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Foreword by the CEO of NET4GAS

Ladies and gentlemen,

The year 2022 again was a year full of changes and challenges, particularly influenced by the war in Ukraine. Russia's military intervention has resulted in an unprecedented and devastating humanitarian crisis in Ukraine, which is also affecting the whole of Europe on several levels.

It is not only the people who are affected, but also the economy, the energy sector, and, in particular, the gas sector. Therefore, we are continuously monitoring and analysing the market status, and we are constantly preparing for various possible scenarios, such as alternative gas supply options – especially in the form of LNG.

In terms of security of gas supplies, one of the highest priorities last year was to fill the European gas storage facilities to the maximum extent in order to be prepared for the 2022/2023 winter season. We are glad that, also with our support e.g. by organising gas storage auctions under the mandate of the Ministry of Industry and Trade, the Czech Republic managed to fill its gas storage facilities up to 99% of capacity by the end of 2022.

Total natural gas transport reached approximately 30.9 bcm in 2022, of which approximately 7.5 bcm was for the Czech Republic's domestic needs. Compared to 2021, total transport has decreased by 20.8 bcm. This decrease has been caused by the changes in European gas flow patterns following the Russian invasion of Ukraine and its geopolitical implications. In other words, the total Russian share in European gas supplies has significantly fallen over the course of 2022 and so has the volume of Russian gas transported/transited through the Czech Republic. Domestic gas transport decreased by approximately 1.9 bcm in 2022 compared to 2021, mainly due to higher average ambient temperatures and gas savings induced by the high commodity prices.

NET4GAS fulfilled its contractual obligations under a total of 12,646 gas transportation contracts in 2022. The year-over-year increase in the number of contracts was primarily due to the growing merchant interest in short-term transportation capacity at cross-border points and the virtual entry point to the gas storage facilities.

Our consolidated operating profit in the 2022 fiscal year amounted to almost CZK 8.9 billion, representing a year-on-year increase of 38%.

As to the Moravia Capacity Extension (MCE) project, I am pleased to announce the successful commissioning of a new 85km pipeline following the approval issued by the Czech Ministry of Indus-

try and Trade in December 2022. This project expands the output capacity of the natural gas transmission system for Central and Northern Moravia, further enhancing the security of gas supply in the region.

In the context of the war in Ukraine and its far-reaching consequences for the gas sector, NET4GAS' credit rating deteriorated in 2022. Fitch Ratings has downgraded NET4GAS' credit rating to BB+ with a negative outlook, and Moody's has downgraded the company's credit rating to Ba2 with a negative outlook. This downgrade reflects an increase in the uncertainty in the future business conditions of NET4GAS. For more information, please also see the section "NET4GAS Main Financial Operations" and "Post Balance Sheet Events".

In addition to our day-to-day business, we also continue to prepare intensively for the transportation of renewable and decarbonised gases, especially hydrogen. We are aware of our responsibility to contribute to a more sustainable future and believe that our robust pipeline infrastructure will play an important role in Europe's decarbonisation efforts. We are involved in various European hydrogen projects, such as the European Hydrogen Backbone initiative and the Central European Hydrogen Corridor. In our internal H2 Readiness Project, since early 2020 we have been focused on analysing the existing gas infrastructure and on how to repurpose these assets for the transportation of hydrogen, both in its pure form and in different admixtures with natural gas.

My final thanks go especially to our employees who did not have much time to recover from the challenges caused by the COVID-19 pandemic before being faced with the current energy crisis. However, they have again managed to provide first-class services to our customers and have secured safe and reliable gas transmission across the Czech Republic. Of course, a big thank you also goes out to our business partners, without whom we would not have been able to go ahead with our investment projects, to our customers for their trust, and to all other stakeholders for their unwavering support.

