue to pursue in the future while preserving a strong control environment.

The Group will also continue to follow the various government policies and advice and, in parallel, the Group will do its utmost to continue its operations in the best and safest way possible without jeopardising the health of its employees.

Despite the incidence of COVID-19, the Group's business performance and cash flows were not significantly affected in the year ended 31 December 2020. The Group assessed the negative impact on revenues from the sale of capacity to be approximately CZK 139 million for the year ended 31 December 2020. In response to the situation related to the COVID-19, the ERO amended the Price Decision in the spring of 2020 and adjusted the tariffs for wholesale and middle-sized customers. Its impact on the GasNet Group is reflected in the quantification above.

### 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, Czech koruna (CZK).

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

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

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

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

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

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

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

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

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

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

| | **Useful lives in years** |
|---|---|
| Software | 3 |
| Other | up to 6 |

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(a) fixed payments (including in-substance fixed payments), less any lease incentives receivable

(b) variable lease payment that are based on an index or a rate

(c) amounts expected to be payable by the lessee under residual value guarantees

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

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

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

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

(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.

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

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

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

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

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

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

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

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

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

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

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

***Share capital.*** Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds.

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

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

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

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

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

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

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

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

Revenues from distribution services are divided into several categories.

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

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

The normal credit term is 14 days upon delivery.

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

***Trade receivables.*** A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to the accounting policies of financial assets in the section 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 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 2020 would be to increase it by CZK 296 million or decrease it by CZK 241 million (2019: increase by CZK 248 million or decrease by CZK 204 million).

***Revenues***

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

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

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

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

The Group records revenue based on:

- Volume of gas distributed and measured (actually billed revenues); and
- Volume of gas distributed but not yet measured (unbilled distribution) – the volume is estimated based on the total volume of gas distributed in the particular year based on the 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 the operating results of the whole Group based on financial information prepared according to IFRS and makes decisions about resources to be allocated to business activities and assesses the Group's performance. Additionally, the means of controlling and assessing operating managers is carried out at the Group level. Their remuneration depends on the Group's key performance indicators being fulfilled.

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 an indefinite period with a termination option.

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

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

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

A 10% increase or decrease in the lease term as at 31 December 2020 would result in an increase of CZK 93 million or, respectively, a decrease in the amount of CZK 98 million in lease liabilities (as at 31 December 2019: increase in the amount of CZK 109 million, decrease in the amount of CZK 115 million).

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

A 10% increase or decrease in the discount rate as at 31 December 2020 would result in a decrease of CZK 37 million or, respectively, an increase in the amount of CZK 39 million in lease liabilities (as at 31 December 2019: decrease in the amount of CZK 36 million, increase in the amount of CZK 38 million).

### 1.4 Adoption of *New or Revised Standards and Interpretations*

The following amended standards or interpretations became effective from 1 January 2020, have been adopted by the Group but did not have any material impact on the Group:

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

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

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

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

## 1.5 New Accounting Pronouncements

Certain new and amended standards and interpretations have been published, that could be relevant to these consolidated financial statements, but are effective for annual periods beginning on or after 1 January 2021.

***Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2023).*** The amendment to IAS 1 on the classification of liabilities as current or non-current was issued in January 2020 with an original effective date 1 January 2022. However, in response to the COVID-19 pandemic, the effective date was deferred by one year to provide companies with more time to implement classification changes resulting from the amended guidance. These narrow scope amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. Management’s expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. The right to defer only exists if the entity complies with any relevant conditions as of the end of the reporting period. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. ‘Settlement’ is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments. There is an exception for convertible instruments that might be converted into equity, but only for those instruments where the conversion option is classified as an equity instrument as a separate component of a compound financial instrument. The Group is currently assessing the impact of the amendments on its financial statements.

***Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 9, IFRS 16 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).*** The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of PPE any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity will use IAS 2 to measure the cost of those items. Cost will not include depreciation of the asset being tested because it is not ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

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

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

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

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

The Group is currently assessing the impact of the amendments on its financial statements.

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

- *Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform*: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.
- *End date for Phase 1 relief for non-contractually specified risk components in hedging relationships:* The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.
- *Additional temporary exceptions from applying specific hedge accounting requirements:* The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.
- *Additional IFRS 7 disclosures related to IBOR reform:* The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

The Group is currently assessing the impact of the amendments on its financial statements.

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

## 2 Entity-wide disclosures

The Group derived revenue from the customer innogy Energie, s.r.o. in the amount of CZK 5,272 million in the year ended 31 December 2020 (2019: CZK 5,264 million), which represented 36 % in the year ended 31 December 2020 (2019: 37 %) of the total Group's revenue. Revenue from the other customers of the Group individually did not exceed 10 % of the total Group's revenue in both 2020 and 2019.

