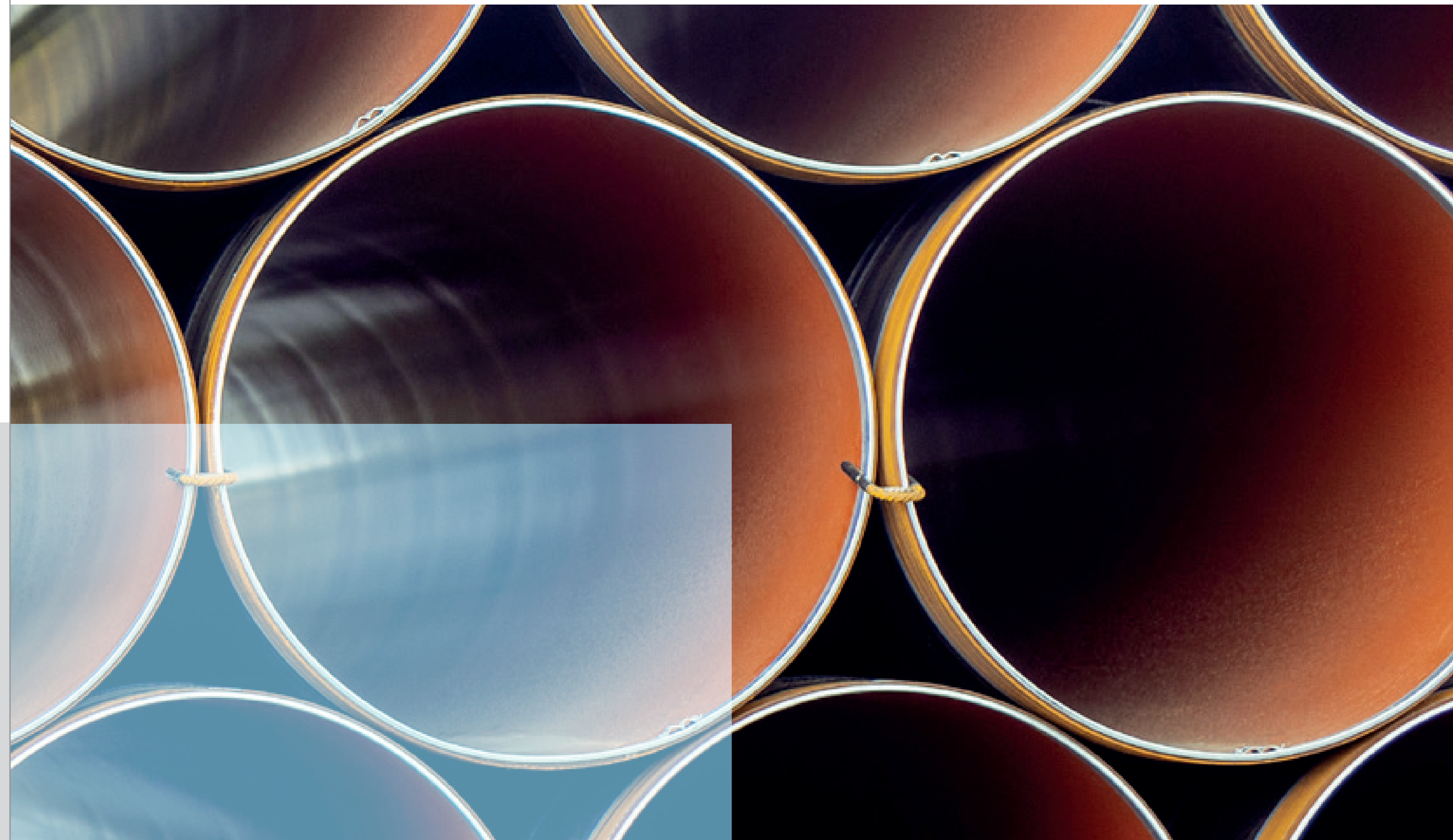
NET4GAS Group Consolidated Annual Report 2020



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Foreword by the CEO of NET4GAS

Ladies and Gentlemen,

For NET4GAS, 2020 was a year of new challenges as well as significant milestones. Like the world around us, we have been facing the impacts of the COVID-19 pandemic, which influenced our work processes and habits. In spite of that, we have provided our customers with uninterrupted gas transmission services throughout the year and progressed with our projects, in particular with the implementation of the Capacity4Gas project.

As a critical infrastructure operator, we responded immediately after the outbreak of the COVID-19 pandemic and the declaration of the state of emergency in March 2020 by adopting all necessary preventative measures to ensure the safety and health of our employees as well as the continuous reliable transmission of natural gas. We introduced strict internal hygiene rules which went beyond the nationwide measures and transferred all administrative activities, where possible, to a home-office regime. A special regime was applied for key operational and maintenance tasks. At the dispatching centre, which is crucial for the operation of the transmission system, we set a mode with complete physical and even geographical separation of individual shifts. Our long-term investments in a robust IT infrastructure, including a fully functional backup dispatching centre, were of a great value. And thanks to the support of our employees, who have quickly and willingly adapted to the new situation, the impacts of the pandemic on NET4GAS's operational and other activities have been relatively minor.

Despite the difficulties caused by the pandemic, we successfully completed the second and final phase of the Capacity4Gas project. Following the issuance of all relevant permits in December 2020, we launched the operation of the new 150-kilometre high-pressure gas pipeline. With capital expenditures of just over EUR 540 million as at 31 December 2020, Capacity4Gas has been the biggest single investment project in the history of our company. The new infrastructure built strengthens the connection of the Czech Republic and the whole CEE region with the Western European gas hubs, and thus secures access to diversified gas supplies at competitive prices. At the same time, it enhances the strategic role of the Czech Republic in international gas transit, also with a view to the possible future transportation of renewable gases, including hydrogen.

In 2020, we made a final investment decision on the implementation of another development project, this time domestic. A project called Moravia Capacity Extension aims to expand the future output capacity of the natural gas transmission system for Central and Northern Moravia and thus further ensure the security of supply in this region.

We are aware of the changing world, the energy sector notwithstanding. Against the backdrop of the EU efforts to a transition to low-carbon economy, we joined a group of eleven European transmission system operators in elaborating a study, which describes how a European hydrogen backbone infrastructure can be built in the coming years with the significant contribution of the existing gas networks. We have to stress that we are at the beginning of this development, and further analysis still needs to be made. However, we are convinced that natural gas will play an important role in European decarbonisation efforts.

The total volume of gas transported by NET4GAS in 2020 amounted to 48.1 bcm, which means a year-on-year increase of 4.6 bcm, mainly thanks to the completion of part of the Capacity4Gas project and the associated higher transmission volumes in the direction to Slovakia. An increase was also recorded in domestic gas transmission, by 0.1 bcm up to the level of 8.7 bcm, mainly as a result of a slight year-on-year drop in the country's temperature.

As in previous years, transmission services were provided to our customers without interruption throughout 2020. We operated more than 7,600 gas transmission contracts, which again represents a year-on-year increase, confirming a continuous trend of short-term transmission capacity bookings. For the upcoming fifth regulatory period 2021–2025, the Energy Regulatory Office published principles of price regulation for the electricity and gas sectors, thus establishing predictable conditions for our business.

Our consolidated operating profit for the fiscal year 2020 amounted to CZK 6.3 billion. Moody's Investors Service and Fitch Ratings reaffirmed our long-term investment grade rating with a stable outlook at the end of the year. This clearly demonstrates the stability and efficiency of our business model.

All what I have mentioned above would be impossible to achieve without the flexibility, loyalty and efforts of our employees. Therefore, I would like to take this opportunity to express my thanks to them on behalf of the company's management. Let me also extend my thanks to our shareholders for their continuing support, to our customers for using our services, to contractors for helping us bring our projects to a successful end and all other stakeholders for their cooperation, not only in the past year.

Andreas Rau
Chief Executive Officer, NET4GAS, s.r.o.

Consolidated Group Data

Consolidated Group Data

The consolidated group (hereinafter referred to as "Group" or "NET4GAS Group"), for which this Consolidated Annual Report is prepared, consists of the consolidating company NET4GAS, s.r.o. (hereinafter referred to as "NET4GAS" or "consolidating company") and consolidated company BRAWA, a.s. (hereinafter referred to as "BRAWA" or "consolidated company").

Consolidating company

Company name:	NET4GAS, s.r.o.
Identification number:	272 60 364
LEI	529900ND5BL2CXRIPT15
Date of registration in the Commercial Register:	29 June 2005
Address:	Na Hřebenech II 1718/8, 140 21 Prague 4 – Nusle, Czech Republic
Stake in BRAWA, a.s.:	100 %

Consolidated company

Company name:	BRAWA, a.s.
Identification number:	247 57 926
Date of registration in the Commercial Register:	10 November 2010
Address:	Na Hřebenech II 1718/8, 140 21 Prague 4 – Nusle, Czech Republic

NET4GAS Company Profile

NET4GAS, s.r.o. is the gas transmission system operator in the Czech Republic, ensuring economically efficient, safe and reliable transmission services for its customers 24 hours a day, 7 days a week. Through its network of almost 4,000 km of pipelines, NET4GAS transports around 45 billion m^3 of natural gas per year. As a Central European gas transmission system operator, NET4GAS plays an active role in connecting and integrating European energy markets to the benefit of Czech and other European customers. At the same time, the company participates in shaping the European energy market in the context of the transition to a low carbon economy. NET4GAS is a member of the Czech Gas Association, the international organisations ENTSOG, GIE, EASEE-gas, and the IGU and Marcogaz working groups. The company has more than 500 employees and is committed to corporate social responsibility. It is one of the largest private corporate donors to nature conservation in the Czech Republic.

Ownership of NET4GAS

as of 31 December 2020

For the entire year 2020, NET4GAS was wholly owned by NET4GAS Holdings, s.r.o., which in turn is owned by a consortium formed by Allianz Infrastructure Czech HoldCo II S.à r.l. (50%) and Borealis Novus Parent B.V. (50%).

Transmission system

4,000 km of pipelines

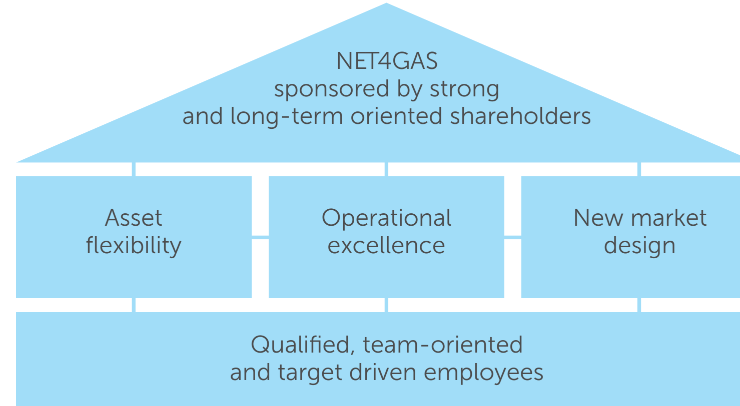
Annual transported volume of about 45 billion m^3

3 border transfer stations

5 compressor stations

- Border transfer station
- Compressor station
- Border transfer station abroad
- Compressor station abroad
- Transit pipeline
- Intrastate pipeline

NET4GAS Strategy



NET4GAS mission

Our mission is to secure economically efficient, safe and reliable gas transmission services for our customers 24 hours a day, 7 days a week, and to provide sufficient capacities in all relevant supply situations based on a non-discriminatory and transparent approach.

NET4GAS vision

As a Central European gas Transmission System Operator, NET4GAS will play an active role in connecting and integrating European energy markets to the benefit of Czech and other European customers.

Highly qualified employees are our company's foundation stone and most valued resource. Their team-oriented work and target-driven approach are major factors in the company's continuous development, which is clearly focused on the three strategic pillars of asset flexibility, operational excellence and new market design.

Along with the range of attractive capacity products we offer our customers, enhancing our asset flexibility by building and optimising new and existing cross-border interconnectors allows us to swiftly respond to changing gas flow patterns in Europe.

We strive for operational excellence to meet our customers' expectations and to manage the financial and operational demands resulting from increasing fluctuations in grid utilization, regulation and growing competition on energy markets. We will continue to help shaping the European energy market in the context of the transition to a low carbon economy, and by doing so will contribute to the preservation and enhancement of functioning gas markets, especially in Central and Eastern Europe where we operate.

In achieving our vision and attaining our strategic goals, we receive major sponsorship from our strong and long-term oriented shareholders, who thus safeguard the fulfilment of our company strategy.

We are also fully aware of our corporate social responsibility, and we strictly follow an environmental policy committed to both present and future generations.

NET4GAS Supervisory Board
as of 31 December 2020

Jaroslava Korpancová
Chairwoman of the Supervisory Board
Position held since: 28 June 2019
Member since: 2 August 2018
(On the Supervisory Board continuously since 2 August 2013)

Alastair Colin Hall
Member of the Supervisory Board
Member since: 1 September 2020

Igor Emilievic Lukin
Member of the Supervisory Board
Member since: 1 May 2020

Georg Nowack
Member of the Supervisory Board
Member since: 6 December 2018

Delphine Voeltzel
Member of the Supervisory Board
Member since: 16 April 2019

Changes in the NET4GAS Supervisory Board

In the course of 2020, changes took place in the composition of the NET4GAS Supervisory Board. Under a letter, Andrew Cox resigned as a Member of the Supervisory Board. His term of office expired on 30 April 2020. Under a decision of the sole shareholder of NET4GAS exercising the powers of the General Meeting dated 9 April 2020, Igor Emilievic Lukin was elected as a new Member of the Supervisory Board effective as of 1 May 2020. Moreover, under a letter, John Anthony Guccione resigned as a Member of the Supervisory Board. His term of office expired on 31 August 2020. Under a decision of the sole shareholder of NET4GAS exercising the powers of the General Meeting dated 7 August 2020, Alastair Colin Hall was elected as a new Member of the Supervisory Board effective as of 1 September 2020.

NET4GAS Statutory Directors
as of 31 December 2020

Andreas Rau
Statutory Director and CEO
Position held since: 1 December 2018
(NET4GAS Statutory Director continuously since 1 December 2013)

Radek Benčík
Statutory Director and COO
Position held since: 1 October 2016
(NET4GAS Statutory Director continuously since 1 October 2011)

Václav Hrach
Statutory Director and CFO
Position held since: 1 March 2019
(NET4GAS Statutory Director continuously since 1 March 2014)

Changes in the NET4GAS Statutory Directors

No changes occurred in the composition of the NET4GAS Statutory Directors in 2020.

NET4GAS Audit Committee
as of 31 December 2020

Following the issue of investment securities accepted for trading on the regulated European market, NET4GAS has become a public interest entity within the meaning of Act No. 563/1991 Coll. on Accounting, as amended, and is subject to the duty to establish an Audit Committee. The main responsibilities of the Audit Committee include monitoring the efficiency of the internal control system and the risk management system, overseeing the effectiveness of internal audit and securing its functional independence, monitoring the compilation of financial statements and consolidated financial statements, recommending the statutory auditor, assessing the independence of the statutory auditor and the audit company, evaluating the provision of supplementary services, and overseeing the conduct of mandatory audit.

The NET4GAS Audit Committee was established under a decision of the NET4GAS Statutory Directors on 31 May 2016.

Michal Petrman
Chairman of the Audit Committee
Position held since: 15 September 2016
Member since: 1 June 2016

Igor Emilievic Lukin
Member of the Audit Committee
Member since: 1 June 2016

Stanislav Staněk
Member of the Audit Committee
Member since: 1 June 2016

Delphine Voeltzel
Member of the Audit Committee
Member since: 1 July 2019

Pavel Závitkovský
Member of the Audit Committee
Member since: 1 June 2016

Changes in the NET4GAS Audit Committee

No changes occurred in the composition of the NET4GAS Audit Committee in 2020. In line with the statutes of the Audit Committee, under the decision of the sole shareholder of NET4GAS exercising the powers of the General Meeting dated 12 May 2020, Michal Petrman, Stanislav Staněk and Pavel Závitkovský were re-appointed as independent members of the Audit Committee effective as of 1 June 2020, following their one-year term of office. On 18 June 2020, Michal Petrman was re-elected as the Chairman of the Audit Committee.

Fees for services provided to the NET4GAS Group

Deloitte Audit s.r.o.: CZK 1,750 thousand

BRAWA Company Profile

BRAWA is the owner of the GAZELLE gas pipeline. This 166-kilometre pipeline, with a pipe diameter of DN 1400 and a design pressure of 85 bar, connects the transmission systems of the Czech Republic and the Federal Republic of Germany at the border points Brandov and Rozvadov. NET4GAS is the operator of the GAZELLE pipeline.

BRAWA Shareholder

as of 31 December 2020

In 2020, BRAWA's sole shareholder was NET4GAS.

BRAWA Supervisory Board

as of 31 December 2020

Martin Kolář
Chairman of the Supervisory Board
Position held since: 6 August 2020
Membership since: 1 July 2020
(in the Supervisory Board continuously since 20 March 2012)

Radek Benčík
Vice-Chairman of the Supervisory Board
Position held since: 6 August 2020
Membership since: 1 July 2020
(in the Supervisory Board continuously since 20 March 2012)

Andreas Rau
Member of the Supervisory Board
Membership since: 19 February 2020
(in the Supervisory Board continuously since 19 February 2014)

Changes in the BRAWA Supervisory Board

No changes occurred in the composition of the Supervisory Board of BRAWA in 2020. Under a decision of the sole shareholder of BRAWA dated 10 February 2020, Andreas Rau was re-elected as a Member of the Supervisory Board. Under a decision of the sole shareholder of BRAWA dated 16 June 2020, Martin Kolář and Radek Benčík were re-elected as Members of the Supervisory Board. On 6 August 2020, Martin Kolář was re-elected as Chairman and Radek Benčík as Vice-Chairman of the Supervisory Board.

BRAWA Board of Directors

as of 31 December 2020

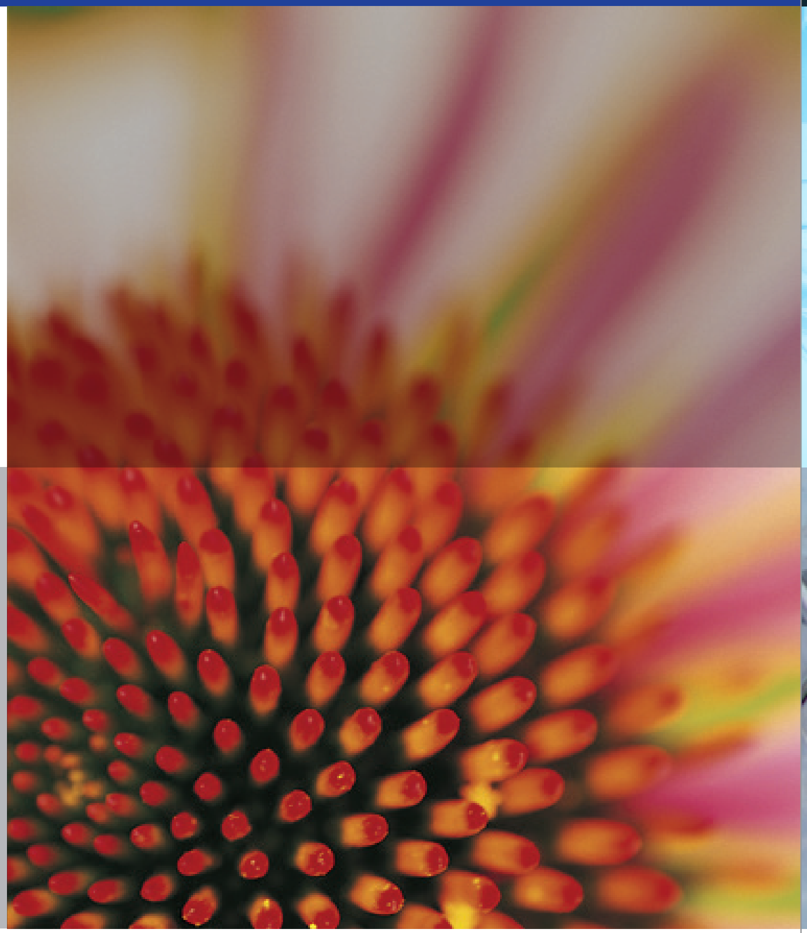
Jan Martinec
Chairman of the Board of Directors
Position held since: 7 July 2019
Membership since: 7 July 2019
(in the Board of Directors continuously since 7 July 2014)

Miroslav Holý
Vice-Chairman of the Board of Directors
Position held since: 17 December 2020
Membership since: 30 November 2020
(in the Board of Directors continuously since 1 November 2015)

Changes in the BRAWA Board of Directors

No changes occurred in the composition of the Board of Directors of BRAWA in 2020. Under a decision of the sole shareholder of BRAWA dated 30 November 2020, Miroslav Holý was re-elected as a Member of the Board of Directors. Under a decision of the Board of Directors of BRAWA dated 17 December 2020, Miroslav Holý was re-elected Vice-Chairman of the Board of Directors, with effect from 17 December 2020.

Consolidated Report on Operations



Consolidated Report on Operations

NET4GAS Group Main Financial Indicators

Selected indicators*	2020 (CZK million)
Revenue	10,029
Operating profit	6,341
Profit before taxation	5,241
Profit after taxation	4,244
Investments – long-term projects finished in 2020	10,450
Capital expenditure to tangible and intangible assets in 2020	5,418

* according to IFRS as adopted by the European Union

Revenues, costs, profit

The Group's main business activity is natural gas transmission in accordance with the Act No. 458/2000 Coll., on conditions for undertaking the business and for the execution of state administration in the energy sector and on changes to certain acts (the "Energy Act").

In 2020, the Group achieved profit before taxation of CZK 5,241 million and profit after taxation of CZK 4,244 million. Operating profit of the Group amounted to CZK 6,341 million in 2020.

The Group generated a profit from its core business operations – transit of natural gas and domestic transmission. Its total operating income amounted to CZK 10,109 million and total operating costs were CZK 3,768 million.

Asset structure

The total assets of the Group in 2020 amounted to CZK 55,915 million, of which non-current assets accounted for CZK 53,262 million, representing 95%. The main components of these assets were tangible fixed assets valued at CZK 53,054 million, intangible fixed assets valued at CZK 72 million and prepayments for acquisition of fixed assets.

As of 31 December 2020, current assets amounted to CZK 2,653 million, representing 5% of total assets. Roughly 84% of current assets was represented by cash.

Investments

In 2020, the Group finished long-term projects in the amount of CZK 10,450 million (additions to fixed assets at cost). The most significant investment of CZK 9,707 million was made within the Capacity4Gas project. Capital expenditures in 2020 amounted to CZK 5,418 million.

Structure of liabilities

The Group's equity in the year ended on 31 December 2020 amounted to CZK 17,213 million and accounted for approximately 31% of the Group's total liabilities.

Current and non-current liabilities amounted to CZK 38,702 million.

Non-current borrowings and other non-current liabilities (particularly bonds, bank borrowing, deferred taxes liabilities, and derivatives liabilities) accounted for approximately 59% of total liabilities; current liabilities accounted for approximately 41% of total liabilities.

Investment instruments

To secure a return on its available cash during 2020, the Group made use of term deposits offered by leading banking institutions. No significant price, credit or liquidity risks were identified in connection with the instruments concluded, other than described in the consolidated financial statements, which are an integral part of this Consolidated Annual Report.

Research and development activities

The Group did not make any major expenditure into research and development in 2020. .

Branches or other parts of business premises abroad

Neither of the companies of the Group has branches in the Czech Republic or abroad.

NET4GAS Main Financial Operations

In 2020, Moody's Investors Service and Fitch Ratings affirmed NET4GAS's Baa2 and BBB investment grade ratings, respectively, with a stable outlook. The ratings continue to reflect the fact that NET4GAS possesses the financial strength to fulfill all of its present and future obligations in a timely manner, and is prepared to carry out its planned long-term investments.

Securing financing on a continuous basis is very important, not least, in relation to a responsible approach towards the company's creditors. Therefore, in 2020 the company secured two committed bank loans in the amount of CZK 7.4 billion due in 2028 and CZK 2.875 billion due in 2025, neither of which has been drawn as at the date of the financial statements. Subsequently, NET4GAS optimized its capital structure at the end of 2020 and in the second half of January 2021, the company issued domestic Czech crown bonds in the amount of CZK 4.098 billion, that will reach maturity in 2028, and in the amount of CZK 6.900 billion, that will reach maturity in 2031 (see Post Balance Sheet Events). All financing actions have been prepared under the ongoing presumption that the company's ratings from the two leading rating agencies remain unchanged.

NET4GAS Main Business Operations

The total volume of natural gas transmitted in 2020 amounted to 48.1 billion cubic meters (bcm), including 8.7 bcm for consumption in the Czech Republic. The total amount of transmitted gas increased by 4.6 bcm compared to 2019 as a result of the completion of a part of the Capacity4Gas project and the resulting higher volume of gas transmitted in the direction to Slovakia. Despite the COVID-19 pandemic, domestic transmission grew by 0.1 bcm in 2020 compared to 2019 due to the slightly colder climatic conditions in the Czech Republic.

In 2020, NET4GAS fulfilled its contractual commitments under 7,634 gas transmission agreements. The number of agreements that were entered into increased year-over-year once again, underscoring the ongoing trend of short-term transmission capacity bookings, mainly on a daily and intraday basis.

NET4GAS continued executing projects aimed at the development of the natural gas transmission system in 2020. Focus concentrated on completing the Capacity4Gas project, which entered the implementation stage in 2017 following the confirmation of demand for new long-term cross-border capacity at the annual auction on the PRISMA platform. Completed in 2019, the first stage of the project mainly consisted of building the new Otvice Compressor Station and an interconnection pipeline to the new EUGAL pipeline in Germany near the Hora Svaté Kateřiny Transfer Station, and an extension of the Lanžhot measuring station on the Czech-Slovak border. In December 2020, NET4GAS obtained all of the necessary permits for putting into operation a new 150-kilometer DN 1400 PN 85 high-pressure pipeline connecting the new Kateřinský Potok Junction Point to the modified Přimda Junction Point. This milestone marked the successful completion of the second and last stage of the Capacity4Gas project. The new infrastructure built within the framework of the Capacity4Gas project aims to strengthen interconnections between the Czech Republic and the entire Central and Eastern European region to Western European gas markets, providing access to diversified gas supplies at competitive prices, including access to liquefied natural gas (LNG) terminals planned to be built in Germany. At the same time, it enhances the strategic role of the Czech Republic in international gas transit, also with a view to the possible future transportation of renewable gases, including hydrogen. The Capacity4Gas project has had a favorable economic impact thanks to the extensive construction activity in the Czech Republic with the high level of participation of Czech contractors and subcontractors. The subsequent operation of the new gas infrastructure is another positive factor as regards the Czech economy.

In 2020, the Moravia Capacity Extension domestic project entered the implementation stage. The project consists of building approximately 85 kilometers of a new DN 1000 PN 73.5 high-pressure pipeline between the existing Tvrdonice and Bezměrov line valve stations. Its objective is to increase the future output capacity of the transmission system for natural gas supplied to Central and Northern Moravia with a view to ensuring the continued security of supply in the region.

Under Commission Regulation (EU) 2017/459 of March 16, 2017, establishing a network code on capacity allocation mechanisms in gas transmission systems (CAM NC), NET4GAS is required to conduct consultations with transmission system operators in neighboring countries regarding market demand for incremental capacity at the borders of the NET4GAS system at least once every two years. During the most recent consultation on market demand, held in 2019, NET4GAS and transmission system operators from neighboring countries received noncommittal long-term inquiries from network users for capacity on the Czech-Austrian and Czech-Polish borders. In response, incremental capacity projects have been initiated by NET4GAS in partnership with Gas Connect Austria and Gaz-System. In accordance with CAM NC, the incremental capacity between the Czech Republic and Austria and between the Czech Republic and Poland will be offered at the European annual capacity auction in July 2021. In 2020, proposals for both of the projects were submitted to the Energy Regulatory Office, which is to set transmission tariffs, as well as other parameters for the new border points for the upcoming auction. The approval of the projects will depend on the results of the annual capacity auction, subject to a positive outcome of economic tests carried out on both sides of the border.

To ensure the safe and reliable transmission of natural gas, NET4GAS continued to maintain and upgrade the transmission system throughout 2020. Reconstruction work was mainly carried out in connection with the completion of the Capacity4Gas project and in accordance with the long-term network maintenance plan. In addition to the in-progress upgrade of compressor stations and the Přimda Junction Point, the commercial metering system at the Drahelčice Transfer Station was upgraded by the installation of ultrasound technology, and another stage of the modernization of river crossings was launched. In addition, several line valve stations were refurbished.

In 2020, NET4GAS continued projects aimed at building direct connections to the transmission system for customers, such as a new power / heating plant, an industrial zone, a gas liquefaction facility, cogeneration units, and a gas storage facility. In connection with the transition of industrial operations to a low-carbon economy, such as switching from coal to natural gas, the demand for the direct connection of customers to the NET4GAS transmission system is expected to rise in the near future.

Considering the anticipated significant increase in end-consumer consumption in the upcoming years, the local distribution system operator requested an increase in the capacity for Northern Bohemia in 2020. The project is expected to include the modernization of the NET4GAS transfer station, including enlarging the commercial metering system and upgrading the control system.

NET4GAS is active in the area of innovation. Against the backdrop of the current debate on the transition to a low-carbon economy in Europe, NET4GAS has undertaken an analysis of the options for greening natural gas in an effort to demonstrate that it is a viable alternative for storing renewable energy. The Greening of Gas project combines the Power2Gas technology, which relies on electrolytic deposition to produce hydrogen using electricity, and the biological purification of biogas in order to generate renewable gases that are injected into the transmission and distribution systems. A feasibility study was carried out in 2020, confirming the viability of the project and identifying a suitable site. Moreover, NET4GAS was one of the sponsors of the "European Hydrogen Backbone" in 2020, a study aimed at examining methods for building European backbone hydrogen infrastructure in the forthcoming years, with a major contribution being made by existing gas networks.

BRAWA Business Operations

The core activity of BRAWA in 2020 was managing its property, the GAZELLE pipeline, and its lease to the transmission system operator NET4GAS.