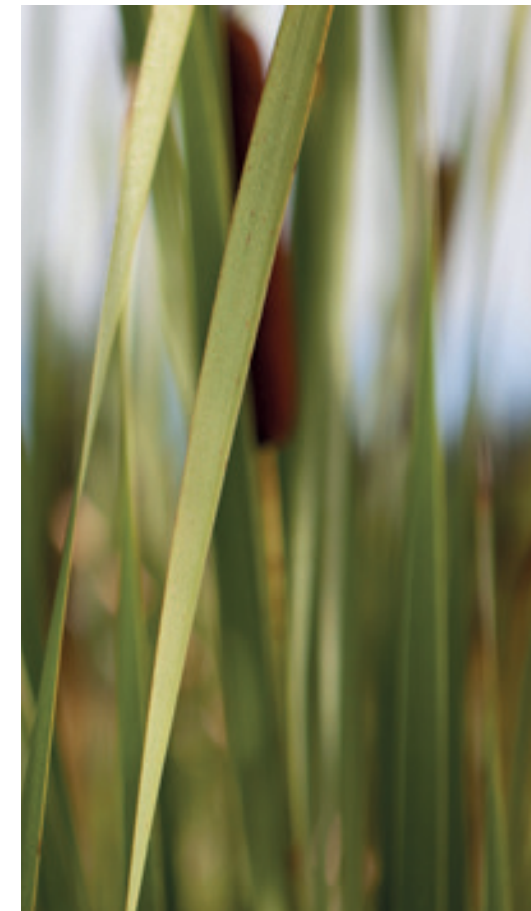
With best wishes



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

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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 tens of billions cubic meters 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 and is a member of a number of initiatives aimed at the development of the use of hydrogen. For instance, we are a founding member of the European Hydrogen Backbone initiative. Furthermore, 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 550 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 2022

For the entire year 2022, NET4GAS was wholly owned by NET4GAS Holdings, s.r.o., which in turn is owned by a consortium formed by Allianz Infrastructure Luxembourg I S.à r.l. (50%) and Borealis Novus Parent B.V. (50%).

Transmission system

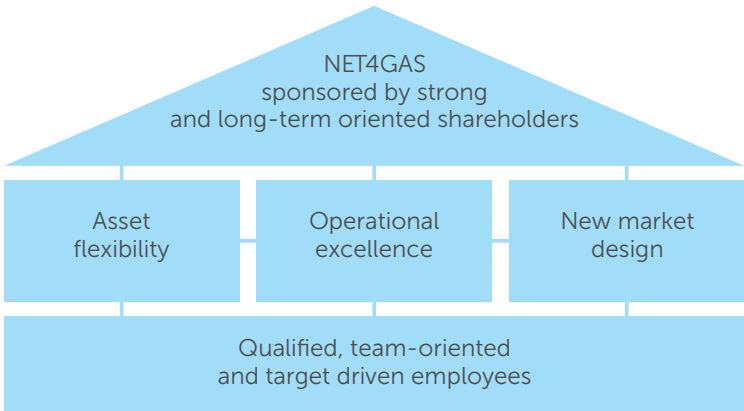
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- Border transfer station
- Compressor station
- Border transfer station abroad
- Compressor station abroad
- Transit pipeline
- - - Intrastate pipeline

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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 in energy markets.

We will continue to help shape the European energy market in the context of the transition to a low-carbon and, ultimately, carbon-free 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 2022

Mario Fischer

Member of the Supervisory Board
Member since: 15 August 2022

Michael Raymond Mc Nicholas

Chairman of the Supervisory Board
Position held since: 24 June 2022
Member since: 1 August 2021

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 2022, changes took place in the composition of the NET4GAS Supervisory Board. Under a letter of 18 July 2022, Jaroslava Korpancová resigned as a Member of the Supervisory Board. Her term of office expired on 14 August 2022. Under a decision of the sole shareholder of NET4GAS exercising the powers of the General Meeting dated 1 August 2022, Mario Fischer was elected as a new Member of the Supervisory Board effective as of 15 August 2022.

Michael Raymond Mc Nicholas was elected as the new Chairman of the Supervisory Board effective as of 24 June 2022.

NET4GAS Statutory Directors

as of 31 December 2022

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 2021
(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 2022.

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NET4GAS Audit Committee

as of 31 December 2022

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

Mario Fischer

Member of the Audit Committee
Member since: 1 April 2022

Stanislav Staněk

Member of the Audit Committee
Member since: 1 June 2016

Alberto Rozza

Member of the Audit Committee
Member since: 1 July 2022

Pavel Závitkovský

Member of the Audit Committee
Member since: 1 June 2016

Changes in the NET4GAS Audit Committee

The following changes in the Audit Committee occurred in the course of 2022: By his letter dated 24 February 2022, Igor Lukin resigned from the office of a member of the Audit Committee. His office term terminated as of 31 March 2022. Under a decision of the sole shareholder of NET4GAS exercising the power of the general meeting dated 3 March 2022, Mario Fischer was appointed as a new member of the Audit Committee effective as of 1 April 2022.

Furthermore, the three years' office term of Delphine Voeltzel expired as of 30 June 2022. Under a decision of the sole shareholder of NET4GAS exercising the power of the general meeting dated 17 July 2022, Alberto Rozza was appointed as a new member of the Audit Committee effective as of 1 July 2022.

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 20 May 2022, Michal Petrman, Stanislav Staněk and Pavel Závitkovský were re-appointed as independent members of the Audit Committee effective as of 1 June 2022. On 23 June 2022, Michal Petrman was re-elected as the Chairman of the Audit Committee.