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

## 3 Statement of Financial Position Items

### 3.1 Property, Plant and Equipment

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

| *In millions of CZK* | Freehold Land | Buildings | Gas Network | Equipment | Construction-in-progress | Total |
|---|---|---|---|---|---|---|
| Cost as at 1 January 2019 | 132 | 3,048 | 68,528 | 10,901 | 818 | 83,427 |
| Accumulated depreciation | - | (1,537) | (29,003) | (8,322) | - | (38,862) |
| **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** |

| *In millions of CZK* | Freehold Land | Buildings | Gas Network | Equipment | Construction in progress | Total |
|---|---|---|---|---|---|---|
| Cost as at 1 January 2020 | 140 | 3,125 | 70,919 | 11,178 | 915 | 86,277 |
| Accumulated depreciation | - | (1,620) | (30,330) | (8,432) | - | (40,382) |
| **Carrying amount as at 1 January 2020** | **140** | **1,505** | **40,589** | **2,746** | **915** | **45,895** |
| Additions | 96 | 483 | 2,500 | 731 | 440 | 4,250 |
| Transfers | - | 17 | 354 | 76 | (447) | - |
| Disposals | - | (5) | (68) | (12) | - | (85) |
| Depreciation charge | - | (110) | (1,665) | (549) | - | (2,324) |
| **Carrying amount as at 31 December 2020** | **236** | **1,890** | **41,710** | **2,992** | **908** | **47,736** |
| Cost at as 31 December 2020 | 236 | 3,563 | 73,323 | 11,521 | 908 | 89,551 |
| Accumulated depreciation | - | (1,673) | (31,613) | (8,529) | - | (41,815) |
| **Carrying amount as at 31 December 2020** | **236** | **1,890** | **41,710** | **2,992** | **908** | **47,736** |

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 2020 in the amount of CZK 16 million (2019: CZK 21 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 2.0% in the year ended 31 December 2020 (2019: 2.65%). No assets are pledged.

The Group capitalised its own constructed fixed assets (mainly gas network) of CZK 449 million in the year ended 31 December 2020 (2019: CZK 451 million).

On 30 September 2019, the Group was acquired by Macquarie European Infrastructure Fund IV via Czech Gas Networks Investments S.à.r.l.(immediate controlling parent) and, for the purpose of preparation of consolidated financial statement of the immediate parent according to IFRS, the purchase price allocation was made. As at 30 September 2019, the Group's fair value of total property, plant and equipment amounted to CZK 110,130 million. The carrying value of property, plant and equipment of the Group in the consolidated financial statements of the immediate parent amounted to CZK 106,516 million as at 31 December 2020 (reflecting subsequent depreciation).

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

### 3.2 Intangible Assets

| *In millions of CZK* | **Software** | **Software under development** | **Other** | **Total** |
|---|---|---|---|---|
| Cost as at 1 January 2019 | 692 | 1 | 183 | 876 |
| Accumulated amortisation | (548) | - | (128) | (676) |
| **Carrying amount as at 1 January 2019** | **144** | **1** | **55** | **200** |
| Additions | 66 | 46 | 11 | 123 |
| Transfers | 1 | (1) | - | - |
| Amortisation charge | (86) | - | (17) | (103) |
| **Carrying amount as at 31 December 2019** | **125** | **46** | **49** | **220** |
| Cost as at 31 December 2019 | 759 | 46 | 194 | 999 |
| Accumulated amortisation | (634) | - | (145) | (779) |
| **Carrying amount as at 1 January 2020** | **125** | **46** | **49** | **220** |
| Additions | 425 | 166 | 9 | 600 |
| Transfers | 37 | (37) | - | - |
| Amortisation charge | (102) | - | (15) | (117) |
| **Carrying amount as at 31 December 2020** | **485** | **175** | **43** | **703** |
| Cost as at 31 December 2020 | 1,219 | 175 | 203 | 1,597 |
| Accumulated amortisation | (734) | - | (160) | (894) |
| **Carrying amount as at 31 December 2020** | **485** | **175** | **43** | **703** |

Additions to intangible assets in the year ended 31 December 2020 related mainly to the assets acquired in the process of separating from the innogy Group and establishing an independent IT environment.

### 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 2020** | **31 December 2019** |
|---|---|---|
| **Right-of-use assets** | | |
| Gas network | 980 | 979 |
| Subsurface rights | 907 | 842 |
| Buildings | 264 | 470 |
| Motor vehicles | 29 | 26 |
| Land | 26 | 7 |
| **Total right-of-use assets** | **2,206** | **2,324** |

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

| *In millions of CZK* | **31 December 2020** | **31 December 2019** |
|---|---|---|
| **Lease liabilities** | | |
| Non-current | 1,215 | 1,357 |
| Current | 165 | 194 |
| **Total lease liabilities** | **1,380** | **1,551** |

Additions to the right-of-use assets (subsurface rights) during the year ended 31 December 2020 were CZK 93 million (2019: CZK 238 million). Disposal of right-of-use assets amounted to CZK 27 million in the year ended 31 December 2020 (2019: 0)

| | | **Liabilities from financing activities (Lease liabilities)** | |
|---|---|---|---|
| *In millions of CZK* | **Note** | **2020** | **2019** |
| **Lease liabilities as at 1 January** | | **1,551** | **1,544** |
| Interest on the lease liability | 4.3 | 47 | 49 |
| Acquisition of leases | | - | 150 |
| Disposal of lease liability | | (27) | - |
| Cash flows | | (191) | (192) |
| **Lease liabilities as at 31 December** | | **1,380** | **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* | **2020** | **2019** |
|---|---|---|
| **Depreciation charge of right-of-use assets** | | |
| Buildings | 89 | 93 |
| Gas network | 46 | 45 |
| Subsurface rights | 27 | 24 |
| Motor vehicles | 19 | 15 |
| Land | 3 | 1 |
| **Total depreciation charge** | **184** | **178** |
| **Interest expense (included in finance cost) – Note 4.3** | **47** | **49** |