Human Resources

As of 31 December 2020, NET4GAS had 546 employees, 19.2% of whom were women. Women accounted for 14.7% of employees in management positions. The education structure of the company's workforce remained stable. The standard of NET4GAS employees' working and social conditions is defined under a Collective Agreement valid 2020–2024. As of 31 December 2020, BRAWA had no employees.

As part of its human resources and social policy, NET4GAS offers its employees programs and benefits that include, inter alia, retirement savings and life insurance contributions, restaurant vouchers, five days of vacation above the legal requirement, sick days, flexible working time, premium healthcare, contributions for leisure activities, or assistance for families with young children. NET4GAS facilitates the return of employees to work, particularly through maintaining contact on parental leave, supporting their active participation in projects and employee events, and allowing them to work from home. As in previous years, employees had an opportunity to obtain financial support for a pre-school which their children attend.

Cooperation continued with schools, students, and graduates with the aim of supporting fields of study related to the company's business and fostering technical expertise (see NET4GAS Corporate Philanthropy). NET4GAS also continued to support the employment of handicapped persons. Every position was assessed in view of suitability for handicapped individuals and advertised as such where applicable.

Health and Safety at Work

The NET4GAS Group pays close attention to occupational health and safety. The primary objective is to ensure that every employee leaves the workplace as healthy as upon arrival. Efforts at maintaining a safe working environment target all parts of the workplace and apply not only to employees, but also to suppliers.

Despite the fact that no employee of NET4GAS was involved in an accident resulting in incapacity for work in 2020, maintaining a high standard of workplace safety to eliminate the risks of injuries will remain one of the main priorities in the area of occupational health and safety in the forthcoming years.

Environmental Protection

Close attention was paid to environmental protection, which the NET4GAS Group regards not only from the viewpoint of fulfilling legal requirements, but also, and more importantly, as a part of its corporate social responsibility. Environmental protection is taken into consideration in all decisions and processes with the aim of minimizing any burden the company's operations might place on the natural world.

In 2020, the NET4GAS Group complied with all legal requirements pertaining to environmental protection. In accordance with requirements of the central and local governments, designated facilities have contingency plans to respond to accidents as per the Water Act. In 2020, these plans fulfilled the role of preventive measures only, as no environmental accident occurred at any Group facilities. The local and central government authorities found no deficiencies in the control of compliance with obligations arising for the Group under the laws and regulations in effect and the integrated license.

The Group's commitment to environmental protection goes beyond the scope of legal requirements. An example is the consistent use of a mobile compressor that serves for removal of natural gas from a pipeline section undergoing repairs and thanks to that the pumped gas is not released into the atmosphere. Recycling, energy savings, and other environment-friendly activities were and remain an integral part of the operations. In 2020, the Group continued to support nature conservation and environmental protection projects under the NET4GAS Closer to Nature program (see NET4GAS Corporate Philanthropy).

Internal Control Principles

Internal Audit

The essence of the Internal Audit is objective assurance focused on adding value to improving processes and reducing risks. It is an integral component of the management and control system and an important tool for the continuous improvement of the NET4GAS Group. The Internal Audit is supervised by the Audit Committee.

Audit Committee

The Audit Committee is described in the section Consolidated Group Data.

Risk Management Committee

The NET4GAS Group manages its risk with due care and diligence. Risks are continuously identified, assessed from the point of view of their likely occurrence and the extent of potential damage and are reported to the internal Risk Management Committee. Existing risks are continuously monitored and updated.

The Risk Management Committee's responsibilities include, in particular, discussing identified risks to the Group and approving strategies for managing them. It is also the Committee's task to regularly assess the overall risk to the Group.

Code of Conduct

The NET4GAS Group is conscious of its role in society and its responsibility towards all its stakeholders and the environment, in which it operates. It has therefore committed itself to a clear set of principles which form a framework for its activities in the business and social spheres defined by the Code of Conduct. Its adherence is monitored by the Compliance Officer.

The conduct of the Group and the employees is based on personal responsibility, honesty, loyalty, and respect for others, their safety and the environment. The Group supports the internationally declared human rights, promotes their protection and at the same time ensures that no violation of human rights occurs in the Group. It also acts against all forms of corruption, including extortion and bribery.

The Code of Conduct forms the basis for the creation of further internal documentation and every employee is acquainted with it. Moreover, annual reporting on the implementation of the Code of Conduct is introduced. In 2020, the Compliance Officer did not receive any notification of a violation of the Code of Conduct.

Ombudsman and Fraud Prevention

The Ombudsman is an independent position, which chiefly involves collecting complaints and information relating to potentially fraudulent activities or to activities, which are in conflict with the company's internal regulations or the law. The Ombudsman evaluates these submissions before convening an investigation committee, whose role is to make an independent assessment and evaluation and then propose corrective measures. The Ombudsman may also be contacted by parties outside the company. The position of Ombudsman is performed for the NET4GAS Group by an external law firm. In 2020, the Ombudsman did not receive any submission.

NET4GAS Corporate Philanthropy

NET4GAS Corporate Philanthropy

NET4GAS is aware of its corporate social responsibility and therefore, in 2020 it continued devoting itself to corporate philanthropy and sponsorship, aimed at improving the living conditions in the Czech Republic in the following areas:

- NET4GAS Closer to Nature: nature and the environment protection
- NET4GAS Closer to Knowledge: education, training and research
- NET4GAS Closer to Regions: local development

NET4GAS Closer to Nature

Come to nature with us at www.closertonature.cz!

NET4GAS pursues a responsible policy aimed at protecting nature and the environment with respect to current and future generations. This principle not only underlies the company's responsible entrepreneurship but is also the basis for its long-term strategy of corporate philanthropy and sponsorship, which has been implemented under the programme NET4GAS Closer to Nature since 2007. NET4GAS has been systematically providing long-term support to projects where a major aspect of sustainable development is expressed by precisely that motto – "Closer to Nature" – and is one of the largest corporate donors in the field of nature conservation in the Czech Republic.

NET4GAS has been the general partner of the Czech Union for Nature Conservation since 2007 and the goal of their cooperation is to present attractive and valuable natural sites to the public stressing the awareness about the reasons for their protection, in both an educational and entertaining way. In 2020, NET4GAS and the Union opened further five sites of natural value to the public, bringing the total over their partnership to 104. Moreover, the support focused on the renovation of existing sites, direct nature conservation projects and the nationwide science and nature competitions Zlatý list ("Golden Leaf") and Ekologická olympiáda ("Ecological Olympiad").

NET4GAS Closer to Knowledge

This second pillar of philanthropy and sponsorship has its foundation in the focus on operational excellence delivered by a trained and qualified team. Sustainable development would be impossible without quality training, education, research and development. The company therefore supports these areas under its programme NET4GAS Closer to Knowledge. In 2020, NET4GAS, inter alia, continued to develop its general partnership with the Department of Gaseous and Solid Fuels and Air Protection of the Faculty of Environmental Technology at the University of Chemistry and Technology Prague, and its partnership of the Czech Technical University in Prague. In particular, their cooperation included merit scholarships and awards for students, lectures and other educational and promotional events.

NET4GAS Closer to Regions

Operation, long-term development and maintenance of the gas transmission system, which runs through almost every region of the Czech Republic, is a cornerstone of the company's business. As a good neighbour, it targets its third programme – NET4GAS Closer to Regions – on local development in the locations where it operates. In 2020, NET4GAS was, for example, the main partner of the Voluntary Firemen of the Year contest, the main mission of which is to support and promote the activities of firemen, who are also a natural partner of NET4GAS in ensuring the safety and reliability of natural gas transmission.

NET4GAS Report on Relations

The Statutory Directors of NET4GAS, s.r.o. (hereinafter in this Report on Relations referred to as "Company") have drawn up, in accordance with the provision of the Section 82 of Act No. 90/2012 Coll., the Business Corporations Act (hereinafter referred to as "BCA"), the following Report on Relations covering the relations among the Company and controlling entities and among the Company and other entities controlled by the same controlling entities (hereinafter referred to as "Related Parties") during 2020 in all cases where the Company is aware of the existence of such Related Parties. This Report on Relations forms an integral part of the NET4GAS Group Consolidated Annual Report 2020 and is provided to the Company's shareholder for review within the same period of time and under the same conditions as the Financial Statements.

1. Controlling entities

In the accounting period ended 31 December 2020, the Company was controlled:

a) directly by
NET4GAS Holdings, s.r.o., with its registered office at Na hřebenech II 1718/8, Nusle, Prague 4, 140 00, Czech Republic, ID No. 291 35 001, registered in the Commercial Register maintained by the Municipal Court in Prague, Section C, File No. 202655;

b) indirectly by
(i) Allianz Infrastructure Czech HoldCo II S.à r.l., with its registered office at L-2450 Luxembourg, boulevard F.D. Roosevelt 14, Grand Duchy of Luxembourg, registration number: B 175770, and (ii) Borealis Novus Parent B.V., with its registered office at 1011PZ Amsterdam, Muiderstraat 9, Kingdom of the Netherlands, registration number: 57412243, each of which is a shareholder of NET4GAS Holdings, s.r.o. with an ownership interest of 50%, and which together have the status of joint controlling entities in relation to NET4GAS Holdings, s.r.o. by virtue of Section 75(3) of the BCA.

2.Other Related Parties

The Company requested that the above controlling entities provide a list of any other entities controlled by the same controlling entities during the most recent accounting period, and the Statutory Directors of the Company have drawn up the present Report on Relations based on the information provided by these controlling entities and the other information at their disposal.

The structure of the relations among the controlling entities and the controlled entity and other Related Parties is set out in Annex No. 1 to this Report on Relations.

3. Role of the controlled entity, method and means of control

In 2020, the Company carried out its activities in accordance with Act No. 458/2000 Coll., on conditions for undertaking the business and for the execution of state administration in the energy sector and on changes to certain decrees (hereinafter referred to as "Energy Act"), and as such operated independently of controlling entities and other Related Parties.

NET4GAS Holdings, s.r.o., as the controlling entity and as the sole shareholder of the Company in the powers of the General Meeting exercised its rights and performed its obligations in respect of the Company in compliance with legislation, in particular as laid down in the BCA and the Energy Act.

4. Agreements concluded between the Company and Related Parties

The agreements concluded between the Company and controlling entities or Related Parties during the most recent accounting period are listed in Annex No. 2 to this Report on Relations. The agreements concluded in preceding accounting periods which were in effect during the most recent accounting period form Annex No. 3 to this Report on Relations.

5. Acts performed in the most recent accounting period at the instigation or in the interest of controlling entities or Related Parties

In the most recent accounting period, the Company, in addition to concluding agreements as specified in Article 4 of this Report on Relations, also performed acts at the instigation or in the interest of controlling entities or Related Parties as specified in Annex No. 4 to this Report on Relations.

6. No damage

In the most recent accounting period, the Company incurred no damage as a result of agreements with controlling entities or Related Parties, or as a consequence of other acts or actions performed in the interest or at the instigation of the same, which were concluded or undertaken during the most recent accounting period or in any preceding accounting period. It has therefore not been necessary to secure compensation for damage or to conclude any agreements on such compensation.

7. Advantages and disadvantages resulting from relations with Related Parties

In the most recent accounting period, the relations among the controlling entities and Related Parties were an advantage for the Company in terms of the increased financial stability

8. Confidentiality

None of the information contained in this Report on Relations constitutes a trade secret of the Company.

9. Conclusion

This Report on Relations was approved by the Company's Statutory Directors on 8 March 2021 and was submitted for review to the Company's Supervisory Board.

In Prague on 8 March 2021

Andreas Rau	**Radek Benčík**	**Václav Hrach**
Statutory Director	Statutory Director	Statutory Director

Annex No. 1
Structure of relations among controlling entities and Related Parties in the most recent accounting period

Allianz Infrastructure Czech HoldCo II S.à r.l. (50.00%) and Borealis Novus Parent B.V. (50.00%)

- **100.00 % NET4GAS Holdings, s.r.o.**
  - 100.00 % NET4GAS, s.r.o.
    - BRAWA, a.s.

Annex No. 2
Agreements concluded between the Company and controlling entities or Related Parties in the most recent accounting period

Contracting party	Agreement	Date of conclusion	Details
BRAWA, a.s.	Amendment 2 to Lease Agreement	14 September 2020	The subject matter of this amendment is an adjustment of the method for calculating the lease.

Orders of BRAWA, a.s. at NET4GAS, s.r.o., in the most recent accounting period

- Reposting insurance premiums (one order)
- Reposting insurance broker services (one order)

Annex No. 3
Agreements concluded between the Company and controlling entities or Related Parties in previous accounting periods and effective in the most recent accounting period

Contracting party	Agreement	Date of conclusion	Details
BRAWA, a.s.	Service Level Agreement for Selected Services as amended by Amendment No. 1 of 20 December 2013, Amendment No. 2 of 27 January 2014, Amendment No. 3 of 6 February 2015, Amendment No. 4 of 30 November 2015, Amendment No. 5 of 30 December 2016 and Amendment No. 6 of 30 December 2018	31 December 2012	The subject matter of this agreement is the provision of the following services by NET4GAS, s.r.o. to BRAWA, a.s.: GAZELLE project supervision, construction and assembly work within the construction, accounting, controlling, tax issues, payroll administration, cash-flow, risk management, insurance, facility management, purchasing and logistics, corporate affairs and network documentation.
BRAWA, a.s.	Lease Agreement, as amended by Amendment No. 1 of 15 February 2017	31 December 2012	Under the agreement, BRAWA, a.s. leases gas infrastructure to NET4GAS, s.r.o., consisting primarily of the "High-pressure DN 1400 gas pipeline – Brandov BTS – Rozvadov" interconnector of approximately 160 km in length.

Contracting party	Agreement	Date of conclusion	Details
BRAWA, a.s.	Agreement on the Provision of Loans, as amended by Amendment No. 1 of 16 July 2015 and Amendment No. 2 of 12 November 2019	2 July 2013	
NET4GAS Holdings, s.r.o.	Agreement on the Provision of Loans, as amended by Amendment No. 1 of 16 January 2014, Amendment No. 2 of 21 March 2014, Amendment No. 3 of 16 July 2015, and Amendment No. 4 of 11 November 2019	11 November 2013	
NET4GAS Holdings, s.r.o., BRAWA, a.s. (Multilateral agreement)	Agreement Ref. No. ZBA/2017/07 on the Provision of Real Unidirectional Cash Pooling as amended by Amendment 001 of 27 September 2018	9 November 2017	The agreements lay down a framework for cash pooling in Czech crowns (between NET4GAS, s.r.o., BRAWA, a.s., and NET4GAS Holdings, s.r.o.) and US dollars and euros (between NET4GAS, s.r.o. and NET4GAS Holdings, s.r.o.), the purpose of which is to optimize the use of funds in the framework of related party transactions and to reduce transaction costs.
NET4GAS Holdings, s.r.o. (Multilateral agreement)	Agreement Ref. No. ZBA/2017/08 on the Provision of Real Unidirectional Cash Pooling as amended by Amendment 001 of 27 September 2018	9 November 2017	
NET4GAS Holdings, s.r.o. (Multilateral agreement)	Agreement Ref. No. ZBA/2017/09 on the Provision of Real Unidirectional Cash Pooling as amended by Amendment 001 of 27 September 2018	9 November 2017	
NET4GAS Holdings, s.r.o.	Service Level Agreement for Selected Services as amended by Amendment No. 2 of 6 December 2019	25 June 2015	The subject matter of the agreement is the provision of the following services by NET4GAS, s.r.o. to NET4GAS Holdings, s.r.o.: accounting, controlling, tax issues, cash-flow, contract management, and PR service
NET4GAS Holdings, s.r.o. (Multilateral agreement)	Funding Agreement	9 June 2017	The subject matter of the agreement, concluded between NET4GAS, s.r.o. and the companies NET4GAS Holdings, s.r.o., Allianz Infrastructure Luxembourg I S.à r.l. and OMERS Administration Corporation, is the definition of the possibility of financing an investment project of NET4GAS, s.r.o. by NET4GAS Holdings, s.r.o.
BRAWA, a.s.	Agreement on the Establishment of an Easement (No. 1)	3 August 2018	The subject matter of the agreement is the establishment of an easement – "High-pressure DN 1400 gas pipeline, RU Kateřinský potok – RU Přimda", an underground high-pressure gas pipeline in excess of 40 bar.

Contracting party	Agreement	Date of conclusion	Details
BRAWA, a.s.	Agreement on the Establishment of an Easement (No. 2)	3 August 2018	The subject matter of the agreement is the establishment of an easement – "High-pressure DN 1400 gas pipeline, RU Kateřinský potok – RU Přimda", an underground high-pressure gas pipeline in excess of 40 bar.
BRAWA, a.s.	Agreement on the Establishment of an Easement (No. 3)	3 August 2018	The subject matter of the agreement is the establishment of an easement – "High-pressure DN 1400 gas pipeline, RU Kateřinský potok – RU Přimda", an underground high-pressure gas pipeline in excess of 40 bar.
BRAWA, a.s.	Agreement on personal data processing	2 January 2019	This agreement sets out the rights and obligations of the parties with respect to the processing of relevant personal data.
BRAWA, a.s. (Multilateral agreement)	Agreement on remuneration for the establishment of easement	10 September 2019	The subject of the contract is the remuneration due to the owner for the establishment of the easement.
NET4GAS Holdings, s.r.o.	Agreement on personal	6 December 2019	This agreement sets out the rights and obligations of the parties with respect to the processing of relevant personal data.

Annex No. 4
Acts performed in the most recent accounting period at the behest or in the interest of controlling entities or Related Parties

Controlling entity or Related Party	Act performed	Date	Details
NET4GAS Holdings, s.r.o.	Resolution of the sole shareholder of NET4GAS, s.r.o.	16 January 2020	The subject matter of the resolution is the approval of the signature of bank documents related to bank loans by the Statutory Directors.
NET4GAS Holdings, s.r.o.	Resolution of the sole shareholder of NET4GAS, s.r.o.	12 February 2020	The subject matter of the resolution is a contribution to capital funds other than the registered capital.
NET4GAS Holdings, s.r.o.	Resolution of the sole shareholder	5 June 2020	The subject matter of the resolution is a contribution to capital funds other than the registered capital.
NET4GAS Holdings, s.r.o.	Resolution of the sole shareholder of NET4GAS, s.r.o.	5 June 2020	The subject matter of the resolution is the approval of an advance payment of share in profit for 2020.
NET4GAS Holdings, s.r.o.	Resolution of the sole shareholder of NET4GAS, s.r.o.	7 December 2020	The subject matter of the resolution is the approval of an advance payment of share in profit for 2020.

Post Balance Sheet Events

NET4GAS utilised favourable market conditions and on 18 January 2021 successfully launched a CZK-denominated bond offering in an aggregate volume of CZK 10.998 billion. The dual-tranche transaction consisted of a 7-year bond in the volume of CZK 4.098 billion paying a floating rate coupon of 6M PRIBOR plus 0.95% (paid semi-annually) and a 10-year bond in the volume of CZK 6.900 billion bearing a fixed annual coupon of 2.745%. By launching the bond, the capital structure of NET4GAS continues to be based on conservative and prudent business assumptions, which are also in line with the investment grade ratings of Baa2 by Moody's Investors Service and BBB by Fitch Ratings.

After assessing all currently available information, including the impacts of the persisting COVID-19 pandemic, the management believes that the ability of the NET4GAS Group to continue as a going concern in the following reporting period is not endangered. The financial statements have been prepared on this assumption.

Persons Responsible for the Consolidated Annual Report

We hereby declare on our honour that the information stated in this Consolidated Annual Report is true and that no material facts have been omitted or misstated.

In Prague on 8 March 2021

Andreas Rau	**Radek Benčík**	**Václav Hrach**
Statutory Director	Statutory Director	Statutory Director

Annex no. 1: Consolidated Financial Statements

NET4GAS Group Consolidated Financial Statements

prepared in accordance with International Financial Reporting Standards as adopted by the European Union, 31 December 2020

Contents

NET4GAS Group
Consolidated Balance Sheet as at 31 December 2020

In millions of Czech crowns	Note	31 December 2020	31 December 2019
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	53,054	50,025
Intangible assets	9	72	88
Other non-current assets	10	136	402
Total non-current assets		**53,262**	**50,515**
CURRENT ASSETS			
Inventories	11	131	72
Trade and other receivables	13	194	686
Current income tax prepayments	27	47	–
Other non-financial assets	14	55	38
Cash and cash equivalents	15	2,226	2,162
Total current assets		**2,653**	**2,958**
TOTAL ASSETS		**55,915**	**53,473**

EQUITY AND LIABILITIES			
EQUITY			
Registered capital	16	2,750	2,750
Capital contributions outside registered capital	16	13,467	9,066
Cash flow hedge reserve	16	(76)	(179)
Retained earnings		1,072	1,663
Total equity		**17,213**	**13,300**
NON-CURRENT LIABILITIES			
Other payables	22	30	39
Borrowings	17	15,169	26,966
Lease liability	18	155	180
Derivative financial instruments	29	818	1,714
Deferred income tax liability	27	6,577	6,517
Long-term employee benefits	23	102	114
Other non-financial liabilities	23	3	3
Total non-current liabilities		**22,854**	**35,533**

The accompanying notes on pages 44 to 90 are an integral part of these consolidated financial statements.

In millions of Czech crowns	Note	31 December 2020	31 December 2019
CURRENT LIABILITIES			
Borrowings	17	12,540	276
Lease liability	18	39	40
Trade and other payables	22	1,894	3,495
Derivative financial instruments	29	710	242
Current income tax payable	27	–	48
Other taxes payable	20	32	19
Provisions	21	1	–
Short-term employee benefits	23	137	49
Other non-financial liabilities	23	495	471
Total current liabilities		**15,848**	**4,640**
Total liabilities		**38,702**	**40,173**
EQUITY AND LIABILITIES		**55,915**	**53,473**

8 March 2021

Andreas Rau	**Radek Benčík**	**Václav Hrach**
Statutory Director	Statutory Director	Statutory Director

The accompanying notes on pages 44 to 90 are an integral part of these consolidated financial statements.

NET4GAS Group
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020

In millions of Czech crowns	Note	2020	2019
Revenue	6	10,029	8,054
Raw materials consumed	24	(350)	(159)
Services purchased and lease charges	24	(358)	(390)
Employee benefits	24	(544)	(533)
Depreciation and amortisation	8, 9, 24	(2,403)	(2,002)
Changes in fair value of derivatives, net		–	7
Foreign exchange differences, net	24	(105)	(2)
Other operating income		80	165
Other operating expenses	24	(8)	(110)
Operating profit		**6,341**	**5,030**
Finance income	25	118	118
Finance costs	26	(1,218)	(1,027)
Finance result (net)		(1,100)	(909)
Profit before income tax		**5,241**	**4,121**
Income tax expense	27	(997)	(791)
PROFIT FOR THE YEAR		**4,244**	**3,330**

Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge	16	128	(284)
Income tax recognised directly in other comprehensive income – cash flow hedge	27	(25)	54
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**103**	**(230)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,347**	**3,100**

The accompanying notes on pages 44 to 90 are an integral part of these consolidated financial statements.

NET4GAS Group
Consolidated Statement of Changes in Equity for the year ended 31 December 2020

In millions of Czech crowns	Registered capital	Capital contributions outside registered capital	Cash flow hedge reserve	Retained earnings	Total
Balance as at 1 January 2019	**2,750**	**4,549**	**51**	**4,084**	**11,434**
Total comprehensive income					
Profit for 2019	–	–	–	3,330	3,330
Cash flow hedge – including related tax effect	–	–	(230)	–	(230)
Total comprehensive income for the year	–	–	(230)	3,330	3,100
Transactions with owners					
Contribution outside registered capital (Note 16)	–	7,526	–	–	7,526
	–	(3,009)	–	–	(3,009)
Dividends paid	–	–	–	(4,081)	(4,081)
Advance dividends paid	–	–	–	(1,670)	(1,670)
Balance as at 31 December 2019	**2,750**	**9,066**	**(179)**	**1,663**	**13,300**
Total comprehensive income					
Profit for 2020	–	–	–	4,244	4,244
Cash flow hedge – including related tax effect	–	–	103	–	103
Total comprehensive income for the year	–	–	103	4,244	4,347
Transactions with owners					
Contribution outside registered capital (Note 16)	–	4,401	–	–	4,401
Dividends paid	–	–	–	(1,666)	(1,666)
Advance dividends paid	–	–	–	(3,169)	(3,169)
Balance as at 31 December 2020	**2,750**	**13,467**	**(76)**	**1,072**	**17,213**

The accompanying notes on pages 44 to 90 are an integral part of these consolidated financial statements.

NET4GAS Group
Consolidated Statement of Cash Flows
for the year ended 31 December 2020

In millions of Czech crowns	Note	2020	2019
Cash flows from operating activities			
Profit before tax		**5,240**	**4,121**
Adjustments for:			
Depreciation and amortisation	8, 9	2,403	2,002
Finance income	25	(118)	(118)
Finance costs	26	1,218	1,027
Proceeds from intangible assets		(24)	(95)
Other non-cash operating expenses / (gains)		37	76
thereof: – employee benefit provision		*76*	*3*
– creation and release of provisions		*(48)*	*48*
– other		*9*	*25*
Operating cash flows before working capital changes		**8,756**	**7,013**
Decrease / (Increase) in trade and other receivables	13, 14	639	57
Increase / (Decrease) in trade and other payables	22, 23	(591)	143
Decrease in inventories	11	(59)	(7)
Operating cash flows after changes in working capital		**8,745**	**7,206**
Interest paid	26	(659)	(762)
Interest received	25	8	29
Income tax paid	27	(1,056)	(676)
Net cash flows from operating activities		**7,038**	**5,797**
Cash flows from investing activities:			
Purchase of property, plant and equipment	8	(6,535)	(6,776)
Purchase of intangible assets	9	(28)	(56)
Proceeds from intangible assets	9	24	95
Loans provided to related parties	12	–	8
Sale / Purchase of other financial assets	14	–	2,787
Net cash flows used in investing activities		**(6,539)**	**(3,942)**

The accompanying notes on pages 44 to 90 are an integral part of these consolidated financial statements.

In millions of Czech crowns	Note	2020	2019
Cash flows from financing activities:			
Payments of decreased contributions outside registered capital to the Company's shareholder	16	–	(3,010)
Payments of increased contributions outside registered capital from Company's shareholder	16	4,401	7,526
Dividends paid	16	(1,666)	(4,081)
Advance dividends paid	16	(3,169)	(1,670)
Repayments of borrowings	17	(566)	(3,195)
Proceeds from borrowings	17	565	3,435
Net cash flows from financing activities		**(435)**	**(995)**
Net increase in cash and cash equivalents		**64**	**860**
Cash and cash equivalents at the beginning of the period	15	2,162	1,302
Cash and cash equivalents at the end of the period	15	**2,226**	**2,162**

The accompanying notes on pages 44 to 90 are an integral part of these consolidated financial statements.

NET4GAS GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2020

1. NET4GAS Group and Its Operations – General Information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2020 for NET4GAS, s.r.o. (the "Company" or "NET4GAS") and its subsidiary BRAWA, a.s. (the "Subsidiary" or "BRAWA") (jointly the "Group" or "NET4GAS Group").

The Company was incorporated and is domiciled in the Czech Republic, where the Group's principal place of business is also located. The Company is a limited liability company. It was incorporated on 29 June 2005 and has its registered office at Na Hřebenech II 1718/8, Prague 4 – Nusle, the Czech Republic. The Company's identification number is 272 60 364.

The subsidiary BRAWA, a.s. (joint stock company) was incorporated on 10 November 2010 as a 100% subsidiary of the Company and has its registered office at Na Hřebenech II 1718/8, Prague 4 – Nusle, the Czech Republic. The Subsidiary's primary business activity is the lease of the GAZELLE gas pipeline to the Company. The Subsidiary's identification number is 247 57 926.

The Group's main business activity is natural gas transmission in accordance with Act No. 458/2000 Coll. (the "Energy Act").

Since 2 August 2013, the Company has been fully owned by NET4GAS Holdings, s.r.o. ("NET4GAS Holdings"), incorporated in the Czech Republic, which is the Group's ultimate parent company. NET4GAS Holdings is a joint venture of two entities: Allianz Infrastructure Czech HoldCo II S.à r.l. (50%), with its registered office in Luxembourg, and Borealis Novus Parent B.V. (50%), with its registered office in the Netherlands.

The Statutory Directors of the Company:

As at 31 December 2020	As at 31 December 2019
Andreas Rau	Andreas Rau
Radek Benčík	Radek Benčík
Václav Hrach	Václav Hrach

The members of the Supervisory Board of the Company were as follows:

As at 31 December 2020	Function	As at 31 December 2019	Function
Jaroslava Korpancová	Chairman	Jaroslava Korpancová	Chairman
Alastair Colin Hall	Member	Andrew Cox	Member
Delphine Voeltzel	Member	Delphine Voeltzel	Member
Igor Emilievic Lukin	Member	John Anthony Guccione	Member
Georg Nowack	Member	Georg Nowack	Member

On 1 May 2020 Igor Emilievic Lukin became a member of the Supervisory Board.

On 1 September 2020 Alastair Colin Hall became a member of the Supervisory Board.

About the Group. The Group is the exclusive gas transmission system operator in the Czech Republic, operating almost 4,000 km of gas pipelines. NET4GAS is currently operating five compressor stations. The flow rate of the gas transmitted is measured at seven border transfer stations (the Lanžhot, Brandov and Hora Svaté Kateřiny stations in the Czech Republic, the Waidhaus, Olbernhau and Deutschneudorf stations in the Federal Republic of Germany and Cieszyn in the Polish Republic) and at almost a hundred national transfer stations. The NET4GAS transmission system has been enhanced in the past few years by a number of significant projects delivering additional transmission capacity and greater diversification of transmission routes. These projects have included the construction of the GAZELLE high-pressure gas pipeline (DN 1400, put in operation in 2013), connecting the transmission systems of the Czech Republic and the Federal Republic of Germany at the border points Brandov and Rozvadov, and a project connecting the Czech and Polish transmission systems in Český Těšín. The entire NET4GAS transmission system can be also used for reverse flow, which means that it has the capacity and technology to cope with natural gas transmission in any direction. The largest project of the Group has been the Capacity4Gas Project. The project has been part of a larger initiative to provide secure and cost-efficient access to gas supplies via additional pipeline capacities, especially in the Baltic Sea. Simultaneously, the newly-created infrastructure in the Czech Republic has been made available to all interested market participants on a fully transparent and non-discriminatory basis for the transportation of any kind of natural gas regardless of its country of origin, be it Norway, Russia or North America. The Capacity4Gas project contributes to enhancing the security of gas supplies in the Czech Republic and in the entire CEE region. In addition, the project has strengthened the Czech Republic's strategic role in cross-border gas transmission. The objective of the Capacity4Gas project has been to build new gas infrastructure, most of which is located in the Ústí nad Labem and Pilsen regions. The project aimed to interconnect the gas infrastructure operated by NET4GAS with the German gas transmission system, including the EUGAL pipeline, and to increase its capacity for gas supplies to the Czech Republic and for further transit through Slovakia. The project has been implemented in two main stages. The first stage has been completed in 2019 and the second in the end of 2020.