Fees for services provided to the NET4GAS Group

In 2022 Deloitte Audit s.r.o. provided to the NET4GAS Group statutory audit services in the total amount of CZK 2,235,000, of which statutory audit services provided to NET4GAS s.r.o. amounted to CZK 1,944,000. Deloitte Audit s.r.o. did not provide any non-audit services to the NET4GAS Group during 2022.

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 2022

In 2022, BRAWA's sole shareholder was NET4GAS.

Supervisory Board of BRAWA

as of 31 December 2022

Martin Kolář

Chairman of the Supervisory Board
Position held since: 11 July 2022
Membership since: 1 July 2022
(in the Supervisory Board continuously since 20 March 2012)

Radek Benčík

Vice-Chairman of the Supervisory Board
Position held since: 11 July 2022
Membership since: 1 July 2022
(in the Supervisory Board continuously since 20 March 2012)

Andreas Rau

Member of the Supervisory Board
Membership since: 19 February 2022
(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 2022.

BRAWA Board of Directors

as of 31 December 2022

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)

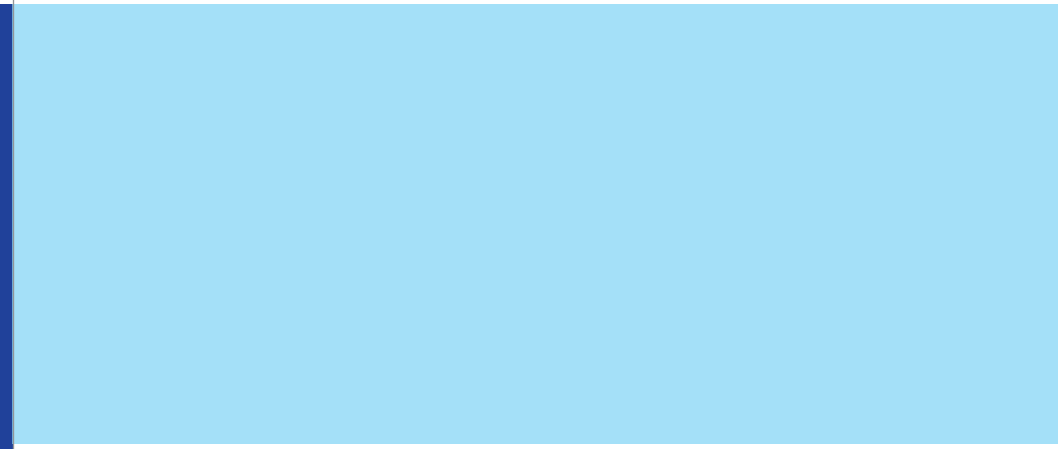
Miroslav Holý

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 2022.

Consolidated Report on Operations



Consolidated Report on Operations

NET4GAS Group Main Financial Indicators

Selected indicators*	2022 (CZK million)
Revenue	12,950
Operating profit	8,870
Profit before tax	7,685
Profit after tax	6,241
Investments – long-term projects finished in 2022	4,516
Capital expenditure to tangible and intangible assets in 2022	3,668

* 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 2022, the Group achieved profit before tax of CZK 7,685 million and profit after tax of CZK 6,241 million. Operating profit of the Group amounted to CZK 8,870 million.

The Group generated the profit from its core business operations – transit of natural gas and domestic transmission. Its total operating income amounted to CZK 12,950 million and total operating costs were CZK 4,080 million.

Asset structure

The total assets of the Group in 2022 amounted to CZK 62,628 million, of which non-current assets accounted for CZK 54,705 million, representing 87%. The main components of

these assets were tangible fixed assets valued at CZK 53,414 million, intangible fixed assets valued at CZK 77 million and pre-payments for acquisition of fixed assets.

As of December 31, 2022, current assets amounted to CZK 7,923 million, representing 13% of total assets. Current assets were mainly represented by other financial assets and cash.

Investments

Capital expenditures in 2022 amounted to CZK 3,668 million. In 2022, the Group finished long-term projects in the amount of CZK 4,516 million (additions to fixed assets at cost).

Structure of liabilities

As of December 31, 2022, the Group's equity amounted to CZK 18,179 million and accounted for approximately 29% of the Group's total liabilities.

Current and non-current liabilities amounted to CZK 44,450 million, of which non-current liabilities (bonds, bank loan, deferred tax, and derivatives) accounted for approximately 94% of total liabilities; current liabilities accounted for approximately 6% of total liabilities.

Investment instruments

To secure a return on its available cash during 2022, 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.