Expenses related to short-term leases were presented as Other operating expenses (see Note 4.2.4). Expenses related to leases of low-value assets and expenses related to variable lease payments were insignificant in the years ended 31 December 2020 and 31 December 2019.

The total cash outflow for leases in 2020 was CZK 284 million (2019: CZK 280 million). Out of that, the amount CZK 93 million (2019: 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.

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

### 3.4 Cash and Cash Equivalents

| *In millions of CZK* | **31 December 2020** | **31 December 2019** |
|---|---|---|
| Cash at bank | 1,416 | 822 |
| **Total cash and cash equivalents** | **1,416** | **822** |

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

| *In millions of CZK* | **31 December 2020** | **31 December 2019** |
|---|---|---|
| A1 | 1,416 | 822 |
| **Total cash and cash equivalents** | **1,416** | **822** |

There was no expected credit loss allowance recognised in respect of cash and cash equivalents as at 31 December 2020 and as at 31 December 2019, as the expected loss was assessed as insignificant.

### 3.5 Trade and Other Receivables

| *In millions of CZK* | **31 December 2020** | **31 December 2019** |
|---|---|---|
| Trade receivables gross amount | 574 | 556 |
| Other financial receivables | 4 | 19 |
| Less credit loss allowance | (67) | (191) |
| ***Total financial assets within trade and other receivables*** | **511** | **384** |
| Other receivables | 40 | 6 |
| Prepayments | 63 | 271 |
| ***Total non-financial assets within trade and other receivables*** | **103** | **277** |
| **Total trade and other receivables** | **614** | **661** |

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

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

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2020 and 2019, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle receivables. The Group has identified the Czech GDP to be the most relevant factor and, accordingly, adjusts the historical loss rates based on expected changes in these factors.

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

| *In % of gross value* | **31 December 2020** Loss rate | Gross carrying amount | Lifetime ECL |
|---|---|---|---|
| ***Trade receivables*** | | | |
| - current | 0.07% | 463 | - |
| - less than 30 days overdue | 1.00% | 41 | - |
| - 30 to 90 days overdue | 40.00% | 3 | 1 |
| - 91 to 180 days overdue | 57.00% | 2 | 1 |
| - 181 to 360 days overdue | 90.00% | 4 | 4 |
| - over 360 days overdue | 99.00% | 61 | 61 |
| **Total trade receivables** | | **574** | **67** |
| ***Other financial receivables*** | | | |
| - current | 0.50% | 4 | |
| **Total financial assets within trade and other receivables** | | **578** | |
| Total credit loss allowance | | (67) | |
| **Total financial assets within trade and other receivables (net carrying amount)** | | **511** | |

| *In % of gross value* | **31 December 2019** Loss rate | Gross carrying amount | Lifetime ECL |
|---|---|---|---|
| ***Trade receivables*** | | | |
| - 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** | | **556** | **191** |
| ***Other financial receivables*** | | | |
| - current | 0.5% | 19 | - |
| **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** | |

The trade receivables gross carrying amount included to the line “gross amount over 360 days overdue” as at 31 December 2020 and 2019 comprised mainly trade receivables that were more than 3 years overdue as at 31 December 2020 and 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* | **2020** | **2019** |
|---|---|---|
| ***Credit loss allowance*** | | |
| **Balance as at 1 January** | **(191)** | **(205)** |
| New originated | (15) | (30) |
| Reversal | 15 | 32 |
| **Total credit loss allowance charge in profit or loss for the period** | **-** | **2** |
| Write-offs | 124 | 12 |
| **Balance as at 31 December** | **(67)** | **(191)** |

The increase in write-offs in the year ended 31 December 2020 was influenced by the decision of the Group to write off receivables which were more than 4 years overdue and 100% impaired. These receivables had an insignificant probability to be repaid and the Group has exhausted all practical recovery efforts in respect of these receivables.

### 3.6 Contract Balances

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

| *In millions of CZK* | **Note** | **31 December 2020** | **31 December 2019** |
|---|---|---|---|
| Trade receivables | | 507 | 365 |

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

| *In millions of CZK* | **Note** | **31 December 2020** | **31 December 2019** |
|---|---|---|---|
| Contract liabilities – advances from customers for gas distribution (third parties) | | 571 | 754 |
| Contract liabilities – advances from customers (services) | | 2 | 2 |
| **Total current contract liabilities** | | **573** | **756** |

As at 31 December 2020, total contract liabilities decreased by CZK 183 million compared to the balance as at 31 December 2019 due to the decrease in advance payments caused by lower gas consumption in 2019 influenced by higher winter temperature in 2019.