The NET4GAS, s.r.o. is the successor to Tranzitní plynovod, n. p., Transgas, a.s., and RWE Transgas Net, s.r.o.

The NET4GAS, s.r.o. founded BRAWA, a.s. ("BRAWA"), as its subsidiary on 10 October 2010. Until 1 January 2013, BRAWA, a.s. had been a dormant company. On 1 January 2013, under the legal reorganisation of NET4GAS's business, BRAWA became the sole owner of the GAZELLE pipeline. The GAZELLE pipeline is operated by NET4GAS.

Structure of the Group as at 31 December 2020 and 2020:

Name	Activity	Percentage of voting rights	Ownership percentage	Country of registration
Subsidiary:				
BRAWA, a.s.	Owner of the GAZELLE natural gas pipeline which is rented to the Company	100%	100%	Czech Republic

With effect from 2015, the reporting period of BRAWA has ended on 30 November. The reporting period for 2020 started on 1 December 2019 and ended on 30 November 2020. In preparing the Group's consolidated financial statements as at 31 December 2020, the actual transactions of BRAWA for January–December 2020 and balances as at 31 December 2020 were used.

Note
The consolidated financial statements have been prepared in Czech and in English. In the event of differing interpretation of information, views or opinions, the Czech version of these consolidated financial statements takes precedence over the English version.

2. Operating Environment of the Group

The regulatory environment in the Czech Republic:

(a) Legal framework pertaining to the transmission system operator
The transmission system operator holds an exclusive gas transmission licence under the Energy Act, and its operations are regulated by the Energy Regulatory Office (the "ERO").

The transmission system operator's rights and obligations are primarily derived from Section 58 of the Energy Act and are clarified in more detail in the related implementing legislation. The transmission system operator is also required to comply with obligations under the European legislation, in particular Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks and the related implementing legislation.

(b) Regulatory framework pertaining to the transmission system operator
Gas transmission prices are set annually by the ERO based on regulation methodology applicable in the regulatory period. Gas transmission prices for the next calendar year are usually published in an ERO's Pricing Decision by 30 November of the current year.

The 2020 gas transmission prices were established by ERO's Price Decision No 4/2019 of 26 November 2019, on Regulated Prices Related to Gas Supply.

(c) Current regulatory period
The transmission system operator is currently subject to regulatory period IV, which began on 1 January 2016 and ends on 31 December 2020 (the ERO extended the original three-year period by two years on 11 January 2018).

(d) Domestic transmission regulation methodology applicable in the fourth regulatory period
The transmission system operator regulation methodology for domestic gas transmission is based on a ceiling established for allowed revenues over a predetermined period (the revenue cap method).

Domestic gas transmission prices are subsequently derived from allowed revenues defined in this manner. These prices consist of a fixed component for booked transmission capacity and a variable component depending on the amount of gas transmitted.

(e) Transit transmission regulation methodology applicable in the fourth regulatory period
The transmission system operator regulation methodology for transit transmission is subject to a price ceiling (of allowed prices) for a predetermined period (the price cap method). Allowed prices are set annually by the ERO based on a comparison of gas transmission prices in other relevant Member States of the European Union (benchmarking). The supporting documents for the benchmarking analysis are supplied by the transmission system operator.

(f) Unregulated part
Further to a decision of the ERO of 28 July 2011, the GAZELLE interconnecting pipeline was exempted from the obligation to grant third-party access at a regulated price under the conditions set out in the Energy Act.

3. Summary of Significant Accounting Policies

a) Basis of preparation
These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments) carried at fair value. 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.

Preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Presentation currency. These consolidated financial statements ("financial statements") are presented in Czech crowns ("CZK") which is also the functional currency of both Group entities.

b) Consolidation
Subsidiaries are investees, including structured entities, over which the Group exercises control. In assessing whether the Group controls an investee, the decisive factor is whether the Group has exposure, or rights, to variable returns from its involvement in the investee and may use its power over the investee to affect the 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 entities are eliminated from consolidation; unrealised losses are also eliminated unless the cost cannot be recovered. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

c) Financial instruments – key measurement terms
Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value 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 a 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.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date on which the Group commits to deliver the financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

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

A portfolio of financial derivatives that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Group:

(a) manages the group of financial assets and financial liabilities on the basis of the Group's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the entity's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the Group's key management personnel; and (c) the market risks, including duration of the entity's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Fair value measurements are analysed in the fair value level hierarchy as follows (Note 32):

(i) Level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based solely on observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for the gross carrying amount of financial assets less expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to 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 amounts of related items in the balance sheet.

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 to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the 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.

d) Classification of financial assets

Financial assets are classified in the following categories:

- Financial assets measured at amortised cost (AC)
- Financial assets measured at fair value:
  - through other comprehensive income (FVTOCI)
  - through profit or loss (FVTPL)

Financial assets measured at amortised cost (AC):

Debt instruments are measured at amortised cost if they meet the following two criteria:

- Business model test: the objective is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realise its fair value changes).
- Cash flow characteristics test: contractual cash flows from a financial asset are solely payments of principal and interest, where the most significant elements of interest only include the time value of money, credit risk of the counterparty, other basic lending costs (for example, liquidity and administration) and a reasonable profit margin.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss, including financial derivatives are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 32. Movements on the hedging reserve in other comprehensive income are shown in Note 16. The full fair value of a hedging derivative is

classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss within 'Finance costs' or 'Finance income'. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of cross currency interest rate swaps hedging currency risk is recognised in profit or loss under revenues (in respect of a foreign-currency revenues hedge) or within 'Finance income' or 'Finance costs' (in respect of a cash flow hedge relating to issued foreign-currency bonds).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in profit or loss when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in other comprehensive income is immediately transferred to profit or loss within 'Finance costs' or 'Finance income'.

e) Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives, and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

The Group designates certain financial liabilities as hedges of a particular risk associated with highly probable forecast transactions (cash flow hedge – Note 30, section 'Currency Risk').

f) Initial recognition of financial instruments

Financial instruments not carried at fair value through profit or loss are initially recognised at fair value plus transaction costs. Financial instruments carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

The Group uses discounted cash flow valuation techniques to determine the fair value of cross-currency interest rate swaps and loans that are not traded in an active market. Differences may arise between the fair value at initial recognition determined at initial recognition using the valuation techniques and the transaction price. Any such differences are amortised on a straight line basis over the term of the cross-currency interest rate swaps and loans to related parties.

g) Derecognition of financial assets and financial liabilities

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 risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all 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.

If the financial asset is fully derecognised, it is recognised through profit or loss as a gain or loss on sale equal to the difference between the carrying amount of the asset and the payment received.

The Group derecognises financial liabilities only when the contractual liabilities of the Group are discharged, cancelled or expire (or when the terms of the existing liability or a part thereof are significantly modified). The difference between the carrying amount of a derecognised financial liability and the consideration paid or payable is recognised in profit or loss.

h) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required.

Significant spare parts are recognised and treated as property, plant and equipment.

Repairs and maintenance expenditures are expensed as incurred. Cost 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 to sell and its value in use.

The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

When the Group recognises the cost of a replacement as part of the carrying amount of property, plant and equipment, it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it was not practicable to determine the carrying amount of the replaced part, the Group used the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

i) Depreciation

Land is not depreciated. Construction in progress is not depreciated. Depreciation on other assets is calculated using the straight-line method. Depreciation rates are determined based on estimated useful lives:

	Useful lives
Buildings and constructions	30 – 70 years
Plant, machinery and equipment	4 – 40 years
Furniture and fittings	4 – 8 years
Motor vehicles	5 – 8 years

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

j) Capitalisation of borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for the 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. The amounts of

borrowing costs capitalised during the current and previous year are disclosed in Note 8.

k) Leasing

The Group applies these accounting procedures in compliance with IFRS16 – Leases:

An agreement is considered or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Short-term leases and leases for which the underlying asset is of low value. A lease is classified as a short-term lease if the estimated lease term is shorter than or equal to 12 months. An asset is classified as a low-value underlying asset the cost of which would be lower than CZK 100,000 if it were new. Instalments paid under short-term leases and leases for which the underlying asset is of low value are posted to profit or loss on a straight-line basis throughout the lease term.

The lease term is a non-cancellable period during which the lessee has the right to use the underlying asset together with both a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Right-of-use assets and lease liabilities. An asset leased under a lease arrangement other than the abovementioned short-term lease or a lease for which the underlying asset is of low is capitalised through the Group's assets as at the lease commencement date. The right-of-use is initially measured at the lease liability and other auxiliary costs relating to its acquisition. As at the lease commencement date, the lease liability is measured at the current value of lease payments not made as at that date, using the Group's incremental borrowing interest rate in effect as at that date. Every lease payment is divided into parts attributable to the payment of the lease liability and interest so that a constant interest rate applies to the outstanding balance of the liability. The corresponding amount of the total lease liability is included in lending transactions after the subtraction of interest. Interest is posted to profit or loss throughout the lease term using the effective interest rate method.

The right-of-use assets are reported in the balance sheet on the same line as the corresponding underlying assets if the Company were in possession of them.

Assets acquired by means of lease are depreciated throughout their service life or during the term of the lease agreement, if it is shorter and if the Group is uncertain whether it will gain ownership rights after the end of the lease.

l) Intangible assets

The Group's intangible assets primarily include capitalised computer software, patents, trademarks and licences.

Acquired computer software licences, patents and trademarks and other intangibles are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Group are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

m) Amortisation

Intangible assets are amortised using the straight-line method over their useful lives (unless the agreement or licence conditions state shorter or longer period):

	Useful lives
Software	3 years
Patents and other licences	1.5 – 6 years
Development costs	6 years
Other intangible assets	6 years

n) Emission allowances

The Group receives free emission allowances as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to return allowances equal to its actual emissions. Therefore, a provision is only recognised when actual emissions exceed the emission allowances received free of charge. The emission allowances which were granted free of charge are carried at cost, i.e. at zero. When emission allowances are purchased from third parties, they are measured at cost and treated as a reimbursement right. When emission allowances are acquired by exchange and such an exchange is deemed to have an economic substance, they are measured at fair value as at the date when they become available for use and the difference between the fair value of rights received and cost of assets given up is recognised through profit or loss. The Group did not recognise any provision resulting from gas emissions as at 31 December 2020 and 31 December 2019.

The amounts of emission allowances held in zero value by the Company were as follows:

In tons	31 December 2020	31 December 2019
Emission allowances	0	161,070

o) Impairment of non-financial assets
Intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

p) Assets held for sale
Assets (or disposal groups) are classified as assets held for sale and stated at the lower of their residual amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are not depreciated.

q) Taxes
Income tax
Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/credit 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 (for example the effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges).

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 financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial 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 (and tax legislation) enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are only offset among the Group's individual entities. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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.

Value added tax
Output value added tax (VAT) related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

r) 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.

s) Inventories
Raw materials are mainly spare parts for the gas pipeline system. Purchased inventories are stated at the lower of cost and net realisable amount. Cost includes all costs related with its acquisition (mainly transport costs, customs duty, etc.). The weighted average cost method is applied for disposals of purchased inventories. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Significant spare parts are recognised and treated as property, plant and equipment.

t) Trade receivables
Trade receivables are carried at nominal value less expected credit loss.

u) Impairment of financial assets carried at amortised cost
Impairment of financial assets is recognised using a model that is based on expected losses, and is recognised through profit or loss as expected loss on a financial asset over its life. The model is based on an estimated allowance based on historical experience and takes into account the performance of business partners.

In respect of financial assets in default, the Group assessed the impairment of the asset based on the expected loss until the maturity date of the asset.

The Group assesses the expected credit loss also on an individual basis. For receivables related to core revenues the following criteria are applied. The Company assesses the asset impairment of 10% for the receivables, when any portion of instalment is overdue for more than 1 fiscal year and less than 2 fiscal years, of 25%, when it is overdue for more than 2 and less than 3 fiscal years, of 50%, when it is overdue for more than 3 and less than 4 fiscal years and of 100%, when it is overdue for more than 4 fiscal years. Potentially, the approach is modified based on supportive information which occur in individual cases.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

v) Deferred expenses and prepayments

Deferred expenses and prepayments are carried at cost less allowances. Deferred expenses and prepayments are classified as non-current when the goods or services relating to them are expected to be obtained after more than one year, or when the deferred expenses relate 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 and deferred expenses 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.

w) 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 maturities of three months or less from initial recognition. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Deposit bills of exchange with original maturity of less than three months from initial recognition are therefore classified as 'Other financial assets'.

x) 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 financial statements are authorised for issue are disclosed in Note 33 'Subsequent events'.

y) Advance dividends paid

The Group's decision to pay an advance dividend is reflected in the financial statements as a decrease in equity at the date of the payment and is reported in the 'Retained earnings' balance sheet line.

z) Borrowings

Borrowings are carried at amortised cost using the effective interest method.

At their initial recognition, all bank credits, loans and issued bonds are recorded at their purchase price corresponding to the fair value of the received cash funds, less the costs of obtaining the credit or loan or issue of bonds.

Amortised cost is determined by taking into account the costs of obtaining the credit or loan, as well as the discounts or bonuses received at the settlement of the liability.

The Group designates certain borrowings as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge – Note 29, section 'Currency risk').

aa) Government and other grants

Grants from the government and the European Commission are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants relating to the purchase of property, plant and equipment decrease directly the costs of the relevant asset.

bb) Trade and other payables

Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

cc) 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.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

dd) Financial guarantees

Financial guarantees are irrevocable contracts that require the Group to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. When the Group expects to receive recurring future premiums from an issued financial guarantee contract, the guarantee is recorded at the premium receivable at the inception of the contract and no receivable is recognised in respect of the future premium payments receivable. The premium receivable in one instalment is amortised on a straight line basis over the period covered by that instalment. At the end of each reporting period, the premium receivable in respect of the respective period is measured at its present value and the financial liability is measured at the higher of the remaining unamortised balance and the best estimate of expenditure required to settle the obligation at the end of the reporting period.

ee) Asset retirement obligations

The Group's transmission system is mainly constructed on land owned by third parties. The current legislation requires the Group to bear the costs related to the transmission system's operation and maintenance. The current Czech environmental and energy legislation does not set the obligation to dispose of the assets at the end of their useful life. Given the applicable legislation, management believes that there is no asset retirement obligation (dismantling and removing an item of property, plant and equipment) to be recognised in the financial statements.

ff) Foreign currency translation

The functional currency of each consolidated entity within the Group is the currency of the primary economic environment in which the entity operates. The functional currency of the Group and its subsidiary is Czech crowns ("CZK") and the Group's presentation currency is also CZK.

Monetary assets and liabilities are translated into each entity's functional currency at the official spot exchange rate of the Czech National Bank ("CNB") at the dates of the transactions. Foreign exchange gains and losses resulting from transactions and from the translation of monetary assets and liabilities denominated in foreign currencies into each entity's functional currency at year-end official exchange rates of the CNB are recognised in profit or loss under 'Net foreign exchange rate gains or losses'. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

gg) Revenue recognition

The Group primarily provides transmission services: cross-border transmission of natural gas via the Czech Republic and domestic transmission of natural gas to partners in the Czech Republic. Auxiliary services to gas infrastructure operators primarily include maintenance and dispatching.

The Group recognises revenues once it has fulfilled (as it fulfils) its supply commitment by transferring the promised goods or service (the "asset") to the customer. The asset is transferred (being transferred) once the customer has gained (as it gains) control over the asset. In determining the transaction price, the Group considers the terms of the contracts and its standard business practice. The transaction price is the amount of consideration to which the Group is, in its view, entitled in exchange for the transfer of the promised goods or service to the customer, with the exception of amounts collected on behalf or third parties. The consideration promised in the contract with the customer may include fixed amounts, variable amounts, or both.

Each contract includes promises to transfer goods or services to a customer that are distinct. These promises are single performance obligations and are therefore accounted for separately and the entire transaction price is allocated to the single performance obligation.

Revenue from gas transmission services is recognised over time based on the reserved capacity as the customer receives control and consumes the benefits provided by the Group's performance as the Group performs. Revenues are usually invoiced on a monthly, quarterly or annual basis and sales are shown net of VAT and discounts. Revenues are measured at the fair value of the consideration received or receivable.

The fee for services determined in the contract with the customer is always specified for each supply (provided service). Revenues from natural gas transmission via the Czech Republic and from domestic gas transmission to partners in the Czech Republic are regulated by the Energy Regulatory Office.

hh) 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.

a) Pension obligations
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 employee benefit expense when they are due.

b) Termination benefits
Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

c) Other long term benefits
Long-term employee benefits, such as long-term bonuses, and long service awards are accounted for and measured using the projected unit credit method in the same way as defined benefit pension plan, with the exception that remeasurements (actuarial gains/losses) and related charges are recognised immediately through profit or loss.

ii) Offsetting of financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

jj) 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 who allocates 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. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Group makes estimates and assumptions that affect the amounts recognised in the 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 effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Functional currency
Management assessed the relevant primary and secondary factors during the consideration about the Group's functional currency. The functional currency is the currency of the primary economic environment, in which the entity operates. The regulated sales prices of the Group are determined by the ERO – the Czech Regulatory Office – and are defined in CZK. The majority of the entity's revenue stems from regulated sales. The majority of the Group's operating expenses are incurred in CZK. Capital expenditures are twofold: regular capital expenditure safeguarding the existing system and its operational safety; and large one-off projects. The regular capital expenditure is almost entirely incurred in CZK, while the cost of large one-off projects is incurred in a mixture of currencies (including CZK, EUR and other). Cash from financing activities is generated in a mixture of currencies (including CZK, EUR and USD). Although the Group's operations are influenced by a mixture of currencies, management concluded that the majority of the indicators support CZK as the functional currency of the Group. The functional currency of BRAWA is affected by the functional currency of NET4GAS, the reason being that BRAWA does not perform its activities in a fully autonomous manner. In fact, it is more of an extension of the Group's activities.

Classification of pipeline capacity contracts
The Group entered into long-term contracts expiring on 1 January 2021 and 1 January 2035 whereby it provided the majority of its GAZELLE pipeline capacity on a 'ship-or-pay' basis. Management considered whether the contract for the provision of pipeline capacity to its major customer is a lease contract. Management's conclusion that the contract is not a lease of the pipeline is based on the fact that there is significant (although minority) capacity of the pipeline which is available to other customers and this capacity can be used by the other customers. The pipeline is under the Group's full control and the major customer has no ability or right to control physical access to the pipeline. Therefore, the arrangement is not a lease contract under IFRS. The Group treats the pipeline as part of its property, plant and equipment and recognises revenue from the contract with the major customer in accordance with IAS 15.

Capacity of the Capacity4Gas system
New cross-border capacity was offered and successfully marketed at the annual capacity auction on 6 March 2017. The Group launched the implementation phase of a new project entitled Capacity4Gas. The project aimed to interconnect the gas infrastructure operated by NET4GAS with the German gas transmission system, including the EUGAL pipeline, and to increase its capacity for gas supplies to the Czech Republic and for further transit through Slovakia. The project has been implemented in two main stages. The first stage has been completed in 2019 and the second in the end of 2020.

Management considered whether the new contract for the provision of pipeline capacity to its major customer is a lease contract. Management's conclusion that the contract is not a lease of the pipeline is based on the fact that there is significant (although minority) capacity of the pipeline which is available to other customers and this capacity can be used by the other customers. The pipeline is under the Group's full control and the major customer has no ability or right to control physical access to the pipeline. Therefore, the arrangement is not a lease contract under IFRS.

Depreciation
The Group makes other significant accounting estimates, such as depreciation. More detailed description is available in Note 3i).

Transmission System Operator licence and gas pipelines
Considering the applicability of IFRIC 12 to the Group, management believes that the requirements for state regulation have not been met as the title will never be transferred to the government nor can the government control the operator's practical ability to sell or pledge the infrastructure and the government is not controlling the construction process. Therefore the Group's system is classified as property, plant and equipment and is not treated as infrastructure used in public-to-private service concession arrangements.

Segments
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 who allocates resources to the operating segments of the Group and assesses its performance. Recurring revenues are generated from contracts with foreign as well as domestic customers. Information for the CODMs (the Company's Statutory Directors) who are responsible for allocating resources and assessing the Group's performance is prepared for the whole Group without any particular structuring. Management regularly obtain information with assessment of the split of revenue between the transit revenue and domestic transmission revenue. There is no profit measure which would be based on similar basis. All profit measures used by the CODMs are based on the results of the Group considered as one business unit. As a result, management consider the whole Group as one segment for the purpose of segment reporting.

5. Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements

a) Application of new standards and interpretations effective on or after 1 January 2020
The International Accounting Standards Board (IASB) has issued these new and amended IFRS Standards, that are mandatorily effective in EU for an accounting period that begins on 1 January 2020:

Document	*Major change*	*Effective from*	Impact on the Group annual reports
Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	*Definition of 'Material'*	*1. 1. 2020*	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements
New Conceptual Framework in IFRS– Phase 1	*Amendments to References to IFRS standards*	*1. 1. 2020*	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements
Amendments to IFRS 3 *Business Combinations*	*Definition of a Business*	*1. 1. 2020*	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements
Amendments to IFRS 9, IAS 39, and IFRS 7	*Interest Rate Benchmark Reform*	*1. 1. 2020*	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements
Amendments to IFRS 16 *Leases*	*Rent relief in connection with COVID-19 pandemic*	*1. 6. 2020*	Not applicable for the Group

b) New standards and interpretations effective for reporting periods beginning on or after 1 January 2020
At the date of authorisation of these financial statements, the Group has not applied new and revised IFRSs and new Interpretations that were not effective in the EU before 31 December 2020.

6. Segment Information

(a) Description of products and services from which each reportable segment derives its revenue
The Group is organised on the basis of one main business segment – Natural gas transmission (representing natural gas transmission services).

Revenues from core activities comprise revenues from international transit, domestic transmission and other. In 2020, revenues from international transit represented 79%, revenues from domestic transmission 20% and other revenues 1% of the Group's revenues from core activities.

(b) Factors that management used to identify the reportable segments
Refer to the information in Note 4.

(c) Information about reportable segment profit or loss, assets and liabilities
The whole Group is considered as one reportable segment. Segment information for the reportable segment for the years ended 31 December 2020 and 31 December 2019 is set out below:

In millions of Czech crowns	Natural gas transmission	Natural gas transmission
	2020	**2019**
Revenues	10,029	8,054
Other operating income	80	165
Finance income	118	118
Total segment income	**10,227**	**8,337**
Materials consumed	350	159
Employee benefits	544	533
Depreciation and amortisation	2,403	2,002
Services purchased and lease charges	358	390
Changes in fair value of derivatives, net	–	(7)
Foreign exchange differences, net	105	2
Other operating expenses	8	62
Income tax expense	997	791
Finance costs	1,218	1,027
Losses related to the sale of property, plant and equipment	–	–
Segment profit for the year	**4,244**	**3,330**
Segment other comprehensive income for the year	**103**	**(230)**
Segment total comprehensive income for the year	**4,347**	**3,100**
Capital expenditure – additions at cost (Note 8,9)	**5,417**	**9,095**

In millions of Czech crowns	Natural gas transmission	Natural gas transmission
	31 December 2020	**31 December 2019**
Total reportable segment Assets	**55,915**	**53,473**
Total reportable segment Liabilities	**38,702**	**40,173**

Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

(d) Geographical information
Total revenues for geographical areas for which the revenues are material are reported separately and disclosed below.

The analysis is based on the registered office of shippers (users of the transmission system that is operated by the Group in the Czech Republic).

In millions of Czech crowns	2020	2019
Czech Republic	1,888	1,697
Other EU countries	1,429	1,416
Non-EU countries	6,712	4,941
Total consolidated revenues from core activities	**10,029**	**8,054**

Capital expenditure for each individual country is reported separately as follows:

In millions of Czech crowns	2020	2019
Czech Republic	5,417	9,095
Total consolidated capital expenditure – additions at cost (Note 8, 9)	**5,417**	**9,095**

The analysis is based on location of assets. Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

(e) Major customers
Revenues from customers which represent 10% or more of the total revenues are as follows:

In millions of Czech crowns	2020	2019
Customer 1*	7,359	5,664
Customer 2	1,247	1,211
Total revenues from major customers	**8,606**	**6,875**

* A group that has its registered offices in other EU Member States as well as in non-EU countries

Revenues comprise only revenues from core activities.

Entities known to the Group as being under common control are considered as a single customer.

7. Balances and Transactions with Related Parties

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

The Group is fully owned by NET4GAS Holdings and NET4GAS Holdings is the ultimate parent company of the group.

The Group's balances and transactions with subsidiaries of the ultimate parent of Allianz Infrastructure Czech HoldCo II S.à r.l. and subsidiaries of the ultimate parent of Borealis Novus Parent B.V. are disclosed below within the category Subsidiaries of joint ventures' ultimate parents.

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

In millions of Czech crowns	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Loans to related parties (Note 12)		
NET4GAS Holdings, s.r.o.	–	–
Borrowings (Note 17)		
NET4GAS Holdings, s.r.o.	–	57

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

In millions of Czech crowns	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Other revenues		
NET4GAS Holdings, s.r.o. – services	–	1

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

In millions of Czech crowns	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Loans to related parties (Note 12)		
NET4GAS Holdings, s.r.o.	–	–
Borrowings (Note 17)		
NET4GAS Holdings, s.r.o.	–	31

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

In millions of Czech crowns	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Other revenues		
NET4GAS Holdings, s.r.o. – services	–	1

At 31 December 2020 and 2019 the Group did not have any other rights and obligations connected to related parties.

Key management compensation is presented below:

	2020		2019	
In millions of Czech crowns	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
– Salaries	78	6	62	4
– Short-term bonuses	19	22	16	16
Other long-term employee benefits:				
– Long-term bonus scheme	23	33	22	35
– Defined contribution benefits	6	5	6	4
Total	**126**	**66**	**106**	**59**

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

Key management represents Statutory Directors and managers directly reporting to them.

8. Property, Plant and Equipment

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

In millions of Czech crowns	Freehold Land	Buildings and constructions	Buildings and constructions – right of use	Plant and equipment	Plant and equipment – rights of use	Construction in progress	Total
Cost at 31 December 2018	249	62,297	–	5,995	–	1,725	70,266
Accumulated depreciation	–	(22,529)	–	(5,033)	–	–	(27,562)
Carrying amount at 1 January 2019	**249**	**39,768**	**190**	**962**	**61**	**1,725**	**42,955**
Cost:							
Additions	–	–	2	–	10	9,011	9,023
Capitalised interest expense	–	2	–	2	–	13	17
Transfers	33	2,706	–	2,161		(4,900)	–
Disposals	–	(4)	–	(27)	(3)	–	(34)
Accumulated depreciation:							
On disposals	–	4	–	27	–	–	31
Depreciation charge	–	(1,682)	(20)	(244)	(21)	–	(1,967)
Cost at 31 December 2019	**282**	**40,794**	**172**	**2,881**	**47**	**5,849**	**50,025**
Cost at 31 December 2019	282	64,932	192	8,131	68	5,849	79,454
Accumulated depreciation	–	(24,138)	(20)	(5,250)	(21)	–	(29,429)
Carrying amount at 1 January 2020	**282**	**40,794**	**172**	**2,881**	**47**	**5,849**	**50,025**
Cost:							
Additions	–	–	6	–	5	5,363	5,374
Capitalised interest expense	–	6	–	3	–	7	16
Transfers	2	9,594	–	827	–	(10,423)	–
Disposals	–	–	–	(26)	–	–	(26)
Accumulated depreciation:							
On disposals	–	–	–	26	–	–	26
Depreciation charge	–	(1,829)	(22)	(467)	(23)	–	(2,361)
Carrying amount at 31 December 2020	**284**	**48,565**	**156**	**3,224**	**29**	**796**	**53,054**
Cost at 31 December 2020	**284**	**74,532**	**198**	**8,935**	**73**	**796**	**81,818**
Accumulated depreciation	**–**	**(25,967)**	**(42)**	**(5,711)**	**(44)**	**–**	**(31,764)**

The Group is a tenant of the office space and parking spaces in the building of Kavčí Hory Office Park. Rental period is 19 years with the possibility of extension. In the past, the Group has used this option and intends to make use of it again in the future.

The Group rents a large number of passenger cars especially for the business travels of the employees. The rental period of cars is in the range of two to seven years and ownership of the vehicles belongs to the landlord. At the end of the lease period, the passenger car is returned to the lessor and a new lease for the new vehicle is usually arranged. Due to the large number of rented cars, the Group chose the option of using the portfolio approach for their valuation, recognition and derecognition.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted interest rate applicable to the entity´s general borrowings during the year, was 3,05 % in 2020 (2019: 3.40%).

The Group invested a total of CZK 5,389 million in tangible fixed assets (additions of tangible fixed assets – at cost) in 2020 (2019: CZK 9,040 million). The total amount of the activation was CZK 10,423 million of the which CZK 9,707 (2019: CZK 4,178 million) to Capacity4Gas project and CZK 716 million to the other project.

As at 31 December 2020, work in progress consists mainly of construction of the Capacity4Gas project of CZK 234 million and construction of Czech-Polish interconnector gas pipeline of CZK 366 million. Upon completion, the assets are expected to be transferred to buildings and constructions. Other items represent smaller projects.