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

As a result of the Russian invasion of Ukraine, both rating agencies set the credit ratings of NET4GAS at the beginning of March to “review for downgrade” (Moody’s) and “rating watch negative” (Fitch), respectively. In the course of the year, both agencies downgraded and subsequently confirmed the company's credit ratings to Ba2 “negative outlook” (Moody’s – 27 June 2022) and BB+ “negative outlook” (Fitch – 10 October 2022). As of 6 December 2022, NET4GAS decided to terminate the credit rating service provided by Moody’s, whereupon Moody’s suspended its subsequent credit ratings as of 21 December 2022. The credit rating service provided by Fitch continues to be provided as of 31 December 2022.

NET4GAS responded to the existing external geopolitical uncertainties by building a financial reserve, the adoption of savings measures, and a temporary suspension of payment of profit shares to shareholders. No change in the financing of the company occurred in 2022. The company continues its active monitoring of market conditions and of the geopolitical circumstances in which it operates and carries on its analysis of the possibilities of enhancing its financial resilience in its role as the owner and operator of critical infrastructure in the Czech Republic.

On 4 January 2023, the company announced that it had not received the last monthly payments due under key contracts with its main customer. The company is currently checking the reason for failure to pay those liabilities. In its opinion, such failure represents a breach of contractual obligations by its main customer.

NET4GAS Main Business Operations

The total volume of natural gas transmitted in 2022 amounted to 30.92 billion cubic meters (bcm), including 7.51 bcm for consumption in the Czech Republic. Compared to 2021, total transport has decreased by 20.80 bcm. The decline in the total amount of gas transmitted compared to 2021 was caused by the change of natural gas flows in Europe in connection with the current geopolitical situation.

Domestic transport declined in 2022 by 1.94 bcm compared to 2021, particularly due to higher average temperatures and gas consumption reduction relating to the current situation and high prices in the energy markets.

NET4GAS fulfilled its contractual commitments encompassing a total of 12,646 gas transmission agreements. The year-on-year increase in the number of contracts was mainly due to a significant increase in interest among traders in the reservation of short-term transport capacities in respect to border points and virtual gas storage points.

In 2022, NET4GAS continued to implement the domestic project Moravia Capacity Extension (MCE), the objective of which is to expand the output capacity of the natural gas transmission system for the Central and Northern Moravian region, thereby ensuring the continued security of supplies in the region. The project involves the construction of about 85 kilometres of a new DN 1000 PN 73.5 high-pressure pipeline between the existing distribution nodes Tvrdonice and Bezměrov (a high-pressure gas pipeline) and the related adjustments to the Břeclav compression station. The construction work started at the beginning of 2022, and both permits, for the high-pressure pipeline and for adjustments to the Břeclav compression station, started at the beginning of 2022. These were completed and issued within 2022 to the extent of allowing the start of trial operation of the high-pressure gas pipeline and obtaining consent for the adjustments

to the Břeclav compression station. The work on the MCE project will continue in 2023 and will involve the removal of defects and the completion of unfinished work.

The annual auction for incremental capacity on the border between the Czech Republic and the Austrian Trading Zone East took place in July 2022 in accordance with Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems (CAM NC). This auction was based on a prior non-binding request for this capacity received in 2019. Based on this non-binding request, NET4GAS and Gas Connect Austria prepared a new cross-border connection project, the capacity of which they offered in this auction; however, no market participant reserved any incremental capacity in this auction at any of the offer levels. Hence, the economic test ended with a negative result on both sides of the Czech-Austrian border, and the relevant incremental capacity process was terminated.

The second incremental capacity project is being prepared in cooperation with the Polish operator GAZ-SYSTEM on the basis of a non-binding request for incremental capacity received in 2021. The proposal of the project was consulted with the market at the beginning of 2022. However, in response to the change of the geopolitical situation and the related change of gas flows to Europe, both companies started a broader discussion about further variants of the technical solution that would potentially allow faster implementation of this project. Simultaneous discussions are being carried on with the Polish party, the Czech Ministry of Industry and Trade, and other authorities on the possible implementation of this project outside the incremental capacity process described in CAM NC.

As regards capacity in the direction from Poland to the Czech Republic, the Czech Ministry of Industry and Trade granted the transmission system operator an exemption from enabling the two-way flow at the Cieszyn border point, with effect until 31 December 2023. Preparatory work on eight projects to customer connections to the transmission system and on the enhancement of the existing transmission system capacity was carried out in 2022. NET4GAS succeeded in obtaining

six final and effective building permits for the construction of those projects. One project to increase the output capacity of the transmission system was completed in summer 2022. Furthermore, NET4GAS received two new requests for connections. The technical solution of those projects consists of the construction of two new DN 150 – DN 500 pipelines with lengths varying between 0.1 to 7.5 kilometres, of an expansion of the existing transmission stations, and an increase in trading measurement capacity.