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* | 2020 | 2019 |
|---|---|---|
| *Revenue recognised that was included in the contract liability balance at the beginning of the period:* | | |
| Gas distribution (third parties) | 754 | 440 |
| Gas distribution (related parties) | - | 200 |
| Services | 2 | 2 |
| **Total** | **756** | **642** |

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

### 3.7 Share Capital

| *In millions of CZK* | Number of outstanding shares (in thousands) | Ordinary shares | Other reserves |
|---|---|---|---|
| **At 1 January 2019** | **38,580** | **24,158** | **82** |
| **At 31 December 2019** | **38,580** | **24,158** | **82** |
| **At 31 December 2020** | **38,580** | **24,158** | **82** |

The total number of ordinary shares is 38,580 thousand shares as at 31 December 2020 and 2019 with a par value of CZK 626.18 per share. All issued ordinary shares have been fully paid. Each ordinary share carries one vote. They entitle the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held.

Structure of shareholders as at 31 December 2020 and as at 31 December 2019 was the following:

| **Structure of shareholders** | **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 1 January 2019 was the following:

| **Structure of shareholders as at 1 January 2019:** | **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 |
| **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 on ordinary shares during the year were as follows:

| *In millions of CZK* | **2020** | **2019** |
|---|---|---|
| **Dividends payable as at 1 January** | - | - |
| Total dividends declared during the year | 19,307 | 4,023 |
| Dividends paid during the year | (2,300) | (3,434) |
| Settlement through increase in borrowings (Note 3.8) | (17,007) | (589) |
| **Dividends payable as at 31 December** | **-** | **-** |
| **Dividends per share declared during the year (in CZK)** | **500.44** | **104.28** |

All dividends are declared and paid in CZK. In accordance with Czech legislation, the Company distributes profits as dividends based on separate financial statements prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic. 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 2020, the current year net statutory profit for the Company as reported in the published annual statutory financial statements was CZK 17,810 million (2019: CZK 4,011 million). It was mainly affected by the dividend income received from its subsidiary GasNet s.r.o. in 2020, which was determined based on net profit of GasNet s.r.o. under local accounting rules for year ended 31 December 2019. The net profit of GasNet s.r.o. for the year ended 31 December 2019 was mainly impacted by reversal of impairment of property, plant and equipment previously recognised under local accounting rules. The reversal resulted from the fair value assessment of GasNet s.r.o. property, plant and equipment made on 30 September 2019 (refer also to Note 3.1).

The closing balance of the retained earnings of the Company under Czech Accounting Rules was CZK 3,463 million (2019: CZK 4,960 million).

On 26 March 2020, the General Meeting approved the separate financial statements of the Company under local accounting rules for 2019 with the profit for the year 2019 of CZK 4,011 million and decided about the distribution of dividends in the amount of CZK 1,753 million. On 31 March 2020, there was a settlement of CZK 1,000 million in cash and CZK 753 million through increase in borrowings.

On 24 June 2020, the General Meeting decided to pay out dividends from retained earnings in the amount of CZK 1,000 million.

On 17 September 2020, the General Meeting decided to pay out dividends from retained earnings in the amount of CZK 300 million.

On 6 November 2020, the Company's Board of Directors approved the interim financial statements as at 31 October 2020 and decided on the declaration of interim dividends in the total amount of CZK 16,254 million by distribution from the interim reporting period net profit under Czech Accounting Rules. On 10 November 2020, there was a settlement of CZK 11,380 million through increase in borrowings.

On 15 December 2020, an agreement was concluded between the parties which converted the remaining part of outstanding dividend liability in the amount of CZK 4,874 million into 2 tranches of long-term borrowings from shareholders with effect from 15 December 2020 (Note 3.8). The respective long-term borrowings were provided at market terms. The Group extinguished the original dividend liability and recognised new borrowings from shareholders. No effect on profit or loss from extinguishment of dividend liability was recognised because it was insignificant.

The Financial Statements under Czech Accounting Rules for 2020 were approved by the Board of Managers on 11 March 2021.

### 3.8 Borrowings

Borrowings comprise loans provided by the shareholders, as follows:

| *In millions of CZK* | **31 December 2020** | **31 December 2019** |
|---|---|---|
| ***Term loans*** | | |
| - Non-current portion | 38,517 | 20,710 |
| - Current portion | - | 800 |
| **Total borrowings** | **38,517** | **21,510** |

All the Group's borrowings are denominated in CZK and bear a fixed interest rate, except for borrowing related to the construction of gas network, as stated below.

| *In millions of CZK* | **31 December 2020** | **31 December 2019** |
|---|---|---|
| ***Non-current borrowings*** | | |
| - Czech Gas Networks Investments S.à r.l. | 38,517 | 20,710 |
| **Total non-current borrowings** | **38,517** | **20,710** |

Non-current borrowings consist of 15 tranches as at 31 December 2020 (as at 31 December 2019: 9 tranches) with weighted average interest rate of 4.46 % p.a. as at 31 December 2020 (2019: 4.92 % p.a.), and a specific borrowing in the amount of CZK 800 million arranged to finance the construction of a gas network with the floating interest rate of 3M PRIBOR + 1.01 % margin as at 31 December 2020.