9. Intangible Assets

In millions of Czech crowns	Acquired software licences	Development costs	Other	Assets under construction	Total
Carrying amount at 1 January 2019	**37**	**–**	**6**	**25**	**68**
Additions at cost:					
Additions	–	–	–	55	55
Transfers	53	–	–	(53)	–
Disposals at cost	(26)	(2)	(1)	–	(29)
Amortisation:					
Accumulated amortisation on disposals	26	2	1	–	29
Amortisation charge	(32)	–	(3)	–	(35)
Carrying amount at 31 December 2019	**58**	**–**	**3**	**27**	**88**
Cost at 31 December 2019	518	52	27	27	624
Accumulated amortisation at 31 December 2019	(460)	(52)	(24)	–	(536)
Additions at cost:					
Additions	–	–	–	28	28
Transfers	26	–	–	(26)	–
Disposals at cost	(4)	(1)	–	–	(5)
Amortisation:					
Accumulated amortisation on disposals	3	1	–	–	4
Amortisation charge	(41)	–	(2)	–	(43)
Carrying amount at 31 December 2020	**42**	**–**	**1**	**29**	**72**
Cost at 31 December 2020	540	51	27	29	647
Accumulated amortisation at 31 December 2020	(498)	(51)	(26)	–	575

The Group invested (additions of intangible fixed assets – at cost) a total of CZK 28 million in intangible assets in 2020 (2019: CZK 55 million).

10. Other Non-Current Assets

In millions of Czech crowns	31 December 2020	31 December 2019
Advances for acquisition of fixed assets	136	402
Total other non-current assets	**136**	**402**

11. Inventories

In millions of Czech crowns	31 December 2020	31 December 2019
Material	131	72
Total inventories	**131**	**72**

Material represents mainly spare parts for the gas transmission system.

There are no inventories valued at net realisable value as at 31 December 2020 and 2019.

12. Loans to Related Parties

In millions of Czech crowns	31 December 2020	31 December 2019
Financial assets measured at amortised cost:		
Corporate loans		
– denominated in CZK	–	–
– denominated in EUR	–	–
Total loans provided	**–**	**–**

Loans to related parties as at 31 December 2020 are provided on the basis of the Loan agreement dated 11 November 2013 and are of short-term nature. Loans to related parties were undrawn during 2020 and as at 31 December 2020.

Analysis by credit quality outstanding loans is as follows:

	31 December 2020	31 December 2019
In millions of Czech crowns	Corporate loans	Corporate loans
Neither past due nor impaired		
– NET4GAS Holdings, s.r.o. – parent company (without external rating)	–	–
Total neither past due nor impaired	**–**	**–**
Total loans provided	**–**	**–**

There are no collaterals attached to the loans presented above.

Refer to Note 32 for the estimated fair value of each class of loans. Interest rate analysis of loans is disclosed in Note 30. Information on related party transactions is disclosed in Note 7.

13. Trade and Other Receivables

Analysis by credit quality of trade and other receivables is as follows:

In millions of Czech crowns	31 December 2020 Trade and estimated receivables	31 December 2019 Trade and estimated receivables
Neither past due nor impaired – exposure to		
– Between A- and BBB-*	135	353
– Not rated	45	34
Total neither past due nor impaired	180	387
Past due but without impairment		
– less than 30 days overdue	13	19
– between 30 – 60 days overdue	0	10
– 60 days or more overdue	1	318
Total gross past due	14	347
Individually determined to be impaired (gross)		
– 360 days or more overdue	1	
Total individually impaired	1	
Less impairment provision	(1)	
**Total net trade and other receivables ** **	**194**	**686**

* Rating disclosed is based on the equivalent credit rating from the third party rating agencies defined in the Network Code approved by the Energy Regulation Office (ERO) which is applicable for the Group.

** Impairment was recorded in accordance with the policy described in Note 3 t) u)

14. Other Non-Financial Assets and Other Financial Assets

In millions of Czech crowns	31 December 2020	31 December 2019
Value-added tax prepaid	13	18
Prepayments for services	42	20
Total non-financial assets	**55**	**38**

15. Cash and Cash Equivalents

In millions of Czech crowns	31 December 2020	31 December 2019
Bank balances available on demand	2,226	2,162
Total cash and cash equivalents	**2,226**	**2,162**

The credit quality of cash and cash equivalents balances may be summarised as follows:

In millions of Czech crowns	31 December 2020	31 December 2019
Neither past due nor impaired		
– A+ to A- rated	2,214	2,156
– BBB+ to BBB- rated	12	6
Total	**2,226**	**2,162**

16. Equity

The Company is a limited liability company und has issued no shares. Rights attached to a share in equity correspond to the ownership interest.

Dividends declared and paid during the year were as follows:

In millions of Czech crowns	2020	2019
Dividends payable at 1 January	–	–
Dividends declared and paid during the year*	1,666	4,081
Dividends payable at 31 December	–	–

* based on the Resolution of the Sole Shareholder of NET4GAS, s.r.o.

Advance dividends paid during the year were as follows:

In millions of Czech crowns	2020	2019
Advance dividends paid*	3,169	1,670
Total advance dividends paid	**3,169**	**1,670**

* based on the Decision of the Sole Shareholder of NET4GAS, s.r.o.

All dividends were approved in CZK and paid in various currencies (EUR and USD).

Description of the nature and purpose of individual funds is provided below the table.

In millions of Czech crowns	Capital contributions outside registered capital	Cash flow hedges	Total other reserves
Balance as at 1 January 2019	**4,549**	**51**	**4,600**
Revaluation gains or losses – hedge accounting	–	(374)	(374)
Revaluation gains or losses – revenues	–	72	72
Revaluation gains or losses – costs	–	18	18
Deferred tax effect	–	54	54
Contribution outside registered capital	7,526	–	7,526
Decrease of contribution outside registered capital	(3,009)	–	(3,009)
Balance as at 31 December 2019	**9,066**	**(179)**	**8,887**
Revaluation gains or losses – hedge accounting	–	22	22
Revaluation gains or losses – revenues	–	(18)	(18)
Revaluation gains or losses – costs	–	124	124
Deferred tax effect	–	(25)	(25)
Contribution outside registered capital	4,401	–	4,401
Balance as at 31 December 2020	**13,467**	**(76)**	**13,391**

Capital contributions other than to registered capital
Capital contributions other than to registered capital include cash and non-cash capital contributions that do not increase the value of the registered capital.

Increase / decrease in Capital contributions outside registered capital

Month/Year		Comment on settlement
April 2019	1,573	Incoming payment* – other equity funds project C4G
September 2019	3,049	Incoming payment* – other equity funds project C4G
December 2019	2,904	Incoming payment* – other equity funds project C4G
September 2019	(3,009)	Outgoing payment – Dissolution of other equity funds**
Total increase in 2019	**4,517**	
February 2020	955	Incoming payment* – other equity funds project C4G
June 2020	3,446	Incoming payment* – other equity funds project C4G
Total increase in 2020	**4,401**	

* For the purposes of financing the Capacity4Gas project, a Financing Agreement was entered into based on which the sole shareholder increased the value of other equity funds (accounts).
** Based on a Decision of the Sole Shareholder of NET4GAS, s.r.o., dated 27 September 2019.

Cash flow hedges
Cash flow hedges are used to recognise gains or losses on hedging instruments that are designated and qualify as cash flow hedges in other comprehensive income (effective portion), as described in Note 30 – Hedging of currency risk, Hedging of interest rate risk. Amounts are reclassified to profit or loss (line 'Financial expenses'/'Financial income') when the associated hedged transaction affects profit or loss.

17. Borrowings

In millions of Czech crowns	31 December 2020	31 December 2019
Short-term borrowings from related parties (cash pooling NET4GAS Holdings)	56	31
Current portion of bonds and bank borrowings		
– CZK denominated bank borrowings (repayable on 24 May 2025, 31 July 2025, 28 July 2028)	–	–
– CZK denominated bonds (repayable on 28 January 2021)	4,437	78
– EUR denominated bonds (repayable on 28 July 2021)	7,945	67
– CZK denominated bonds (repayable on 17 July 2025)*	30	30
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2014*	57	56
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2015*	15	14
Non-current bonds and bank borrowings		
– CZK denominated bank borrowings (repayable on 24 May 2025, 31 July 2025, 28 July 2028)	7,045	7,058
– CZK denominated bond (repayable on 28 January 2021)	–	4,353
– EUR denominated bond (repayable on 28 July 2021)	–	7,613
– CZK denominated bond (repayable on 17 July 2025)	2,633	2,630
– EUR denominated bond (repayable on 28 July 2026) – issued in 2014	4,182	4,045
– EUR denominated bond (repayable on 28 July 2026) – issued in 2015	1,309	1,267
Total borrowings – current	**12,540**	**276**
Total borrowings – non-current	**15,169**	**26,966**
Total borrowings	**27,709**	**27,242**

* Current portion of bonds represents coupon payments due in 12 months.

Bank borrowings and bonds
The borrowings as at 31 December 2020 included bank borrowings acquired in 2017 and bonds issued in 2014, 2015 and 2018.

In 2020 the Group acquired two committed term loan facilities in total amount of CZK 10,275 million (CZK 2,875 million with maturity on 31 July 2025 and CZK 7,400 million with maturity on 28 July 2028). Both term loan facilities were undrawn as at 31 December 2020 and are available for utilization until 28 July 2021. Interest rate of the CZK 7,400 million term loan has been pre-hedged by new interest rate swap (Notes 30 – Hedging of interest rate risk).

The Group acquired a committed revolving facility agreement in the equivalent of EUR 80 million (CZK 2,099.8 million per the Czech National Bank's foreign exchange rate as at 31 December 2020). Further, the Group acquired the Overdraft facility in the equivalent of EUR 20 million (CZK 524,9 million per the Czech National Bank's foreign exchange rate as at 31 December 2020). Both facility agreements might be utilised in CZK or EUR. During 2020 the Overdraft facility was drawn and as at 31 December 2020 (as at December 2019) it was repaid. The Revolving facility agreement was undrawn during 2020 and 2019 (as at 31 December 2020 and as at 31 December 2019 the Revolving facility was undrawn).

Seven banks with different shares participated in the total bank borrowings as at 31 December 2020 (six banks as at 31 December 2019).

There is no collateral related to the above mentioned bank borrowings or bonds.

Group's senior debts are all issued at pari-passu. The borrowings have no quantitative financial covenants. There are several qualitative covenants applied, i.e. negative pledge, change of control put and loss of finance put. Violation of these covenants can lead to immediate maturity of the debt.

The Group's right to lien its property in favour of another creditor is restricted due to conditions stated in bank and bond financing contracts.

Bank borrowings and bonds denominated in foreign currencies represent a constituent of hedge accounting, which represents the hedging instrument for securing of foreign exchange risk associated with future cash flows resulting from natural gas transmission revenues (cash flow hedge – Note 30, Hedging of currency risk, Hedging of interest rate risk).

Bonds issued may be analysed as follows:

					In millions of Czech crowns
	Issue nominal value	Due date	Annual coupon repayment due date	31 December 2020	31 December 2019
Bond EUR, serial no. 1, ISIN XS1090450047**	EUR 300,000,000	28 Jul 2021	Each 28 Jul in arrears	7,944	7,680
Bond EUR, serial no. 2, ISIN XS1090449627**	EUR 160,000,000	28 Jul 2026	Each 28 Jul in arrears	4,239	4,101
Bond CZK, serial no. 3, ISIN XS1090620730*	CZK 4,354,300,000	28 Jan 2021	Each 28 Jan in arrears	4,437	4,434
Bond EUR, serial no. 4, ISIN XS1172113638**	EUR 50,000,000	28 Jul 2026	Each 28 Jul in arrears	1,324	1,281
Bond CZK, Domestic, ISIN CZ0003519472*	CZK 2,643,000,000	17 Jul 2025	Each 17 Jul in arrears	2,663	2,660
Total bonds				**20,607**	**20,156**

* Bonds issued in denominations of CZK 3,000,000.
** Bonds issued in denominations of EUR 100,000.

Coupon rates of the above mentioned bonds are in the range of 2.25% – 3.50% p.a. The terms of issue of all the above stated bonds have been approved by the decision of the Central Bank of Ireland (serial no. 1 – 4) or the Czech National Bank (domestic bond).

The bonds with serial n. 1 – 3 were accepted for trading on a regulated market of the Irish Stock Exchange on 28 July 2014. The 2015 bonds, serial n. 4, were issued via private placement. Domestic "CZ" bond was accepted for trading on a regulated market of the Prague Stock Exchange on 17 July 2018.

The fair value of borrowings is disclosed in Note 32.

18. Finance Lease Liability

Minimum lease payments under leases and their present values are as follows:

In millions of Czech crowns	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2020	44	111	57	212
Less future finance charges	5	12	2	19
Present value of minimum lease payments at 31 December 2020	**39**	**99**	**55**	**193**
Minimum lease payments at 31 December 2019	46	121	79	246
Less future finance charges	6	14	6	26
Present value of minimum lease payments at 31 December 2019	**40**	**107**	**73**	**220**

Total interest expense on lease liabilities under IFRS 16:53 (b) amounted to CZK 6 million in the 2020 reporting period.

The cost of leases of low-value assets under IFRS 16:53 (d) was CZK 0.9 million in the 2020 reporting period.

Costs related to IFRS 16:53 (e) variable lease payments amounted to CZK 2.0 million in the 2020 reporting period.

The Group's total expenditure on leasing under IFRS 16:53 (g) in 2020 was CZK 48 million.

19. Government and Other Grants

The Group obtained grants from the European Commission for construction projects and deducted the grant value from the carrying amount of the related property, plant and equipment when all conditions attached to the grant were fulfilled.

In millions of Czech crowns	31 December 2020	31 December 2019
Grants	3	3

In 2020, the Group did not receive any subsidy. In 2019, the Group complied with all requirements and received the balance of a subsidy in the amount of CZK 13 million for the Stork II project.

20. Other Taxes Payable

In millions of Czech crowns	31 December 2020	31 December 2019
Other taxes payable within one year comprise:		
Employee income tax	7	5
Social and health insurance	16	14
Value added tax	9	0
Other taxes payable – current	**32**	**19**

21. Provisions

Movements in provisions are as follows:

	2020		2019	
In millions of Czech crowns	Current	Non-current	Current	Non-current
Carrying amount at 1 January	**–**	**–**	**–**	**–**
Additions charged to profit or loss	1	–	–	–
Unused amounts reversed	–	–	–	–
Amounts used during the year	–	–	–	–
Carrying amount at 31 December	**1**	**–**	**–**	**–**

22. Trade and Other Payables

In millions of Czech crowns	31 December 2020	31 December 2019
Trade payables for purchased property, plant and equipment	908	1,169
Trade payables – other	102	118
Estimated payables – purchased property, plant and equipment	727	1,935
Estimated payables – other	38	159
Received deposits from customers	110	113
Other financial liabilities	9	1
Total financial payables within trade and other payables – current	**1,894**	**3,495**
Other payables	30	39
Total financial payables within other payables – non-current	**30**	**39**

23. Accrued Employee Benefits and Other Non-Financial Liabilities

In millions of Czech crowns	31 December 2020	31 December 2019
Employee benefits		
– Salaries and bonuses*	154	67
– Defined contribution costs – retirement compensation	15	9
– Untaken holiday costs	15	13
Other non-financial liabilities	448	431
Total employee benefits and other non-financial liabilities – current	**632**	**520**

* Salaries and bonuses in 2020 include provisions for extraordinary bonuses in amount of CZK 84 million.

In millions of Czech crowns	31 December 2020	31 December 2019
Employee benefits – other long-term benefits	102	114
Grant prepayments received (Note 19)	3	3
Total employee benefits and other non-financial liabilities – non-current	**105**	**117**

24. Expenses

In millions of Czech crowns	2020	2019
Raw materials consumed*	350	159
Salaries	*363*	*340*
Statutory and private pension contribution	*181*	*193*
Employee benefits**	544	533
Depreciation and amortisation	2,403	2,002
Repairs and maintenance services	*131*	*123*
IT & Telecommunications expenses	*98*	*95*
Consultancy and advisory services	*38*	*56*
Lease charges	*22*	*23*
Marketing	*20*	*22*
Other services	*49*	*71*
Services purchased and lease charges	358	390
Losses / (gains) on derivative financial instruments, net	–	7
Foreign exchange differences, net	105	(2)
Other expenses	8	110
Total operating expenses	**3,768**	**3,199**

* Represents mainly consumption of natural gas.
** Excluding costs capitalised as part of the acquisition of fixed assets (2020: CZK 161 million, 2019: CZK 178 million).

25. Finance Income

In millions of Czech crowns	2020	2019
Financial instruments measured at amortised cost:		
■ Interest income on other financial assets	8	27
■ Foreign Exchange Differences	110	91
Total finance income recognised in profit or loss	**118**	**118**

26. Finance Costs

In millions of Czech crowns	2020	2019
Financial instruments measured at amortised cost:		
■ Interest expense – lease	5	7
■ Interest expense – other	644	709
Financial instruments measured at FVTPL:		
■ Finance costs – release of hedge reserve reported in OCI*	124	18
■ Finance costs – hedging activities	274	246
■ Other finance costs	171	47
Total finance costs recognised in profit or loss	**1,218**	**1,027**

* In May 2017, a USD bank loan (a hedging instrument) was repaid, the hedge reserve reported in OCI remained in equity and it will be gradually charged to finance costs (based on the effectiveness tests performed as at the date of initial repayment, until March 2030).

27. Income Taxes

(a) Components of income tax expense

Income tax expense / (credit) recorded in profit or loss comprises the following:

In millions of Czech crowns	2020	2019
Adjustment in respect of current income tax from prior year	7	(7)
Current income tax expense	955	799
Deferred income tax expense / (credit)	35	(1)
Income tax expense for the year in statement of profit or loss	**997**	**791**

(b) Reconciliation between the tax expense and profit or loss multiplied by 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 tax charge is provided below.

In millions of Czech crowns	2020	2019
Profit before tax	**5,241**	**4,121**
Theoretical tax charge at statutory rate of 19%:	996	783
Tax effect of items which are not deductible or assessable for income tax purposes:		
– Non-deductible expenses	(6)	15
Difference from previous periods	7	(7)
Income tax expense for the year	**997**	**791**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and tax regulation in the Czech Republic give rise to temporary differences between the carrying amounts 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 Czech crowns	1 January 2020	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2020
Tax effect of deductible/(taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(6,609)	(36)	–	(6,645)
Other liabilities; tax deductible in different periods	50	1	–	51
Cash flow hedges	42	–	(25)	17
Net deferred tax asset/(liability)	**(6,517)**	**(35)**	**(25)**	**(6,577)**

Management estimates that net deferred tax liabilities of CZK 6,577 million (2019: CZK 6,517 million) are recoverable in more than twelve months after the end of the reporting period.

The tax effects of the movements in the temporary differences for the year ended 31 December 2019 were:

In millions of Czech crowns	1 January 2019	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2019
Tax effect of deductible/(taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(6,611)	2	–	(6,609)
Other liabilities; tax deductible in different periods	51	(1)	–	50
Cash flow hedges	(12)	–	54	42
Net deferred tax asset/(liability)	**(6,572)**	**1**	**54**	**(6,517)**

(d) Tax effects on other comprehensive income

Disclosure of tax effects relating to cash flow hedge reserve (see also Note 16):

	31 December 2020			31 December 2019		
In millions of Czech crowns	Before tax	Tax effects	After tax	Before tax	Tax effects	After tax
Cash flow hedge	(93)	17	(76)	(221)	42	(179)
Other comprehensive income for the period	**(93)**	**17**	**(76)**	**(221)**	**42**	**(179)**

28. Contingencies and Commitments

Capital expenditure commitments. As at 31 December 2020 the Group has contractual investment obligations in respect of tangible fixed assets totalling CZK 1,634 million (31 December 2019: CZK 3,104 million). The commitments relate predominantly to the Capacity4Gas project.

Guarantees. The Group did not recognise any obligations from financial guarantees as at 31 December 2020 and 2019.

Assets pledged and restricted. In connection with the Group's bank borrowings, the Group's right to lien its property in favour of another creditor is restricted.

Compliance with covenants. The Group is subject to certain qualitative covenants related to its borrowings. Non-compliance with such covenants may result in immediate maturity of the debt. The Group was in compliance with covenants at 31 December 2020 and 31 December 2019.

Leased assets with a carrying amount disclosed in Note 8 are effectively pledged for lease liabilities in the event of the lessor's failure to fulfil the liability.

Other contingent liabilities. The Group did not recognise any significant contingent liabilities as at 31 December 2020 and 2019.

29. Derivative Financial Instruments

The table below sets out an aggregate overview of fair values of currencies derivative assets or liabilities under financial derivative contracts entered into by the Group at the end of the reporting period. All derivative financial instruments are designated to hedge relationships. The table reflects gross positions before the offsetting of any counterparty positions (and payments) and covers the contracts with settlement dates after the respective end of the reporting period.

Cross currency interest rate swap and interest rate swap contracts are long-term while foreign exchange swap and forward contracts are short-term in nature. The respective part of fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months.

The Group did not have any other derivative financial instruments besides cross currency interest rate swaps, interest rate swap and foreign exchange swap as at 31 December 2020.

Cash flow hedge (IFRS 7 requirements for disclosures):

- Cash flow hedge (IFRS 7 requirements for disclosures)
- Value of the hedged item used as a basis for recognising hedge ineffectiveness amounts to CZK 2,157 million (EUR 82 million) as at 31 December 2020 (31 December 2019: CZK 1 330 million)
- The balance of the cash flow hedge reserve amounts to CZK 76 million. (31 December 2019: CZK 195 million)
- The balance remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied amounts to CZK 24 million. (31 December 2019: CZK 26 million)
- Hedging profits of the reporting period that were recognised in other comprehensive income amount to CZK 128 million (31 December 2019: hedging losses CZK 284 million)
- Hedge ineffectiveness recognised in profit or loss amounts to CZK 0 million (31 December 2019: CZK 0 million)

	31 December 2020			
	Current		Non-Current	
In millions of Czech crowns	Contracts with positive fair value	Contracts with negative fair value*	Contracts with positive fair value	Contracts with negative fair value*
Cross currency interest rate swaps and interest rate swap at fair values for the reporting period:				
EUR/USD swap				
– USD payable on settlement (-)	–	(6,229)	–	(5,673)
– EUR receivable on settlement (+)	–	5,542	–	5,082
EUR/CZK swap				
– CZK payable on settlement (-)	–	(39)	–	(1,542)
– EUR receivable on settlement (+)	–	37	–	1,541
CZK interest rate swap				
– CZK payable on settlement (-)	–	(16)	–	(226)
Total USD payable on settlement (-)	–	(6,229)	–	(5,673)
Total EUR receivable on settlement (+)	–	5,579	–	6,623
Total CZK payable on settlement (-)	–	(55)	–	(1,768)
Net fair value of cross currency interest rate swaps and interest rate swap	**–**	**(705)**	**–**	**(818)**

* Negative fair value contracts include transactions with a negative total market revaluation at the balance sheet date. Revaluation of cross currency interest rate swaps and interest rate swap is divided into factors of individual currencies.

	31 December 2019			
	Current		Non-Current	
In millions of Czech crowns	Contracts with positive fair value	Contracts with negative fair value*	Contracts with positive fair value	Contracts with negative fair value*
Cross currency interest rate swaps at fair values for the reporting period:				
EUR/USD swap				
– USD payable on settlement (-)	–	(509)	–	(11,942)
– EUR receivable on settlement (+)	–	270	–	10,228
EUR/CZK swap				
– CZK payable on settlement (-)	–	(39)	–	(1,503)
– EUR receivable on settlement (+)	–	36	–	1,503
Total USD payable on settlement (-)	–	(509)	–	(11,942)
Total EUR receivable on settlement (+)	–	306	–	11,731
Total CZK payable on settlement (-)	–	(39)	–	(1,503)
Net fair value of cross currency interest rate swaps	**–**	**(242)**	**–**	**(1,714)**

* Negative fair value contracts include transactions with a negative total market revaluation at the balance sheet date. Revaluation of cross currency interest rate swaps and interest rate swap is divided into factors of individual currencies.

The Group had outstanding payable from foreign exchange swaps as at 31 December 2020.

	31 December 2020		31 December 2019	
In thousands of Czech crowns	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and swaps: fair values, as at the reporting period, of				
– USD receivable on settlement (+)	–	1,925	–	–
– EUR payable on settlement (-)	–	(1,930)	–	–
Net fair value of foreign exchange forwards and swaps – current	**–**	**(5)**	**–**	**–**

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

Cross currency interest rate swaps

The nominal principal amounts of the outstanding cross currency interest rate swap contracts at 31 December 2020 were EUR 410 million / USD 484 million / CZK 1,397 million (2019: EUR 410 million / USD 484 million / CZK 1,397 million). All cross-currency interest rate swaps have fixed interest rates on both legs. At 31 December 2020, the fixed interest rates vary from 2.50% to 5.23% p.a. (as at 31 December 2019: 2.50% to 5.23% p.a.).

The Group designates certain cross currency interest rate swaps, in combination with bonds denominated in EUR, as hedging instrument of a foreign exchange risk associated with a highly probable forecasted cash flows from natural gas transmission revenues (cash flow hedge – Note 30, Hedging of currency risk).

Interest rate swap
In 2020, the Group entered into a forward starting interest rate swap with effective period from 22 July 2021 to 22 July 2028 the notional principal of CZK 7,400 million. The derivative instrument is designated as floating-to-fixed interest rate, when floating rate is 3M PRIBOR rate and fixed rate is interest rate 1.662% p.a. The interest rate swap is part of the cash-flow hedge (Note 30 – Hedging of interest rate risk).

All derivatives are measured at FVTPL.

30. Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks, market risks and environment risks. Financial risk comprises market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Management sets a strategy for each of the risk, including a limit on open position that may be accepted. The primary objectives of the financial risk management function are to set risk limits and then to ensure that exposure to risks stays within these limits. Monitoring is performed continuously but at least on a monthly basis.

Credit risk. Exposure to credit risk arises as a result of cash and cash equivalents held with banks, loans provided to related parties, trade receivables and other transactions with counterparties giving rise to an increase in financial assets.

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties. Limits on the level of credit risk are approved by management. The risks are monitored on a revolving basis and are subject to a monthly review. The Group is exposed to credit concentration risk considering the receivables from financial institutions.

The credit risk is mitigated by advance payments and a system of creditworthiness assessment which is applied to the Group's customers, suppliers of services with potential significant credit position and financial counterparties such as banks or insurance companies. The conditions are incorporated in the Network Code, relevant tender documentations and internal guidelines.

The Group's management reviews ageing analysis of outstanding trade and other receivables and follows up on past due balances. Other relevant information ageing and other information about credit risk is disclosed in Note 13 and in Note 15.

Market risks. The Group takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Currency risk. The Group's risk management policy is to hedge the long-term contracted cash flows (mainly revenues from the gas transmission) in each major foreign currency up until 2034.

Management approves the strategy of the currency risk management. The positions are monitored continuously but at minimum on a monthly basis. The amount of risk is evaluated in terms of open positions.

The offsetting of currency positions is applied where possible. The outstanding positions are managed by means of buying or selling the relevant currency in the short-term derivative forward or swap contract. The Group report outstanding foreign exchange swap and no foreign exchange forwards as at 31 December 2020. The Group did not report outstanding foreign exchange forwards and foreign exchange swaps as at 31 December 2019.

The table below summarises the Group's exposure to foreign currency exchange rate risk (principal) at the end of the reporting period:

	At 31 December 2020					At 31 December 2019				
In millions of Czech crowns	Monetary financial assets	Monetary financial liabilities	Derivatives (assets)	Derivatives (liabilities)	Net position	Monetary financial assets	Monetary financial (liabilities)	Derivatives (assets)	Derivatives (liabilities)	Net position
US Dollars	237	–	–	10,347	(10,110)	26	–	–	10,944	(10,918)
Euros	1,745	13,508	10,760	–	(1,003)	693	13,062	10,418	–	(1,951)
Total exposed to currency risk	**1,982**	**13,508**	**10,760**	**10,347**	**(11,113)**	**719**	**13,062**	**10,418**	**10,944**	**(12,869)**
Czech crowns	439	16,428	–	1,397	(17,386)	2,165	18,053	–	1,397	(17,285)
Total	**2,421**	**29,936**	**10,760**	**11,744**	**(28,499)**	**2,884**	**31,115**	**10,418**	**12,341**	**(30,154)**

As at 31 December 2020 and 2019 the outstanding derivatives, i.e. in this case cross currency interest rate swaps and foreign exchange forwards, were disclosed in their nominal amounts translated to Czech crowns using foreign exchange rate as at 31 December 2020 and 2019. The fair values are disclosed in Note 32.

The above analysis includes only monetary assets and liabilities. Investments in non-monetary assets are not considered to give rise to any currency risk.

Hedging of currency risk. In 2014, the Group decided to introduce two cash-flow hedges to manage the foreign exchange currency risk in revenues in line with the Group risk management policy. The financial instruments designated as hedging instruments are represented by a) 33 % of bonds maturing in 2021 denominated in EUR and (b) joint hedging instrument of 66 % of bonds maturing in 2021 denominated in EUR and bonds maturing in 2026 denominated in EUR and cross currency interest rate swaps EUR/USD (Note 17, Note 29). The hedged item is represented by contracted or highly probable forecasted natural gas transmission revenues denominated in foreign currencies (in USD and in EUR) that are expected to occur on a monthly basis up until 2034. Valuation gains and losses from hedging instruments recognised in other funds in OCI will be continuously released to profit or loss within finance costs up until the repayment of the hedged item and within revenue up until 2034, which is beyond the repayment date of the hedging instruments (Note 17, Note 29). There was no ineffectiveness to be recorded from cash flow hedges in 2020 and 2019. In May 2017, a bank borrowing denominated in USD was fully repaid and hedge accounting for this instrument ceased to exist.

In 2015, the Group introduced an additional, third, cash-flow hedge. The financial instruments designated as hedging instruments are represented by cross currency interest rate swap EUR/CZK (Note 17, Note 29). The hedged item is represented by cash flow related to the private placement EUR bond maturing in 2026. Gains and losses recognised in other comprehensive income will be continuously released to profit or loss within finance costs up until 2026 (Note 17, Note 29). There was no ineffectiveness to be recorded from cash flow hedges in 2020 and 2019.