Further significant projects implemented in 2022 were aimed at the modernization of the transmission system in accordance with the long-term maintenance plan.

NET4GAS continues to be active in the area of innovation. Against the backdrop of the current discussion on the transition to a low-carbon economy in Europe, NET4GAS continues to analyse the options for greening natural gas to demonstrate that natural gas 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 to generate renewable gases that are injected into the transmission system. The first phase of project documentation was completed in 2022. The decision whether to continue with the project will be taken in Q1/2023. From an accounting point of view, the above mentioned detail is not research and development expenditure for the fiscal year 2022.

NET4GAS continued in 2022 to be one of the sponsors of the European Hydrogen Backbone initiative. The project is aimed at building a European backbone hydrogen infrastructure, primarily based on repurposing existing gas networks, and effectively connecting major (potential) hydrogen production and consumption sites. As part of the continuation of this 2022 work, the study identified, among others, five hydrogen import corridors (in significant accordance with the corridors specified in the RePower EU plan). From an accounting point of view, the above mentioned detail is not research and development expenditure for the fiscal year 2022.

NET4GAS is also one of the founders of the initiative Central European Hydrogen Corridor, aimed at examining the possibilities of transmitting hydrogen from Ukraine through Slovakia and the Czech Republic to Germany and joined in 2022 the SunsHyne initiative, which investigates the possibilities of transporting hydrogen from North Africa. NET4GAS continues to actively carry on a large-scale internal project with the aim of mapping the existing infrastructure and its preparedness for the transmission of hydrogen, both in its pure form and in the form of various blends with natural gas. Hitherto, our results have confirmed the assumptions that the existing gas infrastructure can be used to a significant extent for transporting hydrogen. From an accounting point of view, the above mentioned detail is not research and development expenditure for the fiscal year 2022.

In October 2022, the European Commission launched a new call for the presentation of requests for new energy infrastructure projects, i.e. for the status of the Project of Common Interest/Project of Mutual Interest. Under this call, NET4GAS presented two candidate projects concerning the development of hydrogen infrastructure – the Central European Hydrogen Corridor and the Czech-German Hydrogen Interconnector projects.

BRAWA Business Operations

The core activity of BRAWA in 2022 was managing its property, the GAZELLE pipeline, and its lease to the transmission system operator NET4GAS.

Human Resources

As of 31 December 2022, NET4GAS had 563 employees, 18.74% of whom were women. Women accounted for 11.76% of employees in management positions. The educational background of the company's workforce has remained stable. The standard of NET4GAS employees' working and social conditions is defined under a Collective Agreement valid from

2020 to 2024. As of 31 December 2022, BRAWA had no employees.

As part of its human resources and social policy, NET4GAS offers its employees programs and benefits that include retirement savings and life insurance contributions, lump-sum meal contributions, five days of vacation above the legal requirement, 3 sick days, flexible working time, premium healthcare, contributions for leisure activities, language courses and assistance for families with young children. NET4GAS facilitates the return of employees to work after parental leave, particularly through maintaining contact, 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 that their children attend.

Cooperation continues 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 continues to support the employment of handicapped persons. Every position is assessed in view of its 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. No NET4GAS employees were seriously injured in 2022. 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 2022, the NET4GAS Group fulfilled all obligations resulting from environmental protection legislation. In accordance with the requirements of the central and local governments, designated facilities have contingency plans to respond to accidents as per the Water Act. In 2022, these plans fulfilled the role of preventive measures only, as no environmental accident occurred at any Group facilities.

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 the 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 2022, the Group continued to support nature conservation and environmental protection projects under the NET4GAS Closer to Nature program (see NET4GAS Corporate Philanthropy).

Reducing Emissions

In 2022, the NET4GAS Group continued in its efforts to reduce methane and CO₂ emissions, and in 2022, after identifying a number of potential projects leading to a reduction of emissions, it started to carry out expanded analyses to implement the most viable projects.

As regards methane emission reduction, this includes the acquisition a low-pressure mobile compressor, which will make