Non-current borrowings as at 31 December 2020 have maturities ranging from 2022 to 2036 (2019: from 2023 to 2031).

| *In millions of CZK* | **31 December 2020** | **31 December 2019** |
|---|---|---|
| ***Current borrowings*** | | |
| - Czech Gas Networks Investments S.à r.l. | - | 800 |
| **Total current borrowings** | **-** | **800** |

Current borrowings as at 31 December 2019 had a maturity date on 29 May 2020. They bore an interest rate of 3.43 % p.a. as at 31 December 2019 and represented 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. It was received for the purposes of construction of a gas network and bore the floating interest rate of 3M PRIBOR + 1.25 % margin as at 31 December 2019.

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

| | | Liabilities from financing activities (borrowings) | |
|---|---|---|---|
| *In millions of CZK* | **Note** | **2020** | **2019** |
| **Liabilities from financing activities as at 1 January** | | **21,510** | **21,011** |
| ***Non-cash movements:*** | | | |
| Settlement of the liability from unpaid dividends | 3.7 | 17,007 | 589 |
| Interest expenses | 4.3 | 1,120 | 1,034 |
| Interest capitalised | 4.3 | 16 | 21 |
| **Total non-cash movements** | | **18,143** | **1,644** |
| ***Cash movements:*** | | | |
| Interest paid (expensed and capitalised) | | (1,136) | (1,145) |
| **Total cash movements** | | **(1,136)** | **(1,145)** |
| **Liabilities from financing activities as at 31 December** | | **38,517** | **21,510** |

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 2020** | **31 December 2019** |
|---|---|---|
| ***Financial liabilities:*** | | |
| Non-current payable from gas network construction | 67 | - |
| **Total financial payables within other non-current liabilities** | **67** | **-** |
| ***Non-financial liabilities:*** | | |
| Deferred income from government grants | 216 | 227 |
| Other non-current liabilities | 9 | 14 |
| **Total non-financial payables within other non-current liabilities** | **225** | **241** |
| **Total** | **292** | **241** |

Government grants were provided in 1999 for the development of the gas network. They were recognised as deferred income and are credited to profit or loss (Other income) on a straight-line basis over the expected useful lives of the related assets. The current part of government grants amounted to CZK 10 million as at 31 December 2020 (as at 31 December 2019: CZK 10 million) and was included in the Trade and Other payable. The respective income from government grants was recognised in the profit or loss line Other income and amounted to CZK 10 million in the year ended 31 December 2020 (2019: CZK 10 million). ¨

### 3.10 Other Taxes Payable

| *In millions of CZK* | **31 December 2020** | **31 December 2019** |
|---|---|---|
| ***Other taxes payable within one year comprise the following:*** | | |
| Value-added tax | 234 | 177 |
| Personal income tax | 18 | 13 |
| **Other taxes payable – current** | **252** | **190** |

### 3.11 Trade and Other Payables

| *In millions of CZK* | **31 December 2020** | **31 December 2019** |
|---|---|---|
| Trade payables | 1,308 | 894 |
| Refundable deposits received | 515 | 416 |
| Other payables | 5 | 6 |
| ***Total financial payables within trade and other payables*** | **1,828** | **1,316** |
| Other payables | 14 | 15 |
| Liabilities to employees | 206 | 143 |
| Liabilities to social security and health insurance | 47 | 39 |
| ***Total non-financial payables within trade and other payables*** | **267** | **197** |
| **Total trade and other payables** | **2,095** | **1,513** |

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

# 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* | **2020** | **2019** |
|---|---|---|
| Revenue from gas distribution | 14,439 | 14,166 |
| Revenues from rendering of other services | 155 | 166 |
| **Total revenue (recognised over time)** | **14,594** | **14,332** |

As at 31 December 2020, the Group recognised 96% of total gas distribution revenue from wholesale traders of gas (as at 31 December 2019: 97%) and 4% from end-consumers of gas distribution (as at 31 December 2019: 3%).

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

| *In millions of CZK* | **2020** | **2019** |
|---|---|---|
| ***Revenues from gas distribution*** | | |
| Large and medium sized consumers category | 5,354 | 5,238 |
| Small sized consumers category | 2,126 | 2,213 |
| Households category | 6,959 | 6,715 |
| **Total revenue** | **14,439** | **14,166** |

Revenues from gas distribution and other services were recognised over time in the year ended 31 December 2020 and 2019.

The disaggregation of revenue was disclosed as such in order to present the structure of the ultimate customers' portfolio, since each customer category has its own pricing, risks and other specifics.