The table below analyses the volume of hedged cash flows that were designated as hedged item:

In millions of Czech crowns	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
31 December 2020						
Currency risk exposure:						
Hedging of future cash flows – future receivables USD	757	1,781	1,843	5,296	5,022	14,699
Hedging of future cash flows – future receivables EUR	419	–	–	–	–	419
Hedging of future cash flows – future payables EUR	(37)	(73)	(73)	(1,349)	–	(1,532)
TOTAL	**1,139**	**1,708**	**1,770**	**3,947**	**5,022**	**13,586**

In millions of Czech crowns	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
31 December 2019						
Currency risk exposure:						
Hedging of future cash flows – future receivables USD	746	1,745	1,917	5,622	6,264	16,294
Hedging of future cash flows – future receivables EUR	688	406	–	–	–	1,094
Hedging of future cash flows – future payables EUR	(36)	(71)	(71)	(1,342)	–	(1,520)
TOTAL	**1,398**	**2,080**	**1,846**	**4,280**	**6,264**	**15,868**

The amount of reclassified other comprehensive income to revenues during 2020 decreased revenues by CZK 110 million (2019: decreased revenues by CZK 89 million). The amount of reclassified other comprehensive income to financial costs during 2020 increased financial costs by CZK 124 million (2019: increased financial costs by CZK 18 million).

The following table presents the sensitivities stress test of profit or loss or equity (cash flow hedge) to changes in exchange rates applied at the end of the reporting period relative to the functional currency, with all other variables held constant:

	At 31 December 2020		At 31 December 2019	
In millions of Czech crowns	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10%	24	(1,190)	2	(1,245)
US Dollar weakening by 10%	(24)	1,190	(2)	1,245
Euro strengthening by 10%	(62)	105	(88)	54
Euro weakening by 10%	62	(105)	88	(54)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the respective entity of the Group and for currency sensitive derivatives.

The Group's exposure to currency risk with impact on profit or loss as at 31 December 2020 is influenced by (i) cash balances held in foreign currency, (ii) by existing loans to related parties provided in EUR (Note 12, 24 and 25) and (iii) outstanding payables and receivables.

Hedging of interest rate risk. The Group´s bank borrowings are contracted at floating interest rates. Some instruments, such as bonds and fix-to-fix cross currency interest rate swaps, are priced at fixed rates and are exposed to re-pricing risk at maturity. The fair value is among other factors also sensitive to interest rates through the discounted cash flow model which is used for the valuation (see Note 30).

In 2020, the Group introduced additional, fourth, cash-flow hedge. The financial instrument designated as hedging instrument is represented by interest rate swap in CZK currency. The hedged item is represented by cash flow related to the new committed term loan maturing in 2028. Gains and losses recognised in other comprehensive income will be continuously released to profit or loss within finance costs up until 2028 (Note 17, Note 29). There was no ineffectiveness to be recorded from cash flow hedges in 2020.

The table below summarises the Group's exposure to interest rate risks (e.g. term deposits; bonds and borrowings from related parties on fixed rate, both with re-pricing risk). The table presents the aggregated amounts of the Group's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

In millions of Czech crowns	On demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
31 December 2020					
Financial assets – floating rate	2,226	–	–	–	2,226
Financial assets – fixed rate with re-pricing risk	–	–	–	–	–
Financial liabilities– floating rate	(7,102)	–	–	–	(7,102)
Financial liabilities– fixed rate with re-pricing risk	(4,443)	(7,943)	(2,663)	(5,558)	(20,607)
Financial liabilities – interest rate pre-hedging*	–	7,400	–	(7,400)	–
Net interest sensitivity gap at 31 December 2020	**(9,319)**	**(543)**	**(2,663)**	**(12,958)**	**(25,483)**
31 December 2019					
Financial assets – floating rate	2,162	–	–	–	2,162
Financial assets – fixed rate with re-pricing risk	–	–	–	–	–
Financial liabilities – floating rate	(7,086)	–	–	–	(7,086)
Financial liabilities – fixed rate with re-pricing risk	–	–	(12,113)	(8,043)	(20,156)
Net interest sensitivity gap at 31 December 2019	**(4,924)**	**–**	**(12,113)**	**(8,043)**	**(25,080)**

* Note 29 – Derivative Financial instrument

As the Group's bank assets and liabilities (borrowings) are directly exposed to the floating interest rate, the change in interest rates has an impact on the Group's profit or loss for the current year.

The following table presents sensitivities of profit or loss to reasonably possible changes in short term interest rates applied at the end of the reporting period, with all other variables held constant:

	At 31 December 2020
In millions of Czech crowns	Impact on profit or loss
1M CZK PRIBOR increase of 25 bps	(17)
1M CZK PRIBOR decrease of 25 bps	17
1M EURIBOR increase of 25 bps	4
1M EURIBOR decrease of 25 bps	(4)
1M USD LIBOR increase of 25 bps	1
1M USD LIBOR decrease of 25 bps	(1)

	At 31 December 2019
In millions of Czech crowns	Impact on profit or loss
1M CZK PRIBOR increase of 25 bps	(14)
1M CZK PRIBOR decrease of 25 bps	14
1M EURIBOR increase of 25 bps	2
1M EURIBOR decrease of 25 bps	(2)
1M USD LIBOR increase of 25 bps	–
1M USD LIBOR decrease of 25 bps	–

The Group interest rate risk management policy requires that at least 70% of the interest rate exposure arising from bonds and term loans is at fixed rate. The existing financing structure achieves this requirement.

The Group's exposure to interest rate risk as at 31 December 2020 and 2019 is representative of the typical exposure during the year, starting from July 2014. The Group monitors interest rates for its financial instruments. The table below summarises effective interest rates at the respective end of the reporting period based on reports reviewed by key management personnel. Decrease in CZK effective interest rates in 2020 is caused by decreased CZK base rates.

	31 December 2020			31 December 2019		
In % p.a.	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and cash equivalents	0.46	0.12	0.00	1.75	1.00	0.10
Loans to related parties	n/a	n/a	n/a	2.70	n/a	n/a
Liabilities						
Borrowings	2.10	n/a	3.00	2.51	n/a	3.00

Liquidity risk. Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Group is exposed to daily calls on its available cash resources. Liquidity risk is managed by Treasury department of the Group and monitored in terms of monthly (one month forward), short-term (one year forward) and mid-term (five years forward) forecasts. Management monitors short-term forecasts of the Group's cash flows provided on a monthly basis.

The Group has such a liquidity position that is able to secure its operating funding needs through the cash collected from the business operations continuously throughout the year. The Group's liquidity portfolio comprises cash and cash equivalents (Note 15) and bank term deposits and deposit bills. Management estimates that the liquidity portfolio can be realised in cash within few days in order to meet unforeseen liquidity requirements.

The tables below show liabilities as at 31 December 2020 and 2019 by their remaining contractual maturity. The amounts disclosed in the table below are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows Financial derivatives are included in the contractual amounts to be paid or received, unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2020 is as follows:

In millions of Czech crowns	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 17)	4,528	8,384	11,144	5,695	29,751
Trade and other payables (Note 22)	1,894	–	30	–	1,924
Gross settled cross currency interest rate swaps (Note 29)					
– inflows	–	(5,564)	(735)	(5,695)	(11,994)
– outflows	–	6,272	1,132	6,278	13,682
Total future payments, including future principal and interest payments	**6,422**	**9,092**	**11,571**	**6,278**	**33,363**

The maturity analysis of financial liabilities at 31 December 2019 is as follows:

In millions of Czech crowns	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 17)	177	582	14,019	15,591	30,369
Trade and other payables (Note 22)	3,495	–	39	–	3,534
Gross settled cross currency interest rate swaps (Note 29)					
– inflows	–	(305)	(5,921)	(5,691)	(11,917)
– outflows	–	553	7,523	6,855	14,931
Total future payments, including future principal and interest payments	**3,672**	**830**	**15,660**	**16,755**	**36,917**

The net current liquidity position calculated as difference between current assets and current liabilities at 31 December 2020 is a net current payable of CZK 13,195 million (31 December 2019: a net current payable of CZK 1,682 million).

Payments in respect of cross currency interest rate swaps will be accompanied by related cash inflows which are disclosed at their present values in Note 29.

31. 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. The Group manages its capital ratios to ensure a strong credit rating (e.g. the Group may adjust the amount of dividends paid to shareholders in order to maintain or adjust the capital structure).

According to the Group's policy, capital structure consists mainly of equity, non-subordinated borrowings from banks, non-subordinated bonds and non-subordinated short-term borrowings from related parties.

In millions of Czech crowns	At 31 December 2020	At 31 December 2019
Equity	17,213	13,300
Non-subordinated borrowings from banks and bonds	27,653	27,211
Non-subordinated short-term borrowings from related parties	56	31
Total	**44,922**	**40,542**

The Group has complied with all covenants arising from the borrowings as at 31 December 2020 and 2019.

32. Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy. Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements

Recurring fair value measurements are those that the accounting standards require or permit in the balance sheet at the end of each reporting period.

(b) Financial instruments carried at fair value

Only derivatives are measured at fair value.

All recurring fair value measurements are categorised in the fair value hierarchy into level 2 as at 31 December 2020 and 2019.

There have been no changes in the valuation technique for level 2 since 31 December 2017.

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2020:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(1,280)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Interest rate swap contracts	(243)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Currency forward contracts	(5)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**(1,528)**	**–**	**–**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2019:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(1,956)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Currency forward contracts	–	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**(1,956)**	**–**	**–**

The following table presents movements in fair values of derivative financial instruments:

In millions of Czech crowns	2020	2019
Opening balance	**(1,956)**	**(1,489)**
Change in fair value of contracts concluded and realised during the period	–	2
Settlement of contracts concluded and realised during the period	–	(2)
Change in unrealised gains or losses for the period included in other comprehensive income for contracts held at the end of the reporting period	428	(467)
Closing balance	**(1,528)**	**(1,956)**

(c) Non-recurring fair value measurements

There are no assets held for sale or other items with non-recurring fair value measurements as at 31 December 2020 and 31 December 2019.

(d) Financial assets and liabilities not measured at fair value but for which fair value is disclosed

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

	31 December 2020				31 December 2019			
In millions of Czech crowns	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
ASSETS								
Other financial assets								
– Loans to related parties	–	–	–	–	–	–	–	–
Total ASSETS	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
LIABILITIES								
Borrowings								
– Borrowings from related parties	56	–	–	56	–	–	–	–
– Bank borrowings	–	–	7,075	7,045	–	–	7,077	7,055
– Bonds	19,918	–	1,445	20,608	19,079	–	1,344	20,156
TOTAL LIABILITIES	**19,974**	**–**	**8,520**	**27,709**	**19,079**	**–**	**8,421**	**27,211**

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

The fair values in level 1 of fair value hierarchy reflects the price of fixed interest rate bonds listed in active markets in public stock exchanges.

The fair values in level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. Inputs used for loans to related parties are market observable (PRIBOR, LIBOR, EURIBOR) adjusted by unobservable estimated credit spreads. Inputs used for bank borrowings, borrowings from related parties and leases are market observable (PRIBOR, LIBOR, EURIBOR and IRS) adjusted by unobservable estimated credit spreads.

The fair value of unquoted bonds was determined based on estimated future cash flows expected to be received discounted by market observable yield curve adjusted by unobservable estimated credit spread.

Financial assets measured at amortised cost. The estimated fair value of asset instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial liabilities measured at amortised cost. The estimated fair value of liability instruments is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

33. Subsequent Events

The Covid-19 pandemic development and its potential impact on the Group in the 2020 fiscal year:

Given the nature of the business (ship-or-pay international gas transit contracts, domestic regulated gas business) and the indisputable need to continuously deliver gas, N4G's services are and will continue to be needed. After assessing all currently available information, the Group's management believes that the Group's ability to continue as a going concern in the following reporting period is not endangered. The Group's financial statements have been prepared on this assumption.

In 2020, the Group secured two committed bank loans in the amount of a CZK 7.4 billion due in 2028 and a CZK 2.875 due in 2025, neither of which has been drawn as at the date of the financial statements. Subsequently, NET4GAS optimized its capital structure at the end of 2020 and in the second half of January 2021 issued domestic Czech crown bonds in the amount of CZK 4.098 billion that will reach maturity in 2028, and in the amount of CZK 6.900 billion that will reach maturity in 2031. All financing steps have been prepared always under the consideration that Group's ratings from the two leading rating agencies remain unchanged.

No other events have occurred subsequent to the balance sheet date that would have a material impact on the consolidated financial statements for the year ended 31 December 2020.

8 March 2021

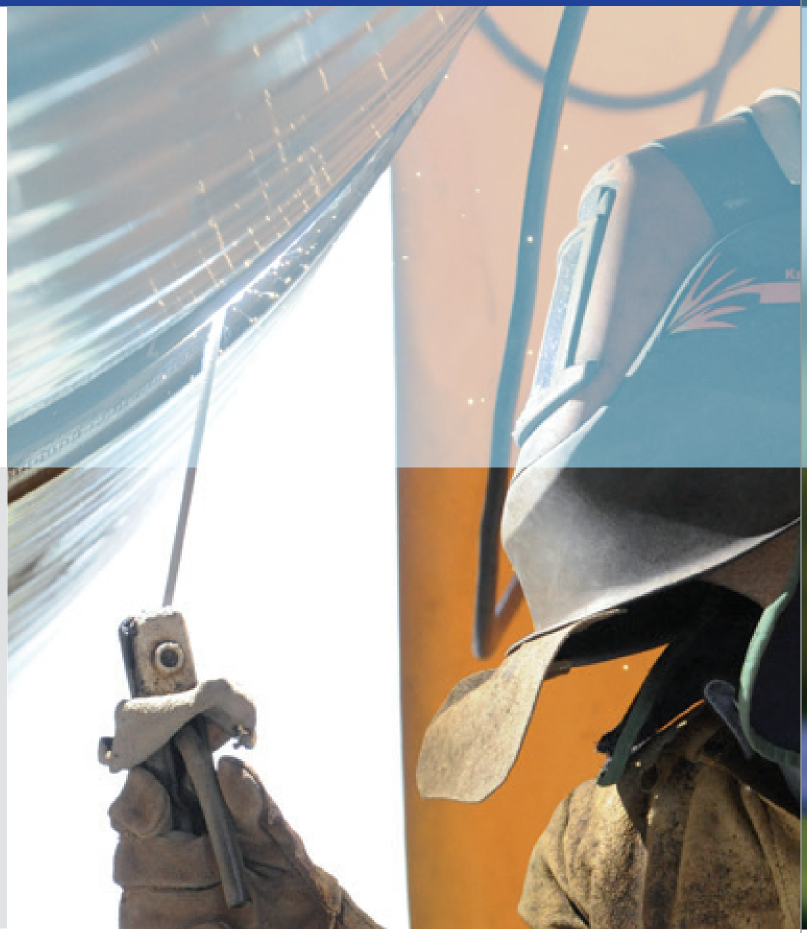
Andreas Rau
Statutory Director

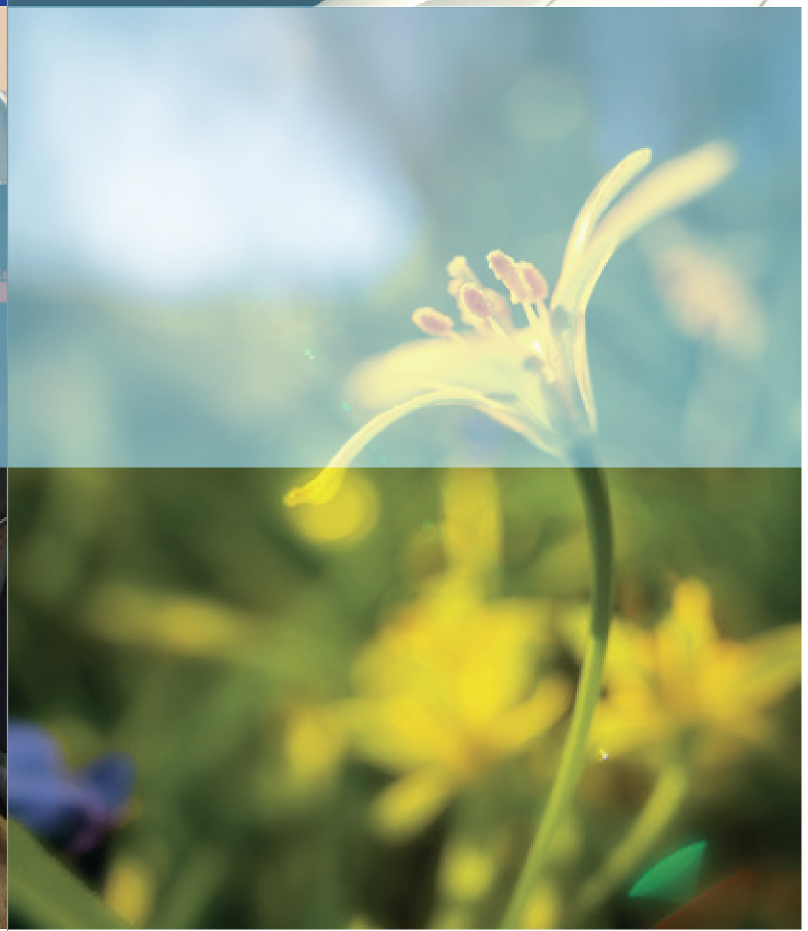
Radek Benčík
Statutory Director

Václav Hrach
Statutory Director

The General Meeting approved the consolidated financial statements for publication on 26 March 2021.

Annex no. 2: Separate Financial Statements





NET4GAS, s.r.o.
Separate Financial Statements

prepared in accordance with International Financial Reporting Standards
as adopted by the European Union, 31 December 2020

Contents

NET4GAS, s.r.o.
Separate Balance Sheet as at 31 December 2020

In millions of Czech crowns	Note	31 December 2020	31 December 2019
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	53,169	50,057
Intangible assets	9	72	88
Investment in subsidiary	10	6,157	6,332
Other non-current assets	11	136	402
Total non-current assets		**59,534**	**56,879**
CURRENT ASSETS			
Inventories	12	131	72
Trade and other receivables	14	194	690
Current income tax prepayments	29	41	–
Loans to related parties	13	–	1
Other non-financial assets	15	55	38
Cash and cash equivalents	16	2,225	2,157
Total current assets		**2,646**	**2,958**
TOTAL ASSETS		**62,180**	**59,837**

EQUITY AND LIABILITIES			
EQUITY			
Registered capital	17	2,750	2,750
Capital contributions outside registered capital	17	13,467	9,066
Cash flow hedge reserve	17	(76)	(179)
Advance dividends	17	(3,169)	(1,670)
Profit for the year		4,253	3,336
Total equity		**17,225**	**13,303**
NON-CURRENT LIABILITIES			
Other payables	23	30	39
Borrowings	18	15,169	26,966
Lease liability	19	6,888	6,971
Derivative financial instruments	31	818	1,714
Deferred income tax liability	29	5,884	5,893
Long-term employee benefits	24	102	114
Other non-financial liabilities	24	3	3
Total non-current liabilities		**28,894**	**41,700**

The accompanying notes on pages 102 to 150 are an integral part of these separate financial statements.

In millions of Czech crowns	Note	31 December 2020	31 December 2019
CURRENT LIABILITIES			
Borrowings	18	12,594	276
Lease liability	19	156	235
Trade and other payables	23	1,945	3,506
Derivative financial instruments	31	710	242
Current income tax payable	29	–	37
Other taxes payable	21	23	18
Provisions	22	1	–
Short-term employee benefits	24	137	49
Other non-financial liabilities	24	495	471
Total current liabilities		**16,061**	**4,834**
Total liabilities		**44,955**	**46,534**
EQUITY AND LIABILITIES		**62,180**	**59,837**

8 March 2021

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

Václav Hrach
Statutory Director

The accompanying notes on pages 102 to 150 are an integral part of these separate financial statements.

NET4GAS, s.r.o.
Separate Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2020

In millions of Czech crowns	Note	2020	2019
Revenue	6	10,032	8,058
Raw materials consumed	25	(350)	(159)
Services purchased and lease charges	25	(358)	(390)
Employee benefits	25	(544)	(532)
Depreciation and amortisation	8, 9, 25	(2,398)	(1,996)
Changes in fair value of derivatives, net		–	7
Foreign exchange differences, net	25	(105)	(2)
Other operating income	26	399	551
Other operating expenses	25	(7)	(110)
Operating profit		**6,669**	**5,427**
Finance income	27	118	118
Finance costs	28	(1,609)	(1,508)
Finance result (net)		**(1,491)**	**(1,390)**
Profit before income tax		**5,178**	**4,037**
Income tax expense	29	(925)	(701)
PROFIT FOR THE YEAR		**4,253**	**3,336**

Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge	17	128	(284)
Income tax recognised directly in other comprehensive income – cash flow hedge	29	(25)	54
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**103**	**(230)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,356**	**3,106**

The accompanying notes on pages 102 to 150 are an integral part of these separate financial statements.

NET4GAS, s.r.o.
Separate Statement of Changes in Equity for the year ended 31 December 2020

In millions of Czech crowns	Registered capital	Capital contributions outside registered capital	Cash flow hedge reserve	Retained earnings	Total
Balance as at 1 January 2019	**2,750**	**4,549**	**51**	**4,081**	**11,431**
Total comprehensive income					
Profit for the year 2019	–	–	–	3,336	3,336
Cash flow hedge – net of related tax effect	–	–	(230)	–	(230)
Total comprehensive income for the year	–	–	(230)	3,336	3,106
Transactions with owners					
Contribution outside registered capital (Note 17)	–	7,526	–	–	7,526
Decrease of contribution outside registered capital (Note 17)	–	(3,009)	–	–	(3,009)
Dividends paid	–	–	–	(4,081)	(4,081)
Advance dividends paid	–	–	–	(1,670)	(1,670)
Balance as at 31 December 2019	**2,750**	**9,066**	**(179)**	**1,666**	**13,303**
Total comprehensive income					
Profit for the year 2020	–	–	–	4,253	4,253
Cash flow hedge – net of related tax effect	–	–	103	–	103
Total comprehensive income for the year	–	–	103	4,253	4,356
Transactions with owners					
Contribution outside registered capital (Note 17)	–	4,401	–	–	4,401
Dividends paid	–	–	–	(1,666)	(1,666)
Advance dividends paid	–	–	–	(3,169)	(3,169)
Balance as at 31 December 2020	**2,750**	**13,467**	**(76)**	**1,084**	**17,225**

The accompanying notes on pages 102 to 150 are an integral part of these separate financial statements.

NET4GAS, s.r.o.
Separate Statement of Cash Flows
for the year ended 31 December 2020

In millions of Czech crowns	Note	2020	2019
Cash flows from operating activities			
Profit before tax		**5,178**	**4,037**
Adjustments for:			
Depreciation and amortisation	8, 9	2,398	1,996
Finance income	27	(118)	(118)
Finance costs	28	1,609	1,508
Proceeds from intangible assets		(24)	(95)
Dividend income from subsidiary		(319)	(387)
Other non-cash operating expenses / (gains)		37	76
thereof: – employee benefit provisions		*76*	*3*
– creation and release of provisions		*(48)*	*48*
– other		*9*	*25*
Operating cash flows before working capital changes		**8,761**	**7,017**
Decrease / (Increase) in trade and other receivables	14, 15	643	60
Increase / (Decrease) in trade and other payables	23, 24	(561)	137
Decrease in inventories	12	(59)	(7)
Operating cash flows after changes in working capital		**8,784**	**7,207**
Interest paid	28	(1,050)	(1,243)
Interest received	27	8	29
Income tax paid	29	(1,036)	(666)
Net cash flows from operating activities		**6,706**	**5,327**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(6,613)	(6,767)
Purchase of intangible fixed assets	9	(28)	(56)
Proceeds from intangible assets	9	24	95
Proceeds from decreased other capital funds of the subsidiary	10	175	255
Loans provided to related parties	13	1	7
Sale / purchase of other financial assets	15	–	2,787
Dividends received from subsidiary	26	319	387
Net cash flows used in investing activities		**(6,122)**	**(3,292)**

The accompanying notes on pages 102 to 150 are an integral part of these separate financial statements.

In millions of Czech crowns	Note	2020	2019
Cash flows from financing activities			
Payments of decreased contributions outside registered capital to the Company's owner	17	–	(3,010)
Payments of increased contributions outside registered capital from the Company's owner	17	4,401	7,526
Dividends paid	17	(1,666)	(4,081)
Advance dividends paid	17	(3,169)	(1,670)
Repayment of borrowings	18	(1,201)	(3,965)
Proceeds from borrowings	18	1,119	4,025
Net cash flows from financing activities		**(516)**	**(1,175)**
Net increase in cash and cash equivalents		**68**	**860**
Cash and cash equivalents at the beginning of the year	16	2,157	1,297
Cash and cash equivalents at the end of the year	16	**2,225**	**2,157**

The accompanying notes on pages 102 to 150 are an integral part of these separate financial statements.

NET4GAS, s.r.o. NOTES TO THE SEPARATE FINANCIAL STATEMENTS

for the year ended 31 December 2020

1. NET4GAS, s.r.o. and Its Operations – General Information

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2020 for NET4GAS, s.r.o. (the "Company" or "NET4GAS").

The Company was incorporated and is domiciled in the Czech Republic, where its principal place of business is also located. The Company is a limited liability company. It was incorporated on 29 June 2005 and has its registered office at Na Hřebenech II 1718/8, Prague 4 – Nusle, the Czech Republic. The Company's identification number is 272 60 364.

The Company's main business activity is natural gas transmission in accordance with Act No. 458/2000 Coll. (the "Energy Act").

Since 2 August 2013, the Company has been fully owned by NET4GAS Holdings, s.r.o. ("NET4GAS Holdings"), incorporated in the Czech Republic, which is the Company's ultimate parent company. NET4GAS Holdings is a joint venture of two entities: Allianz Infrastructure Czech HoldCo II S.à r.l. (50%), with its registered office in Luxembourg, and Borealis Novus Parent B.V. (50%), with its registered office in the Netherlands.

The Statutory Directors of the Company:

As at 31 December 2020	As at 31 December 2019
Andreas Rau	Andreas Rau
Radek Benčík	Radek Benčík
Václav Hrach	Václav Hrach

The members of the Supervisory Board of the Company were as follows:

As at 31 December 2020	Function	As at 31 December 2019	Function
Jaroslava Korpancová	Chairman	Jaroslava Korpancová	Chairman
Alastair Colin Hall	Member	Andrew Cox	Member
Delphine Voeltzel	Member	Delphine Voeltzel	Member
Igor Emilievic Lukin	Member	John Anthony Guccione	Member
Georg Nowack	Member	Georg Nowack	Member

On 1 May 2020 Igor Emilievic Lukin became a member of the Supervisory Board.

On 1 September 2020 Alastair Colin Hall became a member of the Supervisory Board.

About the Company. The Company is the exclusive gas transmission system operator in the Czech Republic, operating almost 4,000 km of gas pipelines. NET4GAS is currently operating five compressor stations. The flow rate of the gas transmitted is measured at seven border transfer stations (the Lanžhot, Brandov and Hora Svaté Kateřiny stations in the Czech Republic, the Waidhaus, Olbernhau and Deutschneudorf stations in the Federal Republic of Germany and Cieszyn in the Polish Republic) and at almost a hundred national transfer stations. The NET4GAS transmission system has been enhanced in the past few years by a number of significant projects delivering additional transmission capacity and greater diversification of transmission routes. These projects have included the construction of the GAZELLE high-pressure gas pipeline (DN 1400, put in operation in 2013), connecting the transmission systems of the Czech Republic and the Federal Republic of Germany at the border points Brandov and Rozvadov, and a project connecting the Czech and Polish transmission systems in Český Těšín. The entire NET4GAS transmission system can be also used for reverse flow, which means that it has the capacity and technology to cope with natural gas transmission in any direction. The largest project of the Company has been the Capacity4Gas Project. The project has been part of a larger initiative to provide secure and cost-efficient access to gas supplies via additional pipeline capacities, especially in the Baltic Sea. Simultaneously, the newly-created infrastructure in the Czech Republic has been made available to all interested market participants on a fully transparent and non-discriminatory basis for the transportation of any kind of natural gas regardless of its country of origin, be it Norway, Russia or North America. The Capacity4Gas project contributes to enhancing the security of gas supplies in the Czech Republic and in the entire CEE region. In addition, the project has strengthened the Czech Republic's strategic role in cross-border gas transmission. The objective of the Capacity4Gas project has been to build new gas infrastructure, most of which is located in the Ústí nad Labem and Pilsen regions. The project aimed to interconnect the gas infrastructure operated by NET4GAS with the German gas transmission system, including the EUGAL pipeline, and to increase its capacity for gas supplies to the Czech Republic and for further transit through Slovakia. The project has been implemented in two main stages. The first stage has been completed in 2019 and the second in the end of 2020.

The Company is the successor to Tranzitní plynovod, n. p., Transgas, a.s., and RWE Transgas Net, s.r.o.

The Company founded BRAWA, a.s. ("BRAWA"), as its subsidiary on 10 October 2010. Until 1 January 2013, BRAWA, a.s. had been a dormant company. On 1 January 2013, under the legal reorganisation of NET4GAS's business, BRAWA became the sole owner of the GAZELLE pipeline. The GAZELLE pipeline is operated by NET4GAS.

Note

The separate financial statements have been prepared in Czech and in English. In all matters of interpretation of information, views or opinions, the Czech version of these financial statements takes precedence over the English version.

2. Operating Environment of the Group

The regulatory environment in the Czech Republic:

(a) Legal framework pertaining to the transmission system operator

The transmission system operator holds an exclusive gas transmission licence under the Energy Act, and its operations are regulated by the Energy Regulatory Office (the "ERO").

The transmission system operator's rights and obligations are primarily derived from Section 58 of the Energy Act and are clarified in more detail in the related implementing legislation. The transmission system operator is also required to comply with obligations under the European legislation, in particular Regulation (EC) No 715/2009 on conditions for access to the natural gas transmission networks and the related implementing legislation.

(b) Regulatory framework pertaining to the transmission system operator

Gas transmission prices are set annually by the ERO based on regulation methodology applicable in the regulatory period. Gas transmission prices for the next calendar year are usually published in an ERO's Pricing Decision by 30 November of the current year.

The 2020 gas transmission prices were established by ERO's Price Decision No 4/2019 of 26 November 2019, on Regulated Prices Related to Gas Supply.

(c) Current regulatory period

The transmission system operator is currently subject to regulatory period IV, which began on 1 January 2016 and ends on 31 December 2020 (the ERO extended the original three-year period by two years on 11 January 2018).