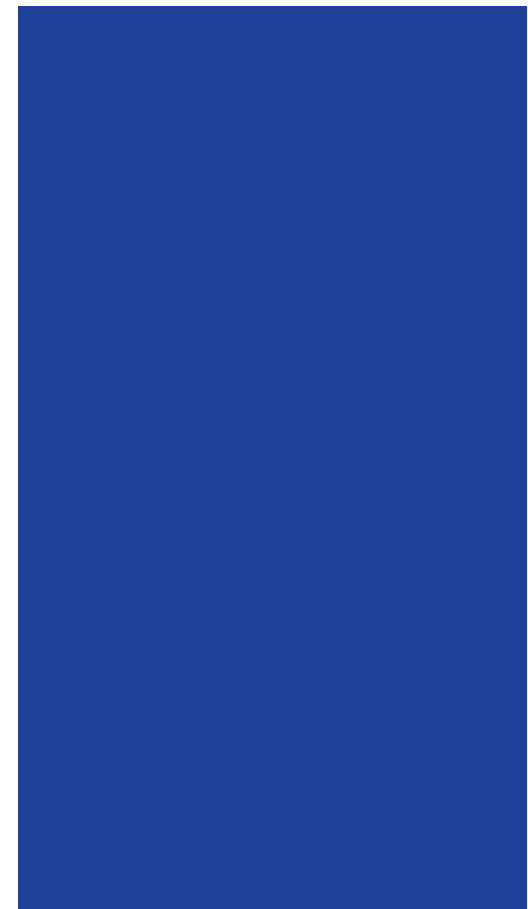
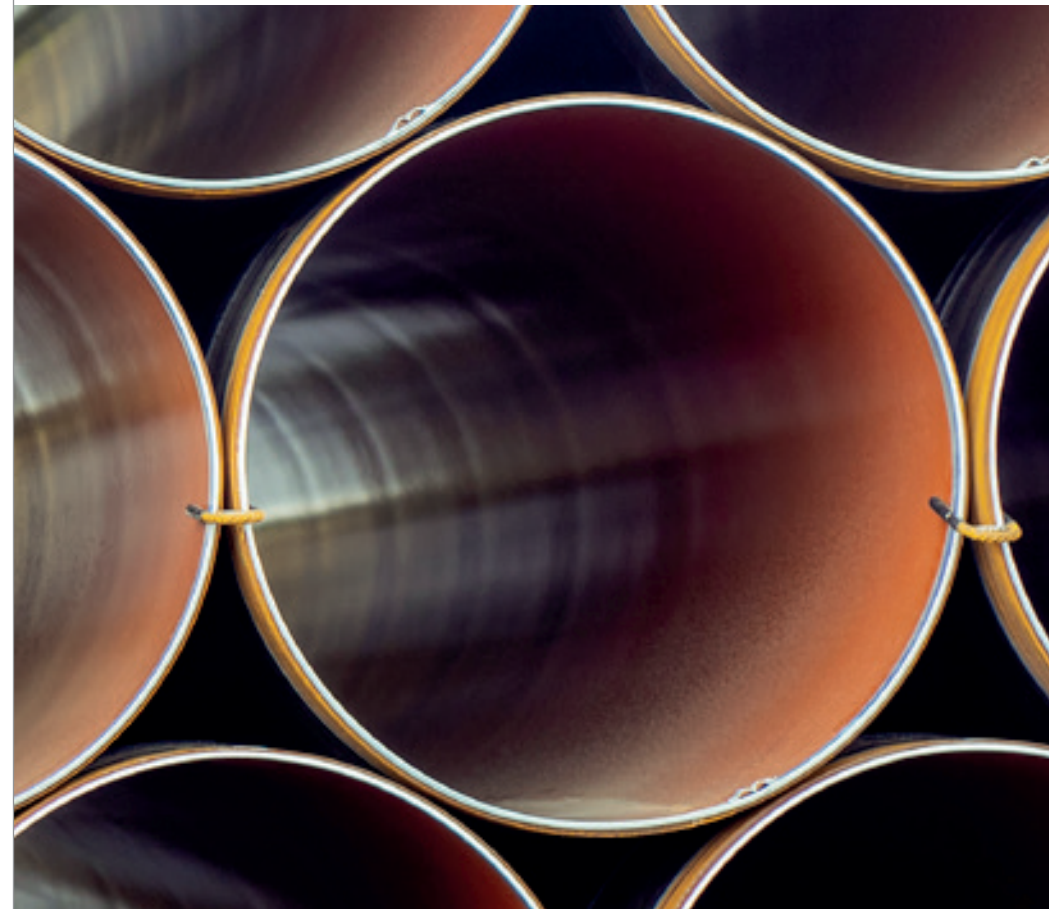
it possible as early as 2023 to remove a substantial amount of methane from various parts of the pipeline before the latter is depressurised during maintenance work. Another project that was implemented in 2022 involves increasing the frequency of gas leak inspections. As regards CO₂ reduction, purchasing electricity from renewable sources has been identified as the most efficient measure, which was implemented in respect to almost all electricity consumption at NET4GAS.

Taxonomy Regulation Reporting

Based on the requirements set by the Taxonomy Regulation (EU) 2020/852¹, from 1 January 2022, NET4GAS discloses information on the proportion of the turnover, capital expenditure (CapEx) and operating expenditure (OpEx), which is associated with environmentally sustainable economic activities, within two environmental objectives: climate change mitigation and climate change adaptation.