## 4.2 Expenses

### 4.2.1 Raw materials and consumables used

| *In millions of CZK* | **2020** | **2019** |
|---|---|---|
| Spare parts and materials | 137 | 125 |
| Fuel | 41 | 43 |
| Consumables | 24 | 20 |
| **Total raw materials and consumables** | **202** | **188** |

#### 4.2.2 Employee benefits expense

| *In millions of CZK* | **2020** | **2019** |
|---|---|---|
| Wages and salaries | 1,379 | 1,089 |
| Statutory pension contributions | 272 | 226 |
| Statutory health insurance and social security | 138 | 139 |
| Supplementary pension insurance | 39 | 37 |
| Other employee benefits | 51 | 47 |
| **Total employee benefits expense** | **1,879** | **1,538** |

#### 4.2.3 Services

| *In millions of CZK* | **2020** | **2019** |
|---|---|---|
| Gas transportation | 1,261 | 1,150 |
| IT and network services | 534 | 386 |
| Shared service centre | 514 | 595 |
| Gas network maintenance | 365 | 396 |
| Energy market operation fees | 157 | 129 |
| Consultancy fees | 133 | 69 |
| Billing services | 61 | 54 |
| Travel expenses | 28 | 35 |
| Phone costs | 21 | 21 |
| Car fleet maintenance | 23 | 63 |
| Training expenses | 8 | 11 |
| Other services | 98 | 54 |
| **Total services** | **3,203** | **2,963** |

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* | **2020** | **2019** |
|---|---|---|
| Operating losses within gas transportation | 346 | 500 |
| Utilities | 88 | 98 |
| Net loss on disposal of property, plant and equipment | 83 | 69 |
| Lease expenses | 51 | 8 |
| Other taxes and charges | 13 | 13 |
| Insurance expenses | 12 | 15 |
| Other items | 16 | 29 |
| **Total other operating expenses** | **609** | **732** |

## 4.3 Finance Costs

| *In millions of CZK* | 2020 | 2019 |
|---|---|---|
| Interest expense on borrowings | 1,136 | 1,055 |
| Interest expense on the lease liability | 47 | 49 |
| Less capitalised finance costs | (16) | (21) |
| **Total finance costs recognised in profit or loss** | **1,167** | **1,083** |

## 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* | 2020 | 2019 |
|---|---|---|
| Current tax | 869 | 928 |
| Deferred tax | 157 | 194 |
| **Income tax expense for the year** | **1,026** | **1,122** |

### (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 2020 and 2019 income is 19%. The reconciliation between the expected and the actual taxation charge is provided below.

| *In millions of CZK* | 2020 | 2019 |
|---|---|---|
| **Profit before tax** | **5,429** | **5,905** |
| Theoretical tax charge at statutory rate of 19%: | 1,032 | 1,122 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| - Income which is exempt from taxation | (9) | (11) |
| - Non-deductible expenses | 3 | 11 |
| **Income tax expense for the year** | **1,026** | **1,122** |

### (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 2020 | (Charged) / credited to profit or loss | 31 December 2020 |
|---|---|---|---|
| **Tax effect of deductible / (taxable) temporary differences** | | | |
| Difference between tax and accounting value of Property, plant and equipment (different tax depreciation) | (4,366) | (209) | (4,575) |
| Provisions for liabilities and charges | 28 | 23 | 51 |
| Right of use assets and lease liabilities | (22) | 29 | 7 |
| **Net deferred tax liability recognised** | **(4,360)** | **(157)** | **(4,517)** |
| Total deferred tax asset | 6 | 52 | 58 |
| Total deferred tax liability | (4,366) | (209) | (4,575) |
| **Net deferred tax liability recognised** | **(4,360)** | **(157)** | **(4,517)** |

The current portion of net deferred tax liability mainly related to different tax depreciation of property, plant and equipment amounted to CZK 122 million as at 31 December 2020.

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

The tax effect of the movements in the temporary differences for the year ended 31 December 2019 are

| *In millions of CZK* | 1 January 2019 | Adoption of IFRS 16 | (Charged) / credited 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 recognised** | **(4,166)** | **-** | **(194)** | **(4,360)** |
| Total deferred tax asset | 31 | 21 | (46) | 6 |
| Total deferred tax liability | (4,197) | (21) | (148) | (4,366) |
| **Net deferred tax liability recognised** | **(4,166)** | **-** | **(194)** | **(4,360)** |

## 5 Risk Management

### 5.1 Offsetting Financial Assets and Financial Liabilities

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

There was no offsetting of financial assets and financial liabilities as at 31 December 2020 and 31 December 2019.

### 5.2 Financial Risk Management

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

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

Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets. The maximum credit risk exposure of financial assets (consisting of trade and other receivables and cash and cash equivalents) amounted to CZK 1,994 million as at 31 December 2020 (as at 31 December 2019: CZK 1,397 million).

***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). As at 31 December 2020 and 2019, there were no such significant guarantees or credit enhancements received by the Group.

***Expected credit loss ("ECL") measurement.*** Measurement of ECLs is an accounting estimate that involves the determination methodology, models and data inputs. The following components have a major impact on credit loss allowance: definition of default, significant increase in credit risk, probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"). The 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 to calculate ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated PD occurring over the remaining life of the financial instrument and it is a sum of the 12-month PDs over the life of the instrument.