(d) Domestic transmission regulation methodology applicable in the fourth regulatory period

The transmission system operator regulation methodology for domestic gas transmission is based on a ceiling established for allowed revenues over a predetermined period (the revenue cap method).

Domestic gas transmission prices are subsequently derived from allowed revenues defined in this manner. These prices consist of a fixed component for booked transmission capacity and a variable component depending on the amount of gas transmitted.

(e) Transit transmission regulation methodology applicable in the fourth regulatory period
The transmission system operator regulation methodology for transit transmission is subject to a price ceiling (of allowed prices) for a predetermined period (the price cap method). Allowed prices are set annually by the ERO based on a comparison of gas transmission prices in other relevant Member States of the European Union (benchmarking). These prices also consist of a fixed component for booked transmission capacity and a variable component depending on the amount of gas transmitted.

(f) Unregulated part
Further to a decision of the ERO of 28 July 2011, the GAZELLE interconnecting pipeline was exempted from the obligation to grant third-party access at a regulated price under the conditions set out in the Energy Act.

3. Summary of Significant Accounting Policies

a) Basis of preparation
These separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS") under the historical cost convention, as modified by the revaluation of relevant financial assets and financial liabilities (including derivative instruments) carried at fair value. The principal accounting policies applied in the preparation of these separate financial statements are set out below. These policies have been consistently applied to all the periods presented.

Preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the separate financial statements are disclosed in Note 4.

These separate financial statements relate to the consolidated financial statements prepared for the Company and its subsidiary BRAWA. They should be read together.

Presentation currency. These separate financial statements ("financial statements") are presented in Czech crowns ("CZK") which is also the functional currency of the Company.

b) Financial instruments – key measurement terms
Depending on their classification, financial instruments are carried at fair value or amortised cost as described below.

Fair value 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 a 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.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at the trade date, which is the date on which the Company commits to deliver the financial asset. All other purchases are recognised when the Company becomes a party to the contractual provisions of the instrument.

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

A portfolio of financial derivatives that are not traded in an active market is measured at the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. a liability) for a particular risk exposure in

an orderly transaction between market participants at the measurement date. This is applicable for assets carried at fair value on a recurring basis if the Company:

(a) manages the group of financial assets and financial liabilities on the basis of the Company's net exposure to a particular market risk (or risks) or to the credit risk of a particular counterparty in accordance with the Company's documented risk management or investment strategy; (b) it provides information on that basis about the group of assets and liabilities to the Company's key management personnel; and (c) the market risks, including duration of the Company's exposure to a particular market risk (or risks) arising from the financial assets and financial liabilities is substantially the same.

Fair value measurements are analysed in the fair value level hierarchy as follows (Note 34):

(i) Level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices), and (iii) level three measurements are valuations not based solely on observable market data (that is, the measurement requires significant unobservable inputs). Transfers between levels of the fair value hierarchy are deemed to have occurred at the end of the reporting period.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for the gross carrying amount of financial assets less expected credit losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to 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 amounts of related items in the balance sheet.

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 to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the 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.

c) Classification of financial assets
Financial assets are classified in the following categories

- Financial assets measured at amortised cost (AC)
- Financial assets measured at fair value:
  – through other comprehensive income (FVTOCI)
  – through profit or loss (FVTPL)

Financial assets measured at amortised cost (AC):
Debt instruments are measured at amortised cost if they meet the following two criteria:

- Business model test: the objective is to hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realise its fair value changes).
- Cash flow characteristics test: contractual cash flows from a financial asset are solely payments of principal and interest, where the most significant elements of interest only

include the time value of money, credit risk of the counterparty, other basic lending costs (for example, liquidity and administration) and a reasonable profit margin.

Financial assets measured at fair value through profit or loss

Financial assets at fair value through profit or loss, including financial derivatives are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 31. Movements on the hedging reserve in other comprehensive income are shown in Note 17. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedge: The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the profit or loss within 'Finance costs' or 'Finance income'. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of cross currency interest rate swaps hedging currency risk is recognised in profit or loss under revenues (in respect of a foreign-currency revenues hedge) or within Finance income or Finance costs (in respect of a cash flow hedge relating to issued foreign-currency bonds).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in profit or loss when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in other comprehensive income is immediately transferred to profit or loss within Finance costs or Finance income.

d) Classification of financial liabilities

Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives, and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

The Company designates certain financial liabilities as hedges of a particular risk associated with highly probable forecast transactions (cash flow hedge – Note 32, section 'Currency Risk').

e) Initial recognition of financial instruments

Financial instruments not carried at fair value through profit or loss are initially recognised at fair value plus transaction costs. Financial instruments carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

The Company uses discounted cash flow valuation techniques to determine the fair value of cross-currency interest rate swaps and loans that are not traded in an active market. Differences may arise between the fair value at initial recognition determined at initial recognition using the valuation

techniques and the transaction price. Any such differences are amortised on a straight-line basis over the term of the cross-currency interest rate swaps and loans to related parties.

f) Derecognition of financial assets and financial liabilities

The Company derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Company 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 risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all 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.

If the financial asset is fully derecognised, it is recognised through profit or loss as a gain or loss on sale equal to the difference between the carrying amount of the asset and the payment received.

The Company derecognises financial liabilities only when the contractual liabilities of the Company are discharged, cancelled or expire (or when the terms of the existing liability or a part thereof are significantly modified). The difference between the carrying amount of a derecognised financial liability and the consideration paid or payable is recognised in profit or loss.

g) Property, plant and equipment

Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required.

Significant spare parts are recognised and treated as property, plant and equipment.

Repairs and maintenance expenditures are expensed as incurred. Cost 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 Company 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 to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

When the Company recognises the cost of a replacement as part of the carrying amount of property, plant and equipment, it derecognises the carrying amount of the replaced part regardless of whether the replaced part had been depreciated separately. If it was not practicable to determine the carrying amount of the replaced part, the Company used the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

h) Depreciation

Land is not depreciated. Construction in progress is not depreciated. Depreciation on other assets is calculated using the straight-line method. Depreciation rates are determined based on estimated useful lives:

	Useful lives
Buildings and constructions	30 – 70 years
Plant, machinery and equipment	4 – 40 years
Furniture and fittings	4 – 8 years
Motor vehicles	5 – 8 years

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

i) Capitalisation of borrowing costs
General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for the 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 Company 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 Company 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 Company'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. The amounts of borrowing costs capitalised during the current and previous year are disclosed in Note 8.

j) Leasing
The Company applies these accounting procedures in compliance with IFRS16 – Leases:

An agreement is considered or contains a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Short-term leases and leases for which the underlying asset is of low value. A lease is classified as a short-term lease if the estimated lease term is shorter than or equal to 12 months. An asset is classified as a low-value underlying asset the cost of which would be lower than CZK 100,000 if it were new. Instalments paid under short-term leases and leases for which the underlying asset is of low value are posted to profit or loss on a straight-line basis throughout the lease term.

The lease term is a non-cancellable period during which the lessee has the right to use the underlying asset together with both a) periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and b) periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option.

Right-of-use assets and lease liabilities. An asset leased under a lease arrangement other than the abovementioned short-term lease or a lease for which the underlying asset is of low is capitalised through the Company's assets as at the lease commencement date. The right-of-use is initially measured at the lease liability and other auxiliary costs relating to its acquisition. As at the lease commencement date, the lease liability is measured at the current value of lease payments not made as at that date, using the Company's incremental borrowing interest rate in effect as at that date. Every lease payment is divided into parts attributable to the payment of the lease liability and interest so that a constant interest rate applies to the outstanding balance of the liability. The corresponding amount of the total lease liability is included in lending transactions after the subtraction of interest. Interest is posted to profit or loss throughout the lease term using the effective interest rate method.

The right-of-use assets are reported in the balance sheet on the same line as the corresponding underlying assets if the Company were in possession of them.

Assets acquired by means of lease are depreciated throughout their service life or during the term of the lease agreement if it is shorter and if the Company is uncertain whether it will gain ownership rights after the end of the lease.

k) Intangible assets
The Company's intangible assets primarily include capitalised computer software, patents, trademarks and licences.

Acquired computer software licences, patents and trademarks and other intangibles are capitalised on the basis of the costs incurred to acquire and bring them to use.

Development costs that are directly associated with identifiable and unique software controlled by the Company are recorded as intangible assets if an inflow of incremental economic benefits exceeding costs is probable. Capitalised costs include staff costs of the software development team and an appropriate portion of relevant overheads. All other costs associated with computer software, e.g. its maintenance, are expensed when incurred.

l) Amortisation
Intangible assets are amortised using the straight-line method over their useful lives (unless the agreement or licence conditions state shorter or longer period):

	Useful lives
Software	3 years
Patents and other licences	1.5 – 6 years
Development costs	6 years
Other intangible assets	6 years

m) Investment in subsidiary
Investment in subsidiary is measured at cost less any impairment loss. The transaction costs are capitalised as part of the cost of the investment. The transaction costs are the costs directly attributable to the acquisition of the investment such as profession fees for legal services, transfer taxes and other acquisition related costs.

The investment is tested for impairment whenever there are indicators that the carrying amount of an investment may not be recoverable. If the recoverable amount of an investment (the higher of its fair value less cost to sell and its value in use) is less than its carrying amount, the carrying amount is reduced to its recoverable amount.

The carrying amount of an investment is derecognised on disposal. The difference between the fair value of the sale proceeds and the disposed share of the carrying amount of the investment is recognised in profit or loss as gain or loss on disposal. The same applies if the disposal results in a step down from subsidiary to joint venture or an associate measured at cost.

n) Emission allowances
The Company receives free emission allowances as a result of the European Emission Trading Schemes. The allowances are received on an annual basis and in return the Company is required to return allowances equal to its actual emissions. Therefore, a provision is only recognised when actual emissions exceed the emission allowances received free of charge. The emission allowances which were granted free of charge are carried at cost, i.e. at zero. When emission allowances are purchased from third parties, they are measured at cost and treated as a reimbursement right. When emission allowances are acquired by exchange and such an exchange is deemed to have an economic substance, they are measured at fair value as at the date when they become available for use and the difference between the fair value of rights received and cost of assets given up is recognised through profit or loss.

The amounts of emission allowances held in zero value by the Company were as follows:

In tons	31 December 2020	31 December 2019
Emission allowances	0	161,070

o) Impairment of non-financial assets
Intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

p) Assets held for sale
Assets (or disposal groups) are classified as assets held for sale and stated at the lower of their residual amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Non-current assets held for sale are not depreciated.

q) Taxes

Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/credit 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 (for example the effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges).

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 financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial 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 (and tax legislation) enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are only offset among the Company's individual entities. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Company controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Company 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.

Value added tax

Output value added tax (VAT) related to sales is payable to tax authorities on the earlier of (a) collection of receivables from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the balance sheet on a net basis. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

r) Uncertain tax positions

The Company'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.

s) Inventories

Raw materials are mainly spare parts for the gas pipeline system. Purchased inventories are stated at the lower of cost and net realisable amount. Cost includes all costs related with its acquisition (mainly transport costs, customs duty, etc.). The weighted average cost method is applied for disposals of purchased inventories. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Significant spare parts are recognised and treated as property, plant and equipment.

t) Trade receivables

Trade receivables are carried at their nominal value less expected credit loss.

u) Impairment of financial assets carried at amortised cost

Impairment of financial assets is recognised using a model that is based on expected losses, and is recognised through profit or loss as expected loss on a financial asset over its life. The model is based on an estimated allowance based on historical experience and takes into account performance of business partners.

In respect of financial assets in default, the Company assessed the impairment of the asset based on the expected loss until the maturity date of the asset.

The Company assesses the expected credit loss also on an individual basis. For receivables related to core revenues the following criteria are applied. The Company assesses the asset impairment of 10% for the receivables, when any portion of instalment is overdue for more than 1 fiscal year and less than 2 fiscal years, of 25%, when it is overdue for more than 2 and less than 3 fiscal years, of 50%, when it is overdue for more than 3 and less than 4 fiscal years and of 100%, when it is overdue for more than 4 fiscal years. Potentially, the approach is modified based on supportive information which occur in individual cases.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

If, in a subsequent period, the amount of the impairment loss decreases, the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the profit or loss for the year.

v) Deferred expenses and prepayments

Deferred expenses and prepayments are carried at cost less allowances. Deferred expenses and prepayments are classified as non-current when the goods or services relating to them are expected to be obtained after more than one year, or when the deferred expenses relate 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 Company has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Company. Other prepayments and deferred expenses 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.

w) 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 from initial recognition. Cash and cash equivalents are carried at amortised cost using the effective interest method.

Cash and cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Deposit bills of exchange with original maturity of less than three months from initial recognition are therefore classified as 'Other financial assets'.

x) 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 financial statements are authorised for issue are disclosed in Note 35 'Subsequent events'.

y) Advance dividends paid

The Company's decision to pay an advance dividend is reflected in the financial statements as a decrease in equity at the date of the payment and is reported in the 'Retained earnings' balance sheet line.

z) Borrowings
Borrowings are carried at amortised cost using the effective interest method.

At their initial recognition, all bank credits, loans and issued bonds are recorded at their purchase price corresponding to the fair value of the received cash funds, less the costs of obtaining the credit or loan or issue of bonds.

Amortised cost is determined by taking into account the costs of obtaining the credit or loan, as well as the discounts or bonuses received at the settlement of the liability.

The Company designates certain borrowings as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge – Note 32, section 'Currency risk').

aa) Government and other grants
Grants from the government and the European Commission are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions. Grants relating to the purchase of property, plant and equipment decrease directly the costs of the relevant asset.

bb) Trade and other payables
Trade payables are accrued when the counterparty performs its obligations under the contract and are carried at amortised cost using the effective interest method.

cc) Provisions for liabilities and charges
Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company 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.

Where there are a number of similar obligations, the probability that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

dd) Financial guarantees
Financial guarantees are irrevocable contracts that require the Company to make specified payments to reimburse the holder of the guarantee for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. Financial guarantees are initially recognised at their fair value, which is normally evidenced by the amount of fees received. When the Company expects to receive recurring future premiums from an issued financial guarantee contract, the guarantee is recorded at the premium receivable at the inception of the contract and no receivable is recognised in respect of the future premium payments receivable. The premium receivable in one instalment is amortised on a straight line basis over the period covered by that instalment. At the end of each reporting period, the premium receivable in respect of the respective period is measured at its present value and the financial liability is measured at the higher of the remaining unamortised balance and the best estimate of expenditure required to settle the obligation at the end of the reporting period.

ee) Asset retirement obligations
The Company's transmission system is mainly constructed on land owned by third parties. The current legislation requires the Company to bear the costs related to the transmission system's operation and maintenance. The current Czech environmental and energy legislation does not set the obligation to dispose of the assets at the end of their useful life. Given the applicable legislation, management believes that there is no asset retirement obligation (dismantling and removing an item of property, plant and equipment) to be recognised in the financial statements.

ff) Foreign currency translation
The functional currency of the Company is the currency of the primary economic environment in which the Company operates. The functional currency of the Company is Czech crowns ("CZK") and the Company's presentation currency is also CZK.

Monetary assets and liabilities are translated into Company's functional currency at the official spot exchange rate of the Czech National Bank ("CNB") on the dates of the transactions. Foreign exchange gains and losses resulting from transactions and from the translation of monetary assets and

liabilities denominated in foreign currencies into the Company's functional currency at year-end official exchange rates of the CNB are recognised in profit or loss under 'Ne foreign exchange rate gains or losses'. Translation at year-end rates does not apply to non-monetary items that are measured at historical cost. Non-monetary items measured at fair value in a foreign currency, including equity investments, are translated using the exchange rates at the date when the fair value was determined. Effects of exchange rate changes on non-monetary items measured at fair value in a foreign currency are recorded as part of the fair value gain or loss.

gg) Revenue recognition
The Company primarily provides transmission services: cross-border transmission of natural gas via the Czech Republic and domestic transmission of natural gas to partners in the Czech Republic. Auxiliary services to gas infrastructure operators primarily include maintenance and dispatching.

The Company recognises revenues once it has fulfilled (as it fulfils) its supply commitment by transferring the promised goods or service (the "asset") to the customer. The asset is transferred (being transferred) once the customer has gained (as it gains) control over the asset. In determining the transaction price, the Company considers the terms of the contracts and its standard business practice. The transaction price is the amount of consideration to which the Company is, in its view, entitled in exchange for the transfer of 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 includes promises to transfer goods or services to a customer that are distinct. These promises are single performance obligations and are therefore accounted for separately and the entire transaction price is allocated to the single performance obligation.

Revenue from gas transmission services is recognised over time based on the reserved capacity as the customer receives control and consumes the benefits provided by the Company's performance as the Company performs. Revenues are usually invoiced on a monthly, quarterly or annual basis and sales are shown net of VAT and discounts. Revenues are measured at the fair value of the consideration received or receivable.

The fee for services determined in the contract with the customer is always specified for each supply (provided service). Revenues from natural gas transmission via the Czech Republic and from domestic gas transmission to partners in the Czech Republic are regulated by the Energy Regulatory Office.

hh) 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 Company.

a) Pension obligations
A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. The Company 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 Company pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Company has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

b) Termination benefits
Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognises termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the Company recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits

are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

c) Other long term benefits
Long-term employee benefits, such as long-term bonuses, and long service awards are accounted for and measured using the projected unit credit method in the same way as defined benefit pension plan, with the exception that remeasurements (actuarial gains/losses) and related charges are recognised immediately through profit or loss.

ii) Offsetting of financial assets and financial liabilities
Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

jj) 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 who allocates resources to the operating segments of the Company and assesses its performance. Segments are reported in a manner consistent with the internal reporting provided to the Company's chief operating decision maker. Segments whose revenue, result or assets are ten percent or more of all the segments are reported separately.

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

The Company makes estimates and assumptions that affect the amounts recognised in the 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 effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

Functional currency
Management assessed the relevant primary and secondary factors during the consideration about the Company's functional currency. The functional currency is the currency of the primary economic environment, in which the Company operates. The regulated sales prices of the Company are determined by the ERO – the Czech regulatory authority – and are defined in CZK. The majority of the Company's revenue stems from regulated sales. The majority of the Company's operating expenses are incurred in CZK. Capital expenditures are twofold: regular capital expenditure safeguarding the existing system and its operational safety; and large one-off projects. The regular capital expenditure is almost entirely incurred in CZK, while the cost of large one-off projects is incurred in a mixture of currencies (including CZK, EUR and other). Cash from financing activities is generated in a mixture of currencies (including CZK, EUR and USD). Although the Company's operations are influenced by a mixture of currencies, management concluded that the majority of the indicators support CZK as the functional currency of the Company.

Lease contract with BRAWA
The Company entered into a long-term lease contract in January 2013 whereby it leases the GAZELLE pipeline from its subsidiary BRAWA. The contract is expiring on 1 January 2035.

In January 2013, the Company recognised the lease as a leased asset, additionally reporting a lease liability in the amount of CZK 7,312 million, which is equal to the fair value of the leased GAZELLE pipeline as the fair value of the leased GAZELLE pipeline was lower than the present value of the minimum lease payments (each determined at the inception of the lease) using a discount rate equal to the market rate.

The minimum lease payments used in the calculation represent the payments over the useful life of the Gazelle pipeline, that the Company is required to make, excluding contingent rent, costs of services and taxes to be paid by and reimbursed to BRAWA, together with any amounts guaranteed by the Company or by a party related to the Company.

The fair value of the leased GAZELLE pipeline used in the calculation represents the carrying amount of the leased GAZELLE pipeline recognised in BRAWA's financial statements and it reflects the amount for which the leased GAZELLE pipeline was exchanged during its construction between the two parties in an arm's length transaction (representing mostly the price for the construction of the leased GAZELLE pipeline won in the competition with unrelated parties).

Management of the Company estimated the total useful life of the leased GAZELLE pipeline at 70 years, and represents the estimated period, from the commencement of the lease term, without limitation by the lease term, over which the economic benefits embodied in the leased GAZELLE pipeline are expected to be consumed by the Company.

Classification of pipeline capacity contracts with customers
The Company entered into long-term contracts expiring on 1 January 2021 and 1 January 2035 whereby it provided the majority of its GAZELLE pipeline capacity on a 'ship-or-pay' basis. Management considered whether the contract for the provision of pipeline capacity to its major customer is a lease contract (sublease of a lease contract with BRAWA described above). Management's conclusion that the contract is not a lease of the pipeline is based on the fact that there is significant (although minority) capacity of the pipeline which is available to other customers and this capacity can be used by the other customers. The pipeline is under the Company's full control and the major customer has no ability or right to control physical access to the pipeline. Therefore, the arrangement is not a lease contract under IFRS. The Company treats the pipeline as part of its property, plant and equipment (recognised under a lease) and recognises revenue from the contract with the major customer in accordance with IFRS 15.

Capacity of the Capacity4Gas system
New cross-border capacity was offered and successfully marketed at the annual capacity auction on 6 March 2017. The Company launched the implementation phase of a new project entitled Capacity4Gas. The project aimed to interconnect the gas infrastructure operated by NET4GAS with the German gas transmission system, including the EUGAL pipeline, and to increase its capacity for gas supplies to the Czech Republic and for further transit through Slovakia. The project has been implemented in two main stages. The first stage has been completed in 2019 and the second in the end of 2020.

Management considered whether the new contract for the provision of pipeline capacity to its major customer is a lease contract. Management's conclusion that the contract is not a lease of the pipeline is based on the fact that there is significant (although minority) capacity of the pipeline which is available to other customers and this capacity can be used by the other customers. The pipeline is under the Company's full control and the major customer has no ability or right to control physical access to the pipeline. Therefore, the arrangement is not a lease contract under IFRS.

Depreciation
The Company makes other significant accounting estimates, such as depreciation. More detailed description is available in Note 3h).

Transmission System Operator licence and gas pipelines
Considering the applicability of IFRIC 12 to the Company, management believes that the requirements for state regulation have not been met as the title will never be transferred to the government nor can the government control the operator's practical ability to sell or pledge the infrastructure and the government is not controlling the construction process. Therefore the Company's system is classified as property, plant and equipment and is not treated as infrastructure used in public-to-private service concession arrangements.

Segments
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 who allocates resources to the operating segments of the Company and assesses its performance. Recurring revenues are generated from contracts with foreign as well as domestic customers. Information for the CODMs (the Company's Statutory Directors) who are responsible for allocating resources and assessing the Company's performance is prepared for the whole Company without any particular structuring. Management regularly obtain information with assessment of the split of revenue between the transit revenue and domestic transmission revenue. There is no profit measure which would be based on similar basis. All profit measures used by the CODMs are based on the results of the Company considered as one business unit. As a result, management consider the whole Company as one segment for the purpose of segment reporting.

5. Adoption of New or Revised Standards and Interpretations and New Accounting Pronouncements

a) Application of new standards and interpretations effective on or after 1 January 2020

The International Accounting Standards Board (IASB) has issued these new and amended IFRS Standards, that are mandatorily effective in EU for an accounting period that begins on 1 January 2020:

Document	*Major change*	*Effective from*	Impact on the Group annual reports
Amendments to IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	*Definition of 'Material'*	*1. 1. 2020*	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements
New Conceptual Framework in IFRS– Phase 1	*Amendments to References to IFRS standards*	*1. 1. 2020*	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements
Amendments to IFRS 3 *Business Combinations*	*Definition of a Business*	*1. 1. 2020*	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements
Amendments to IFRS 9, IAS 39, and IFRS 7	*Interest Rate Benchmark Reform*	*1. 1. 2020*	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements
Amendments to IFRS 16 *Leases*	*Rent relief in connection with COVID-19 pandemic*	*1. 6. 2020*	Not applicable for the Group

b) New standards and interpretations effective in reporting periods beginning on or after 1 January 2021

At the date of authorisation of these financial statements, the Company has not applied new and revised IFRSs and new Interpretations that were not effective in the EU before 31 December 2020.

6. Segment Information

(a) Description of products and services from which each reportable segment derives its revenue

The Company is organised on the basis of one main business segment – Natural gas transmission (representing natural gas transmission services).

Revenues from core activities comprise revenues from international transit, domestic transmission and other. In 2020, revenues from international transit represented 79%, revenues from domestic transmission 20% and other revenues 1% of the Company's revenues from core activities.

(b) Factors that management used to identify the reportable segments

Refer to the information in Note 4.

(c) Information about reportable segment profit or loss, assets and liabilities

The Company is considered as one reportable segment. Segment information for the reportable segment for the years ended 31 December 2020 and 31 December 2019 is set out below:

In millions of Czech crowns	**Natural gas transmission**	**Natural gas transmission**
	2020	**2019**
Revenues from core activities	10,032	8,058
Other operating income	399	551
Finance income	118	118
Total segment income	**10,549**	**8,727**
Raw materials consumed	350	159
Employee benefits	544	532
Depreciation and amortisation	2,398	1,996
Services purchased and lease charges	358	390
Changes in fair value of derivatives, net	–	(7)
Foreign exchange differences, net	105	2
Other operating expenses	7	62
Income tax expense	925	701
Finance costs	1,609	1,508
Losses related to the sale of property, plant and equipment	–	–
Segment profit for the year	**4,253**	**3,336**
Segment other comprehensive income for the year	**103**	**(230)**
Segment total comprehensive income for the year	**4,356**	**3,106**
Capital expenditures – additions at cost (Note 8, 9)	**5,495**	**9,085**

In millions of Czech crowns	**Natural gas transmission**	**Natural gas transmission**
	31 December 2020	**31 December 2019**
Total reportable segment Assets	**62,180**	**59,837**
Total reportable segment Liabilities	**44,955**	**46,534**

Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

(d) Geographical information

Total revenues for geographical areas for which the revenues are material are reported separately and disclosed below.

The analysis is based on the registered office of shippers (users of the transmission system that is operated by the Company in the Czech Republic).

In millions of Czech crowns	2020	2019
Czech Republic	1,892	1,700
Other EU countries	1,428	1,417
Non-EU countries	6,712	4,941
Total revenues from core activities	**10,032**	**8,058**

Capital expenditure for each individual country is reported separately as follows:

In millions of Czech crowns	2020	2019
Czech Republic	5,495	9,085
Total capital expenditure – additions at cost (Note 8, 9)	**5,495**	**9,085**

The analysis is based on the location of assets. Capital expenditure represents additions to non-current assets other than financial instruments and deferred tax assets.

(e) Major customers

Revenues from customers that represent 10% or more of the total revenues are as follows:

In millions of Czech crowns	2020	2019
Customer 1*	7,359	5,664
Customer 2	1,247	1,211
Total revenues from major customers	**8,606**	**6,875**

* A group that has its registered offices in other EU Member States as well as in non-EU countries

Revenues comprise only revenues from core activities.

Entities known to the Company as being under common control are considered as a single customer.

7. Balances and Transactions with Related Parties

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

The Company is fully owned by NET4GAS Holdings and NET4GAS Holdings is the ultimate parent company of the Company.

The Company's balances and transactions with subsidiaries of ultimate parent of Allianz Infrastructure Czech HoldCo II S.à r.l. and subsidiaries of ultimate parent of Borealis Novus Parent B.V. are disclosed below within the category Subsidiaries of joint ventures' ultimate parents.

At 31 December 2020, the outstanding balances with related parties are as follows:

In millions of Czech crowns	Subsidiary	Immediate parent
Gross value of trade and other receivables		
BRAWA, a.s.	–	–
Loans to related parties (Note 13)		
NET4GAS Holdings, s.r.o.	–	–
BRAWA, a.s.	–	–
Lease liability (Note 19)		
BRAWA, a.s. – non-current	6,733	–
– current	117	–
Borrowings (Note 18)		
NET4GAS Holdings, s.r.o.	–	57
BRAWA, a.s. – cash-pooling	55	–
Gross value of trade and other payables		
BRAWA, a.s.	51	–

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

In millions of Czech crowns	Subsidiary	Immediate parent
Purchases / expenses		
BRAWA, a.s. – interest expense from lease	390	–
BRAWA, a.s. – interest expense from cash-pooling	–	–
BRAWA, a.s. – services	117	–
Other revenues / gains / received payments		
NET4GAS Holdings, s.r.o. – services	–	1
BRAWA, a.s. – dividends	319	–
BRAWA, a.s. – payment received from decreased capital contributions outside share capital	175	–

The transactions within the Company's equity are disclosed in Note 17.

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

In millions of Czech crowns	Subsidiary	Immediate parent
Gross value of trade and other receivables		
BRAWA, a.s.	5	–
Loans to related parties (Note 13)		
NET4GAS Holdings, s.r.o.	–	–
BRAWA, a.s.	1	–
Lease liability (Note 19)		
BRAWA, a.s. – non-current	6,791	–
– current	195	–
Borrowings (Note 18)		
NET4GAS Holdings, s.r.o.	–	31
BRAWA, a.s. – cash-pooling	–	–
Gross value of trade and other payables		
BRAWA, a.s. – interest on borrowings	1	–

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

In millions of Czech crowns	Subsidiary	Immediate parent
Purchases / expenses		
BRAWA, a.s. – interest expense from lease	475	–
BRAWA, a.s. – interest expense from cash-pooling	6	–
BRAWA, a.s. – services	118	–
Other revenues / gains / received payments		
NET4GAS Holdings, s.r.o. – services	–	1
BRAWA, a.s. – dividends	387	–
BRAWA, a.s. – payment received from decreased capital contributions outside share capital	255	–

At 31 December 2020 and 2019 the Company did not have any other rights and obligations connected to related parties.

Key management compensation is presented below:

	2020		2019	
In millions of Czech crowns	Expense	Accrued liability	Expense	Accrued liability
Short-term benefits:				
– Salaries	78	6	62	4
– Short-term bonuses	19	22	16	16
Other long-term employee benefits:				
– Long-term bonus scheme	23	33	22	35
– Defined contribution benefits	6	5	6	4
Total	**126**	**66**	**106**	**59**

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

Key management represents Statutory Directors and managers directly reporting to them.