More details are available in Annex no. 4: Taxonomy Regulation.

¹ REGULATION (EU) 2020/852 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 18 June 2020, on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance)



Internal Control Principles

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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 activities are conducted in cooperation with highly qualified and experienced external service providers and are 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 that 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 2022, 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 2022, the Ombudsman did not receive any submission.



NET4GAS Corporate Philanthropy



NET4GAS Corporate Philanthropy

NET4GAS is aware of its corporate social responsibility and therefore, in 2022 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 2022, NET4GAS and the Union opened further five sites of natural value to the public, bringing the total over their partnership to 114. 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").

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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. In 2022, in cooperation with the Czech Gas Association, the company launched educational programmes at vocational training centres. Like in the previous period, the company continued to support these areas under its programme NET4GAS Closer to Knowledge. In 2022, NET4GAS, also 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 with the Czech Technical University in Prague. Their cooperation included mostly merit scholarships and awards for students.

NET4GAS Closer to Regions

The 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 2022, 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

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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 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 2022 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 2022 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 2022, 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 Luxembourg I 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 2022, 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.

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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 24 February 2023 and was submitted for review to the Company’s Supervisory Board.

In Prague on 24 February 2023



Andreas Rau
Statutory Director



Radek Benčík
Statutory Director



Václav Hrach
Statutory Director

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

Allianz Infrastructure Luxembourg I 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

SAP	Contracting party	Agreement	Date of conclusion	Details
1712001350/005	BRAWA, a.s.	Amendment No. 4 to the Lease Agreement	28 January 2022	The subject matter of the amendment is a new Rent Amount Calculation Method.
1717000507/002	BRAWA, a.s. NET4GAS Holdings, s.r.o.	Amendment No. 2	26 May 2022	The conclusion of this amendment was necessary due to the maturity of the overdraft credit provided by NET4GAS on the main CZK cash pooling account. Following the maturity of the overdraft credit, there must be a credit balance on the main account.
1713000060/004 1813000047/004	BRAWA, a.s.	Amendment No. 3	22 December 2022	The subject matter of the amendment is the price and method of its determination, a specification of the provided services, and a list of the provider's responsible persons.
1722000547 1900000140	NET4GAS Holdings, s.r.o.	Agreement on Settlement of Advance Dividend	23 September 2022	The subject of the contract is the settlement of advance dividend.

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

4180000188	Insurance broker's services
4180000186	Services provided under SLA 2022 services (covered by an agreement)
5180000189	Malměřice construction costs

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

4170076494	Pipeline rentals in 2022 (covered by an agreement)
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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

SAP	Contracting party	Agreement	Date of conclusion	Details
1812000035 1712001351	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, Amendment No. 6 of 30 December 2018, Amendment No. 7 of 30 December 2019, Amendment No. 8 of 4 January 2021, Amendment No. 9 of 31 December 2021	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, network documentation, price and a list of the Provider's responsible persons. The subject matter of the amendment is the price and method of its determination, a specification of the provided services, and a list of the provider's responsible persons.
1812000034 1712001350	BRAWA, a.s.	Lease Agreement, as amended by Amendment No. 1 of 15 February 2017 and Amendment No. 2 of 14 September 2020, Amendment No. 3 of 4 January 2021	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. The subject matter of the amendment is the new Rent Amount Calculation Method.
1813000047 1713000060	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 December 2019	2 July 2013	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, the purpose of which is to optimize the use of funds in the framework of related party transactions and to reduce transaction costs.
1817000005 1717000507	BRAWA, a.s., NET4GAS Holdings, s.r.o. (Multilateral agreement)	Agreement Ref. No. ZBA/2017/07 on the Provision of Real Unidirectional Cash Pooling as amended by Amendment No.1 of 27 September 2018	9 November 2017	
1818000007 1718001253	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, Kateřinský potok Junction Point – Přimda Junction Point", an underground high-pressure gas pipeline in excess of 40 bar.

SAP	Contracting party	Agreement	Date of conclusion	Details
1818000008 1718001206	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, Kateřinský potok Junction Point – Přimda Junction Point", an underground high-pressure gas pipeline in excess of 40 bar.
1818000009 1718000243	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, Kateřinský potok Junction Point – Přimda Junction Point, an underground high-pressure gas pipeline in excess of 40 bar.
1819000007 1719000620	BRAWA, a.s. natural person	Agreement on remuneration for the establishment of easement	10 September 2019	The subject of the contract is an agreement on the remuneration due to the Owner for the establishment of the easement under the Agreement on the Establishment of an Easement and for the impossibility to implement the Owner's project on the Plot.
1819000005 1719000618	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.