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

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

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

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

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 2020 and 2019. 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 cannot have a significant effect on profit, neither negative nor positive, as the entity has the vast majority of its borrowings with fixed interest rates and therefore the interest rate risk might 'materialise only when refinancing. Out of the total borrowings, only borrowings arranged to finance assets under construction (see Note 3.8) amounting to CZK 800 million bore a floating interest rate fixed on a 3-month basis. If the interest rates as at 31 December 2020 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 2020 and 2019 would not be affected.

The range of actions, responsibilities and controls are set out in guidelines to which the Group is obliged to adhere when conducting financial transactions. The Group's financial transactions are recorded in the system, enabling them to be monitored. To mitigate interest rate risk and liquidity risk, the maturity of the long-term debts is spread over several years, and in each year a new loan financing the development project is issued with a maturity ranging between 10 to 15 years.

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 2020** | | | | | | |
| Variable rate borrowings | 3.8 | - | - | - | (800) | **(800)** |
| Fixed rate borrowings – repricing or maturity dates | 3.8 | - | - | - | (37,717) | **(37,717)** |
| **Net interest sensitivity gap as at 31 December 2020** | | **-** | **-** | **-** | **(38,517)** | **(38,517)** |
| **31 December 2019** | | | | | | |
| Variable rate borrowings | 3.8 | - | (800) | - | - | **(800)** |
| Fixed rate borrowings – repricing or maturity dates | 3.8 | - | - | - | (20,710) | **(20,710)** |
| **Net interest sensitivity gap as at 31 December 2019** | | **-** | **(800)** | **-** | **(20,710)** | **(21,510)** |

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

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

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

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

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

The table below shows liabilities as at 31 December 2020 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 2020 is as follows:

| *In millions of CZK* | Carrying amount | Future payments, including principal and interest | Demand and less than 1 month | From 1 to 3 months | From 3 to 12 months | From 12 months to 5 years | Over 5 years |
|---|---|---|---|---|---|---|---|
| **Liabilities** | | | | | | | |
| Trade and other payables | 1,828 | **1,828** | 838 | 990 | - | - | - |
| Other non-current liabilities | 67 | **67** | - | - | - | 67 | - |
| Borrowings | 38,517 | **53,426** | - | 425 | 1,274 | 15,532 | 36,195 |
| Lease liability | 1,380 | **1,899** | 55 | 28 | 124 | 482 | 1,210 |
| **Total** | **41,792** | **57,220** | **893** | **1,443** | **1,398** | **16,081** | **37,405** |

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** |

## 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 2020 was CZK 4,880 million (2019: CZK 19,784 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 borrowings divided by RAB (Regulated Asset Base). During 2020, the Group's strategy has changed and, since 10 November 2020, the Group maintains the gearing ratio 68% of RAB instead of 45%. As at 31 December 2020, the gearing ratio based on RAB was 68% (2019: 45%).

The Group has complied with all externally imposed capital requirements throughout 2020 and 2019.

## 5.4 Fair Value Disclosures

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

There were no recurring nor non-recurring fair value measurements as at 31 December 2020 or 31 December 2019.

***Financial Assets and liabilities not measured at fair value but for which the 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 2020** | | **31 December 2019** | |
|---|---|---|---|---|
| *In millions of CZK* | **Level 3 fair value** | **Carrying value** | **Level 3 fair value** | **Carrying value** |
| ***LIABILITIES*** | | | | |
| - Borrowings | 40,042 | 38,517 | 22,557 | 21,510 |
| **TOTAL LIABILITIES** | **40,042** | **38,517** | **22,557** | **21,510** |

Carrying values of Trade and other receivables (Note 3.5), Trade and other payables (Note 3.11) approximate to their fair values because of their current nature.

The difference between fair value and carrying amount of Non-current payable from gas network construction included in Other non-current liabilities (Note 3.9) is insignificant.

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 2020 and 2019, 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 were made. Under certain circumstances, reviews may cover longer periods.

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

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

The Group does not have any significant contingent liabilities as at 31 December 2020 and 2019.

***Capital expenditure commitments.*** As at 31 December 2020, the Group had contractual capital expenditure commitments in respect of property, plant and equipment of CZK 2,651 million (2019: CZK 2,385 million).

## 6.2 Balances and Transactions with Related Parties

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

As at 31 December 2020 and 2019, the Group was owned by Czech Gas Networks Investments S.à r.l. The ultimate controlling party was Macquarie European Infrastructure Fund IV as at 31 December 2020 and 2019.

As at 31 December 2020, the outstanding balances with related parties were as follows:

| *In millions of CZK* | **Immediate parent company Czech Gas Networks Investments S.à r.l.** |
|---|---|
| Borrowings | 38,517 |

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

| *In millions of CZK* | **Immediate parent company Czech Gas Networks Investments S.à r.l.** |
|---|---|
| Borrowings | 21,510 |

Details of Borrowings and their conditions are disclosed in Notes 3.8.

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

| *In millions of CZK* | **Note** | **Immediate parent company Czech Gas Networks Investments S.à r.l.** |
|---|---|---|
| Finance costs | (v) | 1,118 |

For more details related to the change of the Parent company, refer to Note 3.7

Loans granted to related parties outstanding as at 1 January 2019 amounted to CZK 1,331 million. The Group granted short-term loans to related parties in the amount of CZK 2,831 million and the amount of CZK 4,612 million of short-term loans to related parties was repaid in 2019. They were provided at market terms.