8. Property, Plant and Equipment

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

In millions of Czech crowns	Land	Buildings and constructions	Buildings and constructions – right of use	Plant and equipment	Plant and equipment – rights of use	Construction in progress	Total
Cost at 1 January 2019	247	54,457	7,678	5,995	–	1,723	70,100
Accumulated depreciation	–	(21,691)	(638)	(5,033)	–	–	(27,362)
Carrying amount at 1 January 2019	**247**	**32,766**	**7,040**	**962**	**–**	**1,723**	**42,738**
Cost:							
Additions	–	–	2	–	10	9,001	9,013
Capitalised interest expense	–	2	–	2	–	13	17
Transfers	33	2,695	–	2,161	–	(4,889)	–
Disposals	0	(4)	–	(27)	(3)	–	(34)
Accumulated depreciation:							
On disposals	–	4	0	27	–	–	31
Depreciation charge	–	(1,565)	(130)	(244)	(21)	–	(1,960)
Carrying amount at 31 December 2019	**280**	**33,898**	**7,102**	**2,881**	**47**	**5,849**	**50,057**
Cost at 31 December 2019	280	57,154	7,870	8,131	68	5,849	79,352
Accumulated depreciation	–	(23,256)	(768)	(5,250)	(21)	–	(29,295)
Carrying amount at 1 January 2020	**280**	**33,898**	**7,102**	**2,881**	**47**	**5,849**	**50,057**
Cost:							
Additions	–	–	83	–	5	5,363	5,451
Capitalised interest expense	–	6	–	3	–	7	16
Transfers	2	9,593	–	827	–	(10,422)	–
Disposals	–	–	–	(26)	–	–	(26)
Accumulated depreciation:							
On disposals	–	–	–	26	–	–	26
Depreciation charge	–	(1,711)	(134)	(487)	(23)	–	(2,355)
Carrying amount at 31 December 2020	**282**	**41,786**	**7,051**	**3,224**	**29**	**797**	**53,169**
Cost at 31 December 2020	**282**	**66,753**	**7,953**	**8,935**	**73**	**797**	**84,793**
Accumulated depreciation	**–**	**(24,967)**	**(902)**	**(5,711)**	**(44)**	**–**	**(31,624)**

The Company is a tenant of the office space and parking spaces in the building of Kavčí Hory Office Park. Rental period is 19 years with the possibility of extension. In the past, the Company has used this option and intends to make use of it again in the future.

The Company rents a large number of passenger cars especially for the business travels of the employees. The rental period of cars is in the range of two to seven years and ownership of the vehicles belongs to the landlord. At the end of the lease period, the passenger car is returned to the lessor and a new lease for the new vehicle is usually arranged. Due to the large number of rented cars, the Company chose the option of using the portfolio approach for their valuation, recognition and derecognition.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted interest rate applicable to the entity´s general borrowings during the year, was 3.05% in 2020 (2019: 3.40%).

The Company invested a total of CZK (5,467 million in tangible fixed assets (additions of tangible fixed assets – at cost) in 2020 (2019: CZK 9,030 million). The total amount of the activation was CZK 10,442 million of the which CZK 9,707 (2019: CZK 4,178 million) to Capacity4Gas project and CZK 735 million to the other project.

As at 31 December 2020, work in progress consists mainly of construction of the Capacity4Gas project of CZK 234 million and construction of Czech-Polish interconnector gas pipeline of CZK 366 million. Upon completion, the assets are expected to be transferred to buildings and constructions. Other items represent smaller projects.

The Company leases the GAZELLE pipeline under a non-cancellable lease agreement. The lease period is 22 years and ownership of the assets rests within the lessor.

9. Intangible Assets

In millions of Czech crowns	Acquired software licences	Development costs	Other	Assets under construction	Total
Carrying amount at 1 January 2019	**37**	**–**	**6**	**25**	**68**
Additions at cost:					
Additions	–	–	–	55	55
Transfers	53	–	–	(53)	–
Disposals at cost	(26)	(2)	(1)	–	(29)
Amortisation:					
Accumulated amortisation on disposals	26	2	1	–	29
Amortisation charge	(32)	–	(3)	–	(35)
Carrying amount at 31 December 2019	**58**	**–**	**3**	**27**	**88**
Cost at 31 December 2019	518	52	27	27	624
Accumulated amortisation at 31 December 2019	(460)	(52)	(24)	–	(536)
Additions at cost:					
Additions	–	–	–	28	28
Transfers	26	–	–	(26)	–
Disposals at cost	(4)	(1)	–	–	(5)
Amortisation:					
Accumulated amortisation on disposals	3	1	–	–	4
Amortisation charge	(41)	–	(2)	–	(43)
Carrying amount at 31 December 2020	**42**	**–**	**1**	**29**	**72**
Cost at 31 December 2020	540	51	27	29	647
Accumulated amortisation at 31 December 2020	(498)	(51)	(26)	–	(575)

The Company invested a total of CZK 28 million in intangible assets (additions of intangible fixed assets – at cost) in 2020 (2019: CZK 55 million).

10. Investment in Subsidiary

The Company's interest in its subsidiary as at 31 December 2020 was as follows:

Name	Activity	Carrying amount of the investment (CZK million)	% of voting rights (if different)	Principal place of business	% ownership interest held	% of voting rights (if different from % ownership interest held)
Subsidiary:						
BRAWA, a.s.	Owner of the GAZELLE natural gas pipeline which is rented to the Company	6,157	100 %	Czech Republic	100 %	100 %
Total		**6,157**				

In December 2020, the Company as the sole shareholder of BRAWA, a.s., decided that a part of other capital contributions out of the share capital of CZK 175 million would be paid out to the Company. The transaction was recorded as a decrease in the carrying amount of the investment in BRAWA, a.s.

The Company's interest in its subsidiary as at 31 December 2019 was as follows:

Name	Activity	Carrying amount of the investment (CZK million)	% of voting rights (if different)	Principal place of business	% ownership interest held	% of voting rights (if different from % ownership interest held)
Subsidiary:						
BRAWA, a.s.	Owner of the GAZELLE natural gas pipeline which is rented to the Company	6,332	100 %	Czech Republic	100 %	100 %
Total		**6,332**				

BRAWA, a.s. with its registered office at Na Hřebenech II 1718/18, Prague – Nusle was incorporated on 27 October 2010. The company was registered in the Commercial Register maintained by the Municipal Court in Prague, section B, insert 16622, on 10 November 2010.

11. Other Non-Current Assets

In millions of Czech crowns	31 December 2020	31 December 2019
Advances for acquisition of fixed assets	136	402
Total other non-current assets	**136**	**402**

12. Inventories

In millions of Czech crowns	31 December 2020	31 December 2019
Raw materials	131	72
Total inventories	**131**	**72**

Raw materials are mainly spare parts for the gas transmission system.

There are no inventories valued at net realisable value as at 31 December 2020 and 2019.

13. Loans to Related Parties

In millions of Czech crowns	31 December 2020	31 December 2019
Financial assets measured at amortised costs:		
Corporate loans		
– denominated in CZK	–	1
– denominated in USD	–	–
– denominated in EUR	–	–
Total loans provided	**–**	**1**

Loans to related parties are provided on the basis of the Loan Agreement dated 11 November 2013 and are of short-term nature. Loans to related parties were undrawn during 2020 and as at 31 December 2020.

Analysis by credit quality of outstanding loans is as follows:

	31 December 2020	31 December 2019
In millions of Czech crowns	Corporate loans	Corporate loans
Neither past due nor impaired		
– BRAWA – subsidiary company (without external rating)	–	1
– NET4GAS Holdings, s.r.o. – parent company (without external rating)	–	–
Total neither past due nor impaired	**–**	**1**
Total loans provided	**–**	**1**

There are no collaterals related to the above-mentioned loans.

Refer to Note 34 for the estimated fair value of each class of loans. Interest rate analysis of loans is disclosed in Note 32 – Interest rate risk. Information on related party transactions is disclosed in Note 7.

14. Trade and Other Receivables

Analysis by credit quality of trade and other receivables is as follows:

In millions of Czech crowns	31 December 2020 Trade and estimated receivables	31 December 2019 Trade and estimated receivables
Neither past due nor impaired – exposure to		
– Between A- and BBB-*	135	353
– Not rated	45	34
Total neither past due nor impaired	180	387
Past due but without impairment		
– less than 30 days overdue	13	23
– between 30 – 60 days overdue	–	10
– 60 days or more overdue	1	318
Total gross past due	14	351
Individually determined to be impaired (gross)		
– 360 days or more overdue	1	
Total individually impaired	1	
Less impairment provision	(1)	
Total net trade and other receivables **	**194**	**690**

* Rating disclosed is based on the equivalent credit rating from the third party rating agencies defined in the Network Code approved by ERO (Energy Regulatory Office) which is applicable for the Company.

** Impairment was recorded in accordance with the policy described in Note 3 t) u).

15. Other Non-Financial Assets

Other Non-Financial Assets are the following:

In millions of Czech crowns	31 December 2020	31 December 2019
Value-added tax prepaid	13	18
Prepayments for services	42	20
Total non-financial assets	**55**	**38**

16. Cash and Cash Equivalents

In millions of Czech crowns	31 December 2020	31 December 2019
Bank balances available on demand	2,225	2,157
Total cash and cash equivalents	**2,225**	**2,157**

The credit quality of cash and cash equivalents balances may be summarised as follows:

In millions of Czech crowns	31 December 2020	31 December 2019
Neither past due nor impaired		
– A+ to A- rated	2,213	2,151
– BBB+ to BBB- rated	12	6
Total	**2,225**	**2,157**

17. Equity

The Company is a limited liability company und has issued no shares. Rights attached to a share in equity correspond to the ownership interest.

Dividends declared and paid during the year were as follows:

In millions of Czech crowns	2020	2019
Dividends payable at 1 January	–	–
Dividends declared and paid during the year*	1,666	4,081
Dividends payable at 31 December	–	–

* based on the Resolution of the Sole Shareholder of NET4GAS, s.r.o.

Advance dividends paid during the year were as follows:

In millions of Czech crowns	2020	2019
Advance dividends paid*	3,169	1,670
Total advance dividends paid	**3,169**	**1,670**

* based on the Decision of the Sole Shareholder of NET4GAS, s.r.o.

All dividends were approved in CZK and paid in various currencies (EUR and USD).

Description of the nature and purpose of individual funds is provided below the table.

In millions of Czech crowns	Capital contributions outside registered capital	Cash flow hedges	Total other reserves
Balance as at 1 January 2019	**4,549**	**51**	**4,600**
Revaluation gains or losses – hedge accounting	–	(374)	(374)
Revaluation gains or losses – revenues	–	72	72
Revaluation gains or losses – costs	–	18	18
Deferred tax effect	–	54	54
Contribution outside registered capital	7,526	–	7,526
Decrease of contribution outside registered capital	(3,009)	–	(3,009)
Balance as at 31 December 2019	**9,066**	**(179)**	**8,887**
Revaluation gains or losses – hedge accounting	–	22	22
Revaluation gains or losses – revenues	–	(18)	(18)
Revaluation gains or losses – costs	–	124	124
Deferred tax effect	–	(25)	(25)
Contribution outside registered capital	4,401	–	4,401
Balance as at 31 December 2020	**13,467**	**(76)**	**13,391**

Capital contributions other than to registered capital
Capital contributions other than to registered capital include cash and non-cash capital contributions that do not increase the value of the registered capital.

Increase / decrease in Capital contributions outside registered capital:

Month/Year		Comment on settlement
April 2019	1,573	Incoming payment* – other equity funds project C4G
September 2019	3,049	Incoming payment* – other equity funds project C4G
December 2019	2,904	Incoming payment* – other equity funds project C4G
September 2019	(3,009)	Outgoing payment – Dissolution of other equity funds**
Total increase in 2019	**4,517**	
February 2020	955	Incoming payment* – other equity funds project C4G
June 2020	3,446	Incoming payment* – other equity funds project C4G
Total increase in 2020	**4,401**	

* For the purposes of financing the Capacity4Gas project, a Financing Agreement was entered into based on which the sole shareholder increased the value of other equity funds (accounts).
** Based on a Decision of the Sole Shareholder of NET4GAS, s.r.o., dated 27 September 2019.

Cash flow hedges
Cash flow hedges are used to recognise gains or losses on hedging instruments that are designated and qualify as cash flow hedges in other comprehensive income (effective portion), as described in Note 32 – Hedging of currency risk. Amounts are reclassified to profit or loss (line 'Financial expenses'/'Financial income') when the associated hedged transaction affects profit or loss.

18. Borrowings

In millions of Czech crowns	31 December 2020	31 December 2019
Short-term borrowings from related parties (cash pooling BRAWA)	55	–
Short-term borrowings from related parties (cash pooling NET4GAS Holdings)	56	31
Current portion of bonds and bank borrowings		
– CZK denominated bank borrowings (repayable on 24 May 2025, 31 July 2025, 28 July 2028)	–	–
– CZK denominated bonds (repayable on 28 January 2021)	4,437	78
– EUR denominated bonds (repayable on 28 July 2021)	7,944	67
– CZK denominated bonds (repayable on 17 July 2025)*	30	30
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2014*	57	56
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2015*	15	14
Non-current bonds and bank borrowings		
– CZK denominated bank borrowings (repayable on 24 May 2025, 31 July 2025, 28 July 2028)	7,045	7,058
– CZK denominated bonds (repayable on 28 January 2021)	–	4,353
– EUR denominated bonds (repayable on 28 July 2021)	–	7,613
– CZK denominated bonds (repayable on 17 July 2025)	2,633	2,630
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2014	4,182	4,045
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2015	1,309	1,267
Total borrowings – current	**12,594**	**276**
Total borrowings – non-current	**15,169**	**26,966**
Total borrowings	**27,763**	**27,242**

* Current portion of bonds represents coupon payments due in 12 months.

Bank borrowings and bonds
The borrowings as at 31 December 2020 included bank borrowings acquired in 2017 and bonds issued in 2014, 2015 and 2018.

In 2020 the Company acquired two committed term loan facilities in total amount of CZK 10,275 million (CZK 2,875 million with maturity on 31 July 2025 and CZK 7,400 million with maturity on 28 July 2028). Both term loan facilities were undrawn as at 31 December 2020 and are available for utilization until 28 July 2021. Interest rate of the CZK 7,400 million term loan has been pre-hedged by new interest rate swap (Notes 32 – Hedging of interest rate risk).

The Company acquired a committed revolving facility agreement in the equivalent of EUR 80 million (CZK 2,099.8 million per the Czech National Bank's foreign exchange rate as at 31 December 2020). Further, the Company acquired the Overdraft facility in the equivalent of EUR 20 million (CZK 524,9 million per the Czech National Bank's foreign exchange rate as at 31 December 2020). Both facility agreements might be utilised in CZK or EUR. During 2020 the Overdraft facility was drawn and as at 31 December 2020 (as at 31 December 2019) it was repaid. The Revolving facility agreement was undrawn during 2020 and 2019 (as at 31 December 2020 and as at 31 December 2019 the Revolving facility was undrawn).

Seven banks with different shares participated in the total bank borrowings as at 31 December 2020 (six banks as at 31 December 2019).

There is no collateral related to the above mentioned bank borrowings or bonds.

The Company's senior debts are all issued at pari-passu. The bank borrowings and bonds have no quantitative financial covenants. There are several qualitative covenants applied, i.e. negative pledge, change of control put and loss of finance put. Violation of these covenants can lead to immediate maturity of the debt.

The Company's right to lien its property in favour of another creditor is restricted due to conditions stated in bank and bond financing contracts.

Bank borrowings denominated in foreign currency represent a constituent of hedge accounting, which represents the hedging instrument for securing foreign exchange risk associated with selected future cash flows resulting from natural gas transmission revenues (cash flow hedge) – Notes 32 – Hedging of currency risk, Hedging of interest rate risk.

Bonds issued may be analysed as follows:

In millions of Czech crowns

	Issue nominal value	Due date	Annual coupon repayment due date	31 December 2020	31 December 2019
Bond EUR, serial no. 1, ISIN XS1090450047**	EUR 300,000,000	28 Jul 2021	Each 28 Jul in arrears	7,944	7,680
Bond EUR, serial no. 2, ISIN XS1090449627**	EUR 160,000,000	28 Jul 2026	Each 28 Jul in arrears	4,239	4,101
Bond CZK, serial no. 3, ISIN XS1090620730*	CZK 4,354,300,000	28 Jan 2021	Each 28 Jan in arrears	4,437	4,434
Bond EUR, serial no. 4, ISIN XS1172113638**	EUR 50,000,000	28 Jul 2026	Each 28 Jul in arrears	1,324	1,281
Bond CZK, Domestic, ISIN CZ0003519472*	CZK 2,643,000,000	17 Jul 2015	Each 17 Jul in arrears	2,663	2,660
Total bonds				**20,607**	**20,156**

* Bonds issued in denominations of CZK 3,000,000.
** Bonds issued in denominations of EUR 100,000.

Coupon rates of the above mentioned bonds are in the range of 2.25% – 3.50% p.a. The terms of issue of all the above stated bonds have been approved by the decision of the Central Bank of Ireland (serial no. 1 – 4) or the Czech National Bank (domestic bond).

The bonds with serial n. 1 – 3 were accepted for trading on a regulated market of the Irish Stock Exchange on 28 July 2014. The 2015 bonds, serial n. 4, were issued via private placement. Domestic "CZ" bond was accepted for trading on a regulated market of the Prague Stock Exchange on 17 July 2018.

The fair value of borrowings is disclosed in Note 34.

19. Lease Liability

Minimum lease payments under leases and their present values are as follows:

In millions of Czech crowns	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2020	543	2,041	16,162	18,746
Less future finance charges	387	1,475	9,840	11,702
Present value of minimum lease payments at 31 December 2020	**156**	**566**	**6,322**	**7,044**
Minimum lease payments at 31 December 2019	631	2,383	18,254	21,268
Less future finance charges	396	1,811	11,855	14,062
Present value of minimum lease payments at 31 December 2019	**235**	**571**	**6,400**	**7,206**

Leased assets with a carrying amount disclosed in Note 8 are effectively pledged for lease liabilities as rights to the leased asset revert to the lessor in the event of default.

Total interest expense on lease liabilities under IFRS 16:53 (b) amounted to CZK 395 million in the 2020 reporting period.

The cost of leases of low-value assets under IFRS 16:53 (d) was CZK 0.9 million in the 2020 reporting period.

Costs related to IFRS 16:53 (e) variable lease payments amounted to CZK 2.0 million in the 2020 reporting period.

The Company's total expenditure on leasing under IFRS 16:53 (g) in 2020 was CZK 554 million.

20. Government and Other Subsidies (Grants)

The Company received (obtained) subsidies (grants) from the European Commission for construction projects and, following the fulfilment of the applicable conditions, subtracted the value of the relevant subsidies from the book value of applicable tangible fixed assets.

(CZK million)	31 December 2020	31 December 2019
Subsidies (Grants)	3	3
Total subsidies (grants)	**3**	**3**

In 2020, the Company did not receive any subsidy. In 2019, the Company complied with all requirements and received the balance of a subsidy in the amount of CZK 13 million for the Stork II project.

21. Other Taxes Payable

In millions of Czech crowns	31 December 2020	31 December 2019
Other taxes payable within one year comprise:		
Employee income tax	7	5
Social and health insurance	16	13
Other taxes payable – current	**23**	**18**

22. Provisions

Movements in provisions are as follows:

	2020		2019	
In millions of Czech crowns	Current	Non-current	Current	Non-current
Carrying amount at January 1	**–**	**–**	**–**	**–**
Additions charged to profit or loss	1	–	–	–
Unused amounts reversed	–	–	–	–
Amounts used during the year	–	–	–	–
Carrying amount at December 31	**1**	**–**	**–**	**–**

23. Trade and Other Payables

In millions of Czech crowns	31 December 2020	31 December 2019
Trade payables – purchased property, plant and equipment	908	1,169
Trade payables – other	153	81
Estimated payables – purchased property, plant and equipment	727	1,935
Estimated payables – other	38	207
Received deposits from customers	110	113
Other financial liabilities	9	1
Total financial payables within trade and other payables – current	**1,945**	**3,506**
Other payables	30	39
Total financial payables within other payables – non-current	**30**	**39**

24. Accrued Employee Benefits and Other Non-Financial Liabilities

In millions of Czech crowns	31 December 2020	31 December 2019
Employee benefits		
– Salaries and bonuses*	154	67
– Defined contribution costs – retirement compensation	15	9
– Untaken holiday costs	15	13
Other non-financial liabilities	448	431
Total employee benefits and other non-financial liabilities – current	**632**	**520**

* Salaries and bonuses in 2020 include provisions for extraordinary bonuses in amount of CZK 84 million.

In millions of Czech crowns	31 December 2020	31 December 2019
Employee benefits – other long-term benefits	102	114
Grant prepayments received (Note 20)	3	3
Total employee benefits and other non-financial liabilities – non-current	**105**	**117**

25. Expenses

In millions of Czech crowns	2020	2019
Raw materials consumed*	350	159
Salaries	*363*	*339*
Statutory and private pension contribution	*181*	*193*
Employee benefits**	544	532
Depreciation and amortisation	2,398	1,996
Repairs and maintenance services	*131*	*123*
IT & Telecommunications expenses	*98*	*95*
Consultancy and advisory services	*37*	*56*
Lease charges	*23*	*23*
Marketing	*20*	*22*
Other services	*49*	*71*
Services purchased and lease charges	358	390
Losses / (gains) on derivative financial instruments, net	–	(7)
Foreign exchange differences, net	105	2
Other expenses	7	110
Total operating expenses	**3,762**	**3,182**

* Represents mainly consumption of natural gas.
** Excluding costs capitalised as part of the acquisition of fixed assets (2020: CZK 161 million, 2019: CZK 178 million).

26. Other Operating Income

In millions of Czech crowns	2020	2019
Dividend from subsidiary	319	387
Other operating income	80	164
Total other operating income	**399**	**551**

27. Finance Income

In millions of Czech crowns	2020	2019
Financial instruments measured at amortised cost:		
▪ Interest income on other financial assets	8	27
▪ Foreign Exchange Differences	110	91
Total finance income recognised in profit or loss	**118**	**118**

28. Finance Costs

In millions of Czech crowns	2020	2019
Financial instruments measured at amortised cost:		
▪ Interest expense – lease	395	483
▪ Interest expense – other	645	715
Financial instruments measured at FVTPL:		
▪ Finance costs – release of hedge reserve reported in OCI*	124	18
▪ Finance costs – hedging activities	274	245
▪ Other finance costs	171	47
Total finance costs recognised in profit or loss	**1,609**	**1,508**

* In May 2017, a USD bank loan (a hedging instrument) was repaid, the hedge reserve reported in OCI remained in equity and it will be gradually charged to finance costs (based on the effectiveness tests performed as at the date of initial repayment, until March 2030), hedged item still exists.

29. Income Taxes

(a) Components of income tax expense

Income tax expense / (credit) recorded in profit or loss comprises the following:

In millions of Czech crowns	2020	2019
Adjustment in respect of current income tax from prior year	7	(7)
Current income tax payable	952	783
Deferred income tax	(34)	(75)
Income tax expense for the year in the statement of profit and loss	**925**	**701**

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

The income tax rate applicable to the majority of the Company's 2020 and 2019 income is 19%. The reconciliation between the expected and the actual tax charge is provided below.

In millions of Czech crowns	2020	2019
Profit before tax	**5,178**	**4,037**
Theoretical tax charge at statutory rate of 19%:	984	767
Tax effect of items which are not deductible or assessable for income tax purposes:		
– Non-taxable items – Dividend income from subsidiary	(61)	(73)
– Non-deductible items	(5)	14
Difference between current income tax provision and final current income tax return	7	(7)
Income tax expense for the year	**925**	**701**

(b) Deferred taxes analysed by type of temporary difference

Differences between IFRS and tax regulation in the Czech Republic give rise to temporary differences between the carrying amounts 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 Czech crowns	1 January 2020	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2020
Tax effect of deductible / (taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(5,985)	33	–	(5,952)
Other liabilities; tax deductible in different periods	50	1	–	51
Provisions for liabilities and charges	–	–	–	–
Cash flow hedges	42	–	(25)	17
Net deferred tax asset / (liability)	**(5,893)**	**34**	**(25)**	**(5,884)**

Management estimates that net deferred tax liabilities of CZK 5,884 million (2019: CZK 5,893 million) are recoverable after more than twelve months after the end of the reporting period.

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

In millions of Czech crowns	1 January 2019	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2019
Tax effect of deductible / (taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(6,061)	76	–	(5,985)
Other liabilities; tax deductible in different periods	51	(1)	–	50
Provisions for liabilities and charges	–	–	–	–
Cash flow hedges	(12)	–	54	42
Net deferred tax asset / (liability)	**(6,022)**	**75**	**54**	**(5,893)**

(c) Tax effects on other comprehensive income

Disclosure of tax effects relating to cash flow hedge reserve (see also Note 17):

	31 December 2020			31 December 2019		
In millions of Czech crowns	Before tax	Tax effects	After tax	Before tax	Tax effects	After tax
Cash flow hedge	(93)	17	(76)	(221)	42	(179)
Other comprehensive income for the period	**(93)**	**17**	**(76)**	**(221)**	**42**	**(179)**

30. Contingencies and Commitments

Capital expenditure commitments. As at 31 December 2020, the Company has contractual investment obligations in respect of tangible fixed assets totalling CZK 1,634 million (31 December 2019: CZK 3,104 million). The commitments relate predominantly to the Capacity4Gas project.

Guarantees. The Company did not recognise any obligations from financial guarantees as at 31 December 2020 and 31 December 2019.

Assets pledged and restricted. In connection with the Company's bank borrowings, the Company's right to lien its property in favour of another creditor is restricted.

Compliance with covenants. The Company is subject to certain qualitative covenants related to its borrowings. Non-compliance with such covenants may result in immediate maturity of the debt. The Company was in compliance with covenants at 31 December 2020 and 31 December 2019.

Leased assets with a carrying amount disclosed in Note 8 are effectively pledged for lease liabilities in the event of the lessor's failure to fulfil the liability.

Other contingent liabilities. The Company did not recognise any other significant contingent liabilities as at 31 December 2020 and 31 December 2019.

31. Derivative Financial Instruments

The table below sets out an aggregate overview of fair values of currencies derivative assets or liabilities under financial derivative contracts entered into by the Company at the end of the reporting period. All derivative financial instruments are designated to hedge relationships. The table reflects gross positions and covers the contracts with settlement dates after the respective end of the reporting period.

Cross currency interest rate swap and interest rate swap contracts are long-term while foreign exchange swap and forward contracts are short-term in nature. The respective part of fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months.

The Company did not have any other derivative financial instruments besides cross currency interest rate swaps, interest rate swap and foreign exchange swap as at 31 December 2020.

Cash flow hedge (IFRS 7 requirements for disclosures):

- Value of the hedged item used as a basis for recognising hedge ineffectiveness amounts to CZK 2,157 million (EUR 82 million) as at 31 December 2020 (31 December 2019: CZK 1 330 million).
- The balance of the cash flow hedge reserve amounts to CZK 76 million (31 December 2019: CZK 195 million).
- The balance remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied amounts to CZK 24 million (31 December 2019: CZK 26 million).
- Hedging profits of the reporting period that were recognised in other comprehensive income amount to CZK 128 million (31 December 2019: hedging losses CZK 284 million).
- Hedge ineffectiveness recognised in profit or loss amounts to CZK 0 million (31 December 2019: CZK 0 million)

	31 December 2020			
	Current		Non-Current	
In millions of Czech crowns	Contracts with positive fair value	Contracts with negative fair value*	Contracts with positive fair value	Contracts with negative fair value*
Cross currency interest rate swaps and interest rate swap at fair values for the reporting period:				
EUR/USD swap				
– USD payable on settlement (-)	–	(6,229)	–	(5,673)
– EUR receivable on settlement (+)	–	5,542	–	5,082
EUR/CZK swap				
– CZK payable on settlement (-)	–	(39)	–	(1,542)
– EUR receivable on settlement (+)	–	37	–	1,541
CZK interest rate swap				
– CZK payable on settlement (-)	–	(16)		(226)
Total USD payable on settlement (-)	–	(6,229)	–	(5,673)
Total EUR receivable on settlement (+)	–	5,579	–	6,623
Total CZK payable on settlement (-)	–	(55)	–	(1,768)
Net fair value of cross currency interest rate swaps and interest rate swap	**–**	**(705)**	**–**	**(818)**

* Negative fair value contracts include transactions with a negative total market revaluation at the balance sheet date.
Revaluation of cross currency interest rate swaps and interest rate swap is divided into factors of individual currencies.

	31 December 2019			
	Current		Non-Current	
In millions of Czech crowns	Contracts with positive fair value	Contracts with negative fair value*	Contracts with positive fair value	Contracts with negative fair value*
Cross currency interest rate swaps at fair values for the reporting period:				
EUR/USD swap				
– USD payable on settlement (-)	–	(509)	–	(11,942)
– EUR receivable on settlement (+)	–	270	–	10,228
EUR/CZK swap				
– CZK payable on settlement (-)	–	(39)	–	(1,503)
– EUR receivable on settlement (+)	–	36	–	1,503
Total USD payable on settlement (-)	–	(509)	–	(11,942)
Total EUR receivable on settlement (+)	–	306	–	11,731
Total CZK payable on settlement (-)	–	(39)	–	(1,503)
Net fair value of cross currency interest rate swaps	**–**	**(242)**	**–**	**(1,714)**

* Negative fair value contracts include transactions with a negative total market revaluation at the balance sheet date.
Revaluation of cross currency interest rate swaps and interest rate swap is divided into factors of individual currencies.

The Company had outstanding receivable and payable from foreign exchange swaps as at 31 December 2020.

	31 December 2020		31 December 2019	
In thousands of Czech crowns	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and swaps: fair values, as at the reporting period, of				
– USD receivable on settlement (+)	–	1,925	–	–
– EUR payable on settlement (-)	–	(1,930)	–	–
Net fair value of foreign exchange forwards and swaps – current	**–**	**(5)**	**–**	**–**

Cross currency interest rate swaps and foreign exchange forwards entered into by the Company are generally traded in an over-the-counter market with professional financial institutions on standardised contractual terms and conditions. Aforementioned financial instruments have potentially favourable (assets) or unfavourable (liabilities) conditions as a result of fluctuations in foreign exchange rates, interest rates or other variables relative to their terms. The aggregate fair values of derivative financial assets and liabilities can fluctuate significantly during the life-time of derivatives.