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

| | | **Immediate controlling parent company** | | | | | |
|---|---|---|---|---|---|---|---|
| *In millions of CZK* | **Note** | **innogy Česká republika a.s.** | **RWE Czech Gas Grid Holding B.V.** | **Czech Gas Networks Investments S.à r.l.** | **Total** | **Other significant shareholders**** | **Other related parties***** |
| 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 | (v) | 83 | 264 | 261 | **608** | 424 | - |

* The immediate controlling parent companies of the Group in 2019 were (refer to Note 3.7 for changes in ownership structure in 2019):

- 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

The amounts disclosed above are related to the period when the respective entity was the shareholder of the Group.

**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 controlling party of the GasNet Group in the period between 1 January 2019 and 30 September 2019:

(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 recognised at market terms
(v) Finance costs are related to borrowings that were provided at market terms at the date of respective tranche

Dividends declared and paid in 2020 and 2019 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 2020 and 2019.

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

The information regarding the remuneration of the 4 Senior Executives in the year ended 31 December 2020 and 2019 is set out below.

| | **2020** | | | **2019** | | |
|---|---|---|---|---|---|---|
| *In millions of CZK* | **Expense** | **Provisions** | **Trade and other payables** | **Expense** | **Provisions** | **Trade and other payables** |
| *Short-term benefits:* | | | | | | |
| - Salaries | 20 | - | - | 11 | - | - |
| - Short-term bonuses | 5 | - | 19 | 6 | - | 7 |
| - Social security costs | 4 | - | - | 4 | - | - |
| *Other long-term employee benefits:* | | | | | | |
| - Long-term motivation program | 3 | 7 | - | 3 | 2 | - |
| **Total key management compensation** | **32** | **7** | **19** | **24** | **2** | **7** |

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

Besides the above-stated, the in-kind consideration in the form of using the cars leased by the Group amounted to CZK 3 million and presented as a depreciation of the right-of-use assets in the year ended 31 December 2020 (2019: CZK 3 million).

## 6.3 Principal Subsidiaries

The Group's principal subsidiaries as at 31 December 2020 and 2019 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** |
|---|---|---|---|---|
| GasNet Služby, 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 |

* Based on the Company's decision, the legal name of the entity changed from GridServices, s.r.o. to GasNet Služby, s.r.o. effective from 12 October 2020

The Group did not hold a share in a joint venture or an associate as at 31 December 2020 and 2019.

## 7 Events after the Reporting Period

On 5 February 2021, a change in the registered office of the Company was entered in the Commercial Register. The former registered office at Limuzská 3135/12, Prague 10 - Strašnice was changed to Prosecká 855/68, Prague 9 - Prosek.

Effective as of 29 January 2021, a change took place in the composition of the Company's Board of Directors. Mr. Richard Dinneny ended his term of office as Member of the Board of Directors, and Mr. Jerry Divoky was elected as Member of the Board of Directors.

In connection with COVID-19, the Group's business performance and cash flows are expected not to be significantly affected in the foreseeable future. Moreover, the Group will continue to follow the various government policies and advice and, in parallel, the Group will do its utmost to continue its operations in the best and safest way possible without jeopardising the health of its employees.

No other events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2020.

# 5. Independent Auditor's Report

# Independent auditor's report

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

## Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of Czech Grid Holding, a.s., with its registered office at Prosecká 855/68, Prosek, Praha 9 (the "Company") and its subsidiaries (together the "Group") as at 31 December 2020, of the Group's consolidated financial performance and consolidated cash flows for the year ended 31 December 2020 in accordance with International Financial Reporting Standards as adopted by the European Union.

**What we have audited**

The Group´s consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020,
- the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2020,
- the consolidated statement of changes in equity for the year ended 31 December 2020,
- the consolidated statement of cash flows for the year ended 31 December 2020, and
- the notes to the consolidated financial statements including significant accounting policies and other explanatory information.

## 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 (together the "Audit regulations"). These standards consist of International Standards on Auditing as 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

**Independence**

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted by the Chamber of Auditors of the Czech Republic and with the Act on Auditors. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code and Act on Auditors.

## Other information

The board of directors is responsible for the other information. As defined in Section 2(b) of the Act on Auditors, the other information comprises the consolidated Annual Report but does not include the consolidated financial statements and auditor's report thereon.

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 assessed whether the other information has been prepared, in all material respects, in accordance with applicable legal requirements, i.e. whether the other information complies with the legal requirements both in terms of formal requisites and the procedure for preparing the other information in the context of materiality.

Based on the procedures performed in the course of our audit, to the extent we are able to assess it, in our opinion:

- 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 has been prepared in accordance with the applicable legal requirements.

In addition, in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the other information. We have nothing to report in this regard.

## 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 of the consolidated financial statements that give true and fair view 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 Audit regulations 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 Audit regulations, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal controls.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the notes, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the board of directors and 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.

22 March 2021

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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