Cross currency interest rate swaps
The nominal principal amounts of the outstanding cross currency interest rate swap contracts at 31 December 2020 were EUR 410 million / USD 484 million / CZK 1,397 million (2019: EUR 410 million / USD 484 million / CZK 1,397 million). All cross-currency interest rate swaps have fixed interest rates on both legs. At 31 December 2020, the fixed interest rates vary from 2.50 % to 5.23 % p.a. (as at 31 December 2019: 2.50% to 5.23% p.a.).

The Company designates certain cross currency interest rate swaps, in combination with bonds denominated in EUR, as a hedging instrument of a foreign exchange risk associated with highly probable forecasted cash flows from an issued bond (cash flow hedge – Note 32, Hedging of currency risk).

Interest rate swap
In 2020, the Company entered into a forward starting interest rate swap with effective period from 22 July 2021 to 22 July 2028 the notional principal of CZK 7,400 million. The derivative instrument is designated as floating-to-fixed interest rate, when floating rate is 3M PRIBOR rate and fixed rate is interest rate 1.662% p.a. The interest rate swap is part of the cash-flow hedge (Note 32 – Hedging of interest rate risk).

All derivatives are measured at FVTPL.

32. Financial Risk Management

The risk management function within the Company is carried out in respect of financial risks, operational risks, market risks and environment risks. Financial risk comprises market risk (including currency risk and interest rate risk), credit risk and liquidity risk. Management sets a strategy for each of the risks, including a limit on open position that may be accepted. The primary objectives of the financial risk management function are to set risk limits and then to ensure that exposure to risks stays within these limits. Monitoring is performed continuously but at least on a monthly basis.

Credit risk. Exposure to credit risk arises as a result of cash and cash equivalents held with banks, loans provided to related parties, trade receivables and other transactions with counterparties giving rise to an increase in financial assets.

The Company structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to counterparties. Limits on the level of credit risk are approved by management. The risks are monitored on a revolving basis and are subject to a monthly review. The Company is exposed to credit concentration risk considering the receivables from financial institutions.

The credit risk is mitigated by advance payments and a system of creditworthiness assessment which is applied to the Company's customers, suppliers of services with potential significant credit position and financial counterparties such as banks or insurance companies. The conditions are incorporated in the Network Code, relevant tender documentations and internal guidelines.

The Company's management reviews the ageing analysis of outstanding trade and other receivables and follows up on past due balances. Other relevant information on ageing and other information about credit risk is disclosed in Note 14 and in Note 16.

Market risks. The Company takes on exposure to market risks. Market risks arise from open positions in (a) foreign currencies and (b) interest bearing assets and liabilities, all of which are exposed to general and specific market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Currency risk. The Company's risk management policy is to hedge the long-term contracted cash flows (mainly revenues from the gas transmission) in each major foreign currency up until 2034.

Management approves the strategy of the currency risk management. The positions are monitored continuously but at minimum on a monthly basis. The amount of risk is evaluated in terms of open positions.

The offsetting of currency positions is applied where possible. The outstanding positions are managed by means of buying or selling the relevant currency in the form of a short-term derivative forward or swap contract. The Company report outstanding foreign exchange swap and no foreign exchange forwards as at 31 December 2020. The Company did not report outstanding foreign exchange forwards and foreign exchange swaps as at 31 December 2019.

The table below summarises the Company's exposure to foreign currency exchange rate risk (principal) at the end of the reporting period:

	At 31 December 2020					At 31 December 2019				
In millions of Czech crowns	Monetary financial assets	Monetary financial liabilities	Derivatives (assets)	Derivatives (liabilities)	Net position	Monetary financial assets	Monetary financial (liabilities)	Derivatives (assets)	Derivatives (liabilities)	Net position
US Dollars	237	–	–	10,347	(10,110)	26	–	–	10,944	(10,918)
Euros	1,745	13,508	10,760	–	(1,003)	688	13,062	10,418	–	(1,956)
Total exposed to currency risk	**1,982**	**13,508**	**10,760**	**10,347**	**(11,113)**	**714**	**13,062**	**10,418**	**10,944**	**(12,874)**
Czech crowns	439	23,278	–	1,397	(24,236)	2,165	25,039	–	1,397	(24,271)
Total	**2,421**	**36,786**	**10,760**	**11,744**	**(35,349)**	**2,879**	**38,101**	**10,418**	**12,341**	**(37,145)**

As at 31 December 2020 and 2019 the derivatives, i.e. in this case cross currency interest rate swaps and foreign exchange forwards and swaps, were disclosed in their fair value revaluated to Czech crowns using foreign exchange rate as at 31 December 2020 and 2019. The fair values are disclosed in Note 34.

The above analysis includes only monetary assets and liabilities. Investments in non-monetary assets are not considered to give rise to any currency risk.

Hedging of currency risk. The Company decided to introduce two cash-flow hedges to manage the foreign exchange currency risk in revenues in line with the Company risk management policy. The financial instruments designated as hedging instruments are represented by a) 33 % of bonds maturing in 2021 denominated in EUR and (b) joint hedging instrument of 66 % of bonds maturing in 2021 denominated in EUR and bonds maturing in 2026 denominated in EUR and cross currency interest rate swaps EUR/USD (Note 18, Note 31). The hedged item is represented by contracted or highly probable forecasted natural gas transmission revenues denominated in foreign currencies (in USD and in EUR) that are expected to occur on a monthly basis up until 2034. Valuation gains and losses from hedging instruments recognised as hedge reserve in OCI will be continuously released to profit or loss within finance costs up until the repayment of the hedged item and within revenue up until 2034, which is beyond the repayment date of the hedging instruments (Note 18, Note 31). There was no ineffectiveness to be recorded from cash flow hedges in 2020 and 2019. In May 2017, a bank borrowing denominated in USD was fully repaid and hedge accounting for this instrument ceased to exist.

In 2015, the Company introduced additional, third, cash-flow hedge. The financial instruments designated as hedging instruments are represented by cross currency interest rate swap EUR/CZK (Note 18, Note 31). The hedged item is represented by cash flow related to the private placement EUR bond maturing in 2026. Gains and losses recognised in other comprehensive income will be continuously released to profit or loss within finance costs up until 2026 (Note 18, Note 31). There was no ineffectiveness to be recorded from cash flow hedges in 2020 and 2019.

The table below analyses the volume of hedged cash flows that were designated as hedged items:

In millions of Czech crowns	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
31 December 2020						
Currency risk exposure:						
Hedging of future cash flows – future receivables USD	757	1,781	1,843	5,296	5,022	14,699
Hedging of future cash flows – future receivables EUR	419	–	–	–	–	419
Hedging of future cash flows – future payables EUR	(37)	(73)	(73)	(1,349)	–	(1,532)
TOTAL	**1,139**	**1,708**	**1,770**	**3,947**	**5,022**	**13,586**

In millions of Czech crowns	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
31 December 2019						
Currency risk exposure:						
Hedging of future cash flows – future receivables USD	746	1,745	1,917	5,622	6,264	16,294
Hedging of future cash flows – future receivables EUR	688	406	–	–	–	1,094
Hedging of future cash flows – future payables EUR	(36)	(71)	(71)	(1,342)	–	(1,520)
TOTAL	**1,398**	**2,080**	**1,846**	**4,280**	**6,264**	**15,868**

The amount of reclassified other comprehensive income to revenues during 2020 decreased revenues by CZK 110 million (2019: decreased revenues by CZK 89 million). The amount of reclassified other comprehensive income to financial costs during 2020 increased financial costs by CZK 124 million (2019: increased financial costs by CZK 18 million).

The following table presents sensitivities stress test of profit or loss or equity (cash flow hedge) to changes in exchange rates applied at the end of the reporting period relative to the functional currency, with all other variables held constant:

	At 31 December 2020		At 31 December 2019	
In millions of Czech crowns	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10%	24	(1,190)	2	(1,245)
US Dollar weakening by 10%	(24)	1,190	(2)	1,245
Euro strengthening by 10%	(62)	105	(88)	54
Euro weakening by 10%	62	(105)	88	(54)

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Company and for currency sensitive derivatives.

The Company's exposure to currency risk with impact on profit or loss as at 31 December 2020 is influenced by (i) cash balances held in foreign currency, (ii) by existing loans to related parties provided in EUR (Note 13, Note 27 and Note 28) and (iii) outstanding payables and receivables.

Hedging of interest rate risk. The Company's bank borrowings are contracted at floating interest rates. Some instruments, such as bonds and fix-to-fix cross currency interest rate swaps, are priced at fixed rates and are exposed to re-pricing risk at maturity. The fair value is (among other factors) also sensitive to interest rates through the discounted cash flow model which is used for the valuation (see Note 34a).

In 2020, the Company introduced additional, fourth, cash-flow hedge. The financial instrument designated as hedging instrument is represented by interest rate swap in CZK currency. The hedged item is represented by cash flow related to the new committed term loan maturing in 2028. Gains and losses recognised in other comprehensive income will be continuously released to profit or loss within finance costs up until 2028 (Note 18, Note 31). There was no ineffectiveness to be recorded from cash flow hedges in 2020.

The table below summarises the Company's exposure to interest rate risks (e.g. term deposits; bonds and borrowings from related parties on a fixed rate, both with re-pricing risk). The table presents the aggregated amounts of the Company's financial assets and liabilities at carrying amounts, categorised by the earlier of contractual interest re-pricing or maturity dates.

In millions of Czech crowns	On demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
31 December 2020					
Financial assets – floating rate	2,225	–	–	–	2,225
Financial assets – fixed rate with re-pricing risk	–	–	–	–	–
Financial liabilities – floating rate	(7,149)	–	–	–	(7,149)
Financial liabilities – fixed rate with re-pricing risk	(4,443)	(7,943)	(2,663)	(5,558)	(20,607)
Financial liabilities – fixed rate with re-pricing risk – lease	39	117	566	6,322	7,044
Financial liabilities – interest rate pre-hedging*	–	7,400	–	(7,400)	–
Net interest sensitivity gap at 31 December 2020	**(9,328)**	**(426)**	**(2,097)**	**(6,636)**	**(18,487)**
31 December 2019					
Financial assets – floating rate	2,157	–	–	–	2,157
Financial assets – fixed rate with re-pricing risk	–	–	–	–	–
Financial liabilities – floating rate	(7,086)	–	–	–	(7,086)
Financial liabilities – fixed rate with re-pricing risk	–	–	(12,113)	(8,043)	(20,156)
Financial liabilities – fixed rate with re-pricing risk – lease	(59)	(176)	(571)	(6,400)	(7,206)
Net interest sensitivity gap at 31 December 2019	**(4,988)**	**(176)**	**(12,684)**	**(14,443)**	**(32,291)**

* Note 31 – Derivative Financial instrument

As the Company's bank assets and liabilities (borrowings) are directly exposed to the floating interest rate, the change in interest rates has an impact on the Company's profit or loss for the current year.

The following table presents sensitivities of profit or loss to reasonably possible changes in short term interest rates applied at the end of the reporting period, with all other variables held constant:

	At 31 December 2020
In millions of Czech crowns	Impact on profit or loss
1M CZK PRIBOR increase by 25 bps	(17)
1M CZK PRIBOR decrease by 25 bps	17
1M EURIBOR increase by 25 bps	4
1M EURIBOR decrease by 25 bps	(4)
1M USD LIBOR increase by 25 bps	1
1M USD LIBOR decrease by 25 bps	(1)

	At 31 December 2019
In millions of Czech crowns	Impact on profit or loss
1M CZK PRIBOR increase by 25 bps	(14)
1M CZK PRIBOR decrease by 25 bps	14
1M EURIBOR increase by 25 bps	2
1M EURIBOR decrease by 25 bps	(2)
1M USD LIBOR increase by 25 bps	–
1M USD LIBOR decrease by 25 bps	–

The Company interest rate risk management policy requires that at least 70% of the interest rate exposure arising from bonds and term loans are at a fixed rate. The existing financing structure achieves this requirement.

The Company's exposure to interest rate risk as at 31 December 2020 and 2019 is representative of the typical exposure during the year, starting from July 2014.

The Company monitors interest rates for its financial instruments. The table below summarises effective interest rates at the respective end of the reporting period based on reports reviewed by key management personnel. Decrease in CZK effective interest rates in 2020 is caused by decreased CZK base rates.

	31 December 2020			31 December 2019		
In % p.a.	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and cash equivalents	0.46	0.12	0.00	1.75	1.00	0.10
Loans to related parties	n/a	n/a	n/a	2.70	n/a	n/a
Liabilities						
Borrowings	2.10	n/a	3.00	2.51	n/a	3.00
Lease liability	4.55	n/a	n/a	4.87	n/a	n/a

Liquidity risk. Liquidity risk is the risk that a Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company is exposed to daily calls on its available cash resources. Liquidity risk is managed by Treasury department of the Company and monitored in terms of monthly (one month forward), short-term (one year forward) and long-term (five years forward) forecasts. Management monitors short-term forecasts of the Company's cash flows provided on a monthly basis.

The Company has such a liquidity position that is able to secure its operating funding needs through the cash collected from the business operations continuously throughout the year. The Company's liquidity portfolio comprises cash and cash equivalents (Note 16) and bank term deposits and deposit bills. Management estimates that the liquidity portfolio can be realised in cash within a few days in order to meet unforeseen liquidity requirements.

The tables below show liabilities at 31 December 2020 and 2019 by their remaining contractual maturity. The amounts disclosed in the table below are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Financial derivatives are included in the contractual amounts to be paid or received unless the Company expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

When the amount payable is not fixed, the amount disclosed is determined by reference to the conditions existing at the end of the reporting period. Foreign currency payments are translated using the spot exchange rate at the end of the reporting period.

The maturity analysis of financial liabilities at 31 December 2020 is as follows:

In millions of Czech crowns	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 18)	4,583	8,384	11,144	5,695	29,806
Lease liability (Note 19)	136	407	2,041	16,161	18,745
Trade and other payables (Note 23)	1,945	–	30	–	1,975
Gross settled cross currency interest rate swaps (Note 31)					
– inflows	–	(5,564)	(735)	(5,695)	(11,994)
– outflows	–	6,272	1,132	6,278	13,682
Total future payments, including future principal and interest payments	**6,664**	**9,499**	**13,612**	**22,439**	**52,214**

The maturity analysis of financial liabilities at 31 December 2019 is as follows:

In millions of Czech crowns	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 18)	177	582	14,019	15,591	30,369
Lease liability (Note 19)	158	473	2,383	18,254	21,268
Trade and other payables (Note 23)	3,506	–	39	–	3,545
Gross settled cross currency interest rate swaps (Note 31)					
– inflows	–	(305)	(5,921)	(5,691)	(11,917)
– outflows	–	553	7,523	6,855	14,931
Total future payments, including future principal and interest payments	**3,841**	**1,303**	**18,043**	**35,009**	**58,196**

The net current liquidity position calculated as the difference between current assets and current liabilities at 31 December 2020 is a net current payable of CZK 13,415 million (31 December 2019: a net current payable of CZK 1,876 million).

Payments in respect of cross-currency interest rate swaps will be accompanied by related cash inflows.

33. Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders. The Company manages its capital ratios to ensure a strong credit rating (e.g. the Company may adjust the amount of dividends paid to shareholders in order to maintain or adjust the capital structure).

According to the Company's policy, capital structure consists mainly of equity, non-subordinated borrowings from banks, non-subordinated bonds and non-subordinated short-term borrowings from related parties.

In millions of Czech crowns	At 31 December 2020	At 31 December 2019
Equity	17,225	13,303
Non-subordinated borrowings from banks and bonds	27,652	27,211
Non-subordinated short-term borrowings from related parties	111	31
Total	**44,988**	**40,545**

The Company has complied with all covenants arising from the borrowings as at 31 December 2020 and 2019.

34. Fair Value of Financial Instruments

Fair value measurements are analysed by level in the fair value hierarchy. Management applies judgement in categorising financial instruments using the fair value hierarchy. If a fair value measurement uses observable inputs that require significant adjustment, that measurement is a Level 3 measurement. The significance of a valuation input is assessed against the fair value measurement in its entirety.

(a) Recurring fair value measurements
Recurring fair value measurements are those that the accounting standards require or permit in the balance sheet at the end of each reporting period.

(b) Financial instruments carried at fair value
Only derivatives are measured at fair value.

All recurring fair value measurements are categorised in the fair value hierarchy into level 2 as at 31 December 2020 and 2019.

There have been no changes in the valuation technique for level 2 since 31 December 2017.

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2020:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(1,280)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Interest rate swap contracts	(243)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Currency forward contracts	(5)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Total recurring fair value measurements at level 2	**(1,528)**	**–**	**–**

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2019:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(1,956)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Currency forward contracts	–	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Total recurring fair value measurements at level 2	**(1,956)**	**–**	**–**

The following table presents movements in fair values of derivative financial instruments:

In millions of Czech crowns	2020	2019
Opening balance	**(1,956)**	**(1,489)**
Change in fair value of contracts concluded and realised during the period	–	2
Settlement of contracts concluded and realised during the period	–	(2)
Change in unrealised gains or losses for the period included in other comprehensive income for contracts held at the end of the reporting period	428	(467)
Closing balance	**(1,528)**	**(1,956)**

(c) Non-recurring fair value measurements

There are no assets held for sale or other items with non-recurring fair value measurements as at 31 December 2020 and 31 December 2019.

(d) Financial assets and liabilities not measured at fair value but for which fair value is disclosed

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

	31 December 2020				31 December 2019			
In millions of Czech crowns	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
ASSETS								
Other financial assets								
– Loans to related parties	–	–	–	–	–	–	1	1
Total ASSETS	**–**	**–**	**–**	**–**	**–**	**–**	**1**	**1**
LIABILITIES								
Borrowings								
– Borrowings from related parties – current – BRAWA	55	–	–	55	–	–	–	–
– Borrowings from related parties – current – NET4GAS Holdings	56	–	–	56	31	–	–	31
– Bank borrowings	–	–	7,075	7,045	–	–	7,077	7,055
– Bonds	19,918	–	1,445	20,607	19,079	–	1,344	20,156
Lease liability								
– Finance lease from BRAWA	–	–	7,849	7,044	–	–	8,730	7,206
TOTAL LIABILITIES	**20,029**	**–**	**16,369**	**34,807**	**19,110**	**–**	**17,151**	**34,448**

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

The fair values in level 1 of fair value hierarchy reflects the price of fixed interest rate bonds listed in active markets in public stock exchanges.

The fair values in level 3 of fair value hierarchy were estimated using the discounted cash flows valuation technique. Inputs used for loans to related parties are market observable (PRIBOR, LIBOR, EURIBOR) adjusted by unobservable estimated credit spreads. Inputs used for bank borrowings, borrowings from related parties and leases are market observable (PRIBOR, LIBOR, EURIBOR and IRS) adjusted by unobservable estimated credit spreads.

The fair value of unquoted bonds was determined based on estimated future cash flows expected to be received, discounted by market observable yield curve adjusted by unobservable estimated credit spread.

Financial assets measured at amortised cost. The estimated fair value of asset instruments is based on estimated future cash flows expected to be received, discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

Financial liabilities measured at amortised cost. The estimated fair value of liability instruments is based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and remaining maturity.

35. Subsequent Events

The Covid-19 pandemic development and its potential impact on the Company in the 2020 fiscal year:

Given the nature of the business (ship-or-pay international gas transit contracts, domestic regulated gas business) and the indisputable need to continuously deliver gas, N4G's services are and will continue to be needed. After assessing all currently available information, the Company's management believes that the Company's ability to continue as a going concern in the following reporting period is not endangered. The Company's financial statements have been prepared on this assumption.

In 2020 the company secured two committed bank loans in amount of a CZK 7.4 billion due in 2028 and a CZK 2.875 due in 2025, neither of which has been drawn as at the date of the financial statements. Subsequently, NET4GAS optimized its capital structure at the end of 2020 and in the second half of January 2021 issued domestic Czech crown bonds in the amount of CZK 4.098 billion that will reach maturity in 2028, and in the amount of CZK 6.900 billion that will reach maturity in 2031 (see Post Balance Sheet Events). All financing steps have been prepared always under the consideration that company's ratings from the two leading rating agencies remain unchanged.

No other events have occurred subsequent to the balance sheet date that would have a material impact on the financial statements for the year ended 31 December 2020.

8 March 2021

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

Václav Hrach
Statutory Director

The General Meeting approved the separate financial statements for publication on 26 March 2021.

Annex no. 3:

Deloitte.

INDEPENDENT AUDITOR'S REPORT

To the Partner of NET4GAS, s.r.o.

Having its registered office at: Na Hřebenech II 1718/8, 140 21 Praha 4 – Nusle

Report on the Audit of the Separate and Consolidated Financial Statements

Opinion

We have audited the accompanying separate financial statements of NET4GAS, s.r.o. (hereinafter also the "Company") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the balance sheet as at 31 December 2020, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

We have also audited the accompanying consolidated financial statements of NET4GAS, s.r.o and its subsidiary (the "Group") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the consolidated balance sheet as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion:

- The accompanying separate financial statements give a true and fair view of the financial position of NET4GAS, s.r.o. as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.
- The accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company and the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information in the Consolidated Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Consolidated Annual Report other than the separate or consolidated financial statements and auditor's report thereon. The Statutory Executives are responsible for the other information.

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

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How it was addressed
Capitalisation and useful life of tangible fixed assets	
The Company/Group continued with the implementation phase of the Capacity4Gas project. The objective of the project is to build new gas infrastructure within the NET4GAS transmission system, most of which is to be located in Ústí a Pilzen Regions. Capacity4GAS Project is part of a larger initiative to have secure and cost-efficient access to gas supplier via additional pipeline capacities. The Capacity4Gas project is executed in two stages. The project was in its second stage in 2020 and its completion is scheduled for 2021. The costs capitalised by the Company/Group as tangible fixed assets are disclosed in Note 8. The significant level of capital expenditure requires consideration of the nature of costs incurred to ensure that tangible assets meet the specific recognition criteria defined in IAS 16 *Property Plant and Equipment*, and the application of the technical experts' judgment in determining appropriate useful economic lives. As a result, this was considered to be a key audit matter.	Our audit procedures included assessing internal control designed for the recognition of costs in the carrying amount of tangible assets and appropriateness of the Company's/Group's judgment regarding useful economic lives. Our audit procedures focused on assessing the nature of costs capitalised by the Company/Group as tangible fixed assets to test the validity of the amounts capitalised and on the evaluation of whether assets meet the recognition criteria defined in IAS 16. We performed our tests on the selected sample. Our audit work considered whether the capitalisation of costs ceased when assets were in the location and condition necessary for operating the assets in the manner intended by the Company/Group and whether their depreciation was systematically allocated over their useful lives. Furthermore, we considered whether the useful economic lives assigned were reasonable and based on the historical experience of using such tangible assets.

Responsibilities of the Company's Statutory Executives, Supervisory Board and Audit Committee for the Financial Statements

The Statutory Executives are responsible for the preparation and fair presentation of the separate and consolidated financial statements in accordance International Financial Reporting Standards as adopted by the EU and for such internal control as the Statutory Executives determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate and consolidated financial statements, the Statutory Executives are responsible for assessing the Company'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 Statutory Executives either intend to liquidate the Company or the Group or to cease operations, or have no realistic alternative but to do so.

The Supervisory Board and Audit Committee are responsible for overseeing the Company's and Group's financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 ISAs 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 financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the separate and consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s or Group’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Executives.
- Conclude on the appropriateness of the Statutory Executives’ 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 Company’s or 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 separate or 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 Company or the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate or consolidated financial statements, including the disclosures, and whether the separate or 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 Statutory Executives, the Supervisory Board and the 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Statutory Executives, the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor’s report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor’s report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 1 August 2018 and our uninterrupted engagement has lasted for three years.

Consistence with the Additional Report to the Audit Committee

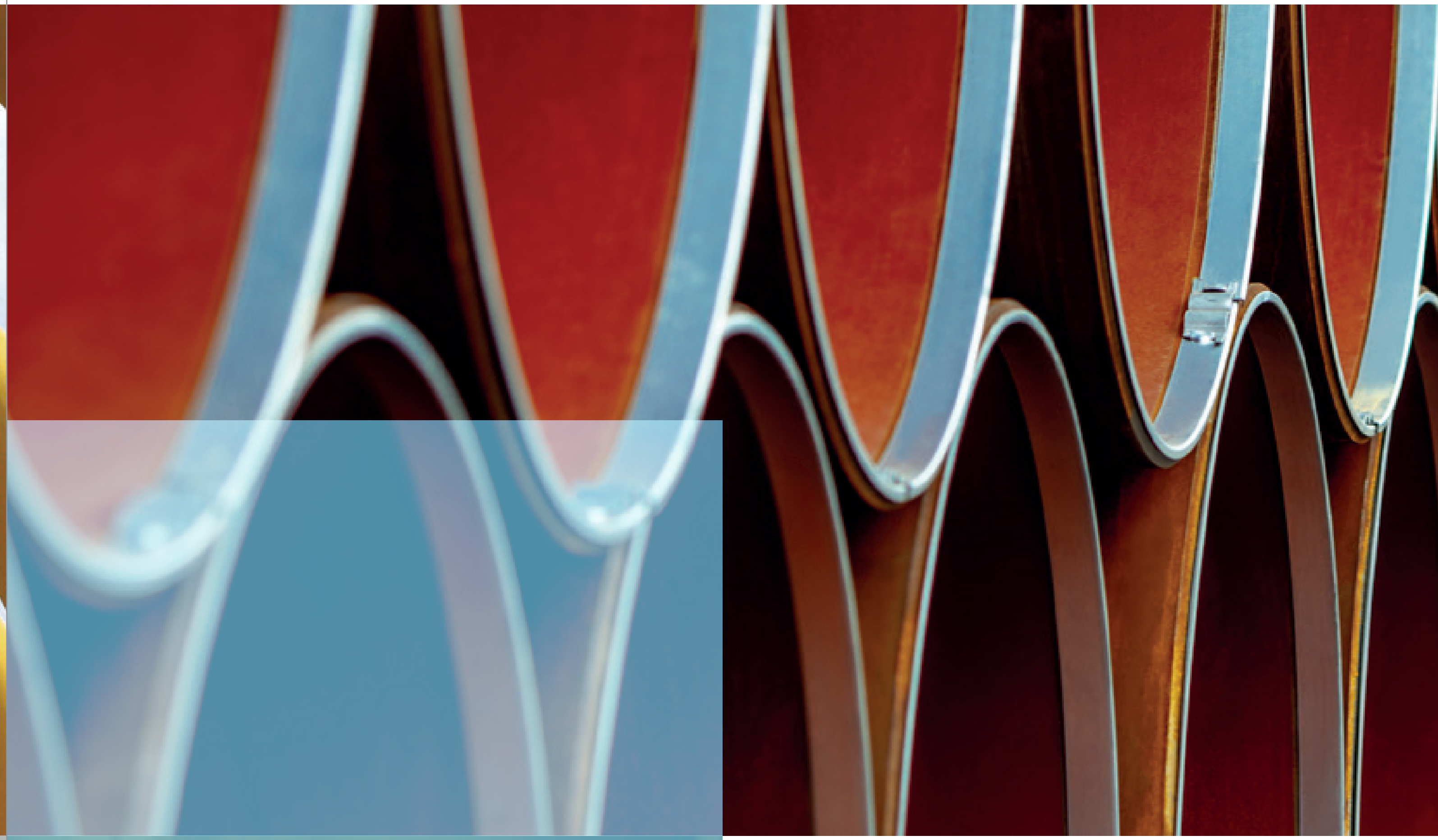
We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 8 March 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

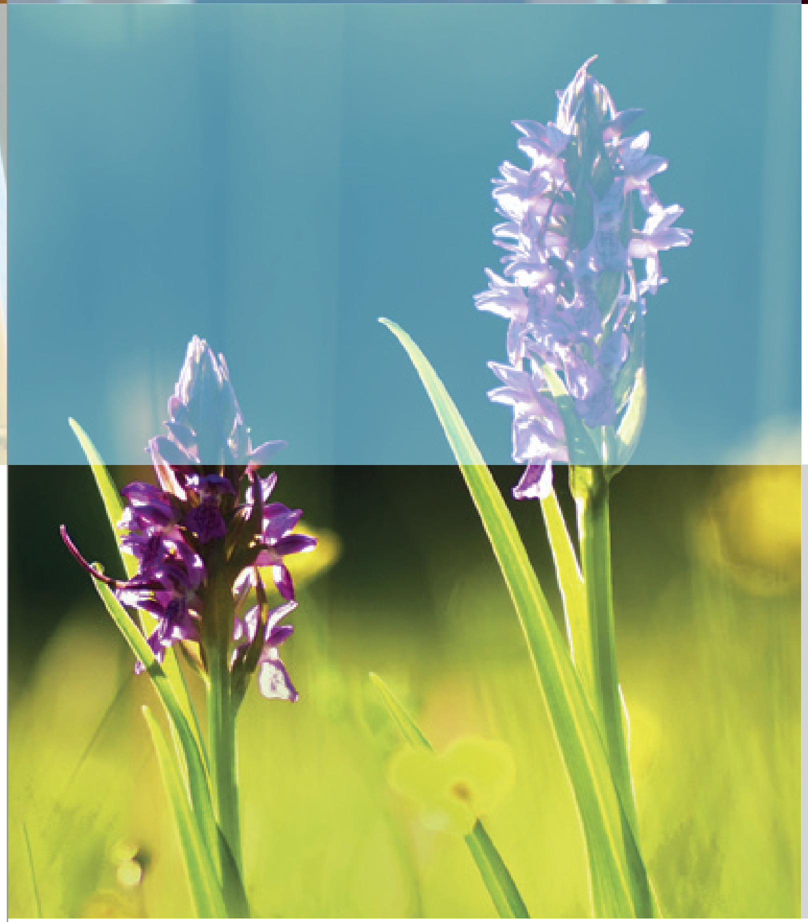
Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the financial statements.

In Prague on 8 March 2021

Audit firm:	Statutory auditor:
Deloitte Audit s.r.o. registration no. 079	Václav Loubek registration no. 2037





ID No.: 27260364
A PDF version of the NET4GAS Group Consolidated Annual Report 2020 is available on the NET4GAS website in Czech and in English. In all matters of interpretation, the Czech version of the annual report takes precedence over the English version.

Design, DTP and production: Heyduk, Musil & Strnad, s.r.o.
Photography: NET4GAS archive, Ronald Hilmar st., Pinarto s.r.o.

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