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.	14 September 2022	The subject matter of the resolution is a binding instruction of the sole shareholder to the statutory body of the company pursuant to Section 195(2) of Act No, 90/2012 Coll. (the Business Corporations Act) regarding an advance for a share in profit for 2022.
NET4GAS Holdings, s.r.o.	Resolution of the sole shareholder of NET4GAS, s.r.o.	23 September 2022	The subject matter of the resolution is the settlement of the share in profit for 2021.

Subsequent events

Subsequent events are described in the Annex no. 1 Consolidated Financial Statements, Note 34 Subsequent Events.

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 24 February 2023



Andreas Rau
Statutory Director



Radek Benčík
Statutory Director



Václav Hrach
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 2022

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NET4GAS Group Consolidated Balance Sheet as at 31 December 2022

In millions of Czech crowns	Note	31 December 2022	31 December 2021
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	53,414	52,247
Intangible assets	9	77	73
Derivative financial instruments	30	904	684
Other non-current assets	10	310	139
Total non-current assets		54,705	53,154
CURRENT ASSETS			
Inventories	11	191	155
Trade and other receivables	13	248	391
Derivative financial instruments	30	483	208
Current income tax prepayments	28	21	–
Other non-financial assets	14	168	38
Other financial assets	15	5,863	1,053
Cash and cash equivalents	15	949	299
Total current assets		7,923	2,144
TOTAL ASSETS		62,628	55,287
EQUITY AND LIABILITIES			
EQUITY			
Registered capital	16	2,750	2,750
Capital contributions outside registered capital	16	6,617	6,617
Cash flow hedge reserve	16	1,688	1,362
Retained earnings		7,124	883
Total equity		18,179	11,612
NON-CURRENT LIABILITIES			
Other payables	22	13	15
Borrowings	17	33,096	33,230
Lease liability	18	234	133
Derivative financial instruments	30	1,210	958
Deferred income tax liability	28	7,048	6,954
Long-term employee benefits	23	128	126
Other non-financial liabilities	24	–	1
Total non-current liabilities		41,729	41,417

The accompanying notes on pages 46 to 94 are an integral part of these consolidated financial statements.

In millions of Czech crowns	Note	31 December 2022	31 December 2021
CURRENT LIABILITIES			
Borrowings	17	646	426
Lease liability	18	29	31
Trade and other payables	22	1,702	1,072
Derivative financial instruments	30	122	126
Current income tax payable	28	2	8
Other taxes payable	20	37	28
Provisions	21	–	10
Short-term employee benefits	23	149	106
Other non-financial liabilities	24	34	451
Total current liabilities		2,721	2,258
Total liabilities		44,450	43,675
EQUITY AND LIABILITIES		62,628	55,287

24 February 2023



Andreas Rau
Statutory Director



Radek Benčík
Statutory Director



Václav Hrach
Statutory Director

The accompanying notes on pages 46 to 94 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 2022

In millions of Czech crowns	Note	2022	2021
Revenue	6	12,950	10,373
Raw materials consumed	25	(572)	(445)
Services purchased and lease charges	25	(456)	(428)
Employee benefits	25	(595)	(582)
Depreciation and amortisation	8, 9, 25	(2,497)	(2,548)
Impairment		–	1
Gains less losses on disposal of property, plant and equipment		(1)	2
Changes in fair value of derivatives, net		64	140
Foreign exchange differences, net	25	(1)	(49)
Other operating income		22	78
Other operating expenses	25	(44)	(135)
Operating profit		8,870	6,407
Finance income	26	657	120
Finance costs	27	(1,842)	(1,831)
Finance result (net)		(1,185)	(1,711)
Profit before income tax		7,685	4,696
Income tax expense	28	(1,444)	(901)
PROFIT FOR THE YEAR		6,241	3,795
Other comprehensive income			
<i>Items that may be subsequently reclassified to profit or loss</i>			
Cash flow hedge	16	402	1,775
Income tax recognised directly in other comprehensive income – cash flow hedge	28	(76)	(337)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		326	1,438
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,567	5,233

The accompanying notes on pages 46 to 94 are an integral part of these consolidated financial statements.

NET4GAS Group
Consolidated Statement of Changes in Equity
for the year ended 31 December 2022

In millions of Czech crowns	Registered capital	Capital contributions outside registered capital	Cash flow hedge reserve	Retained earnings	Total
Balance as at 1 January 2021	2,750	13,467	(76)	1,072	17,213
<i>Total comprehensive income</i>					
Profit for 2021	–	–	–	3,795	3,795
Cash flow hedge – including related tax effect	–	–	1,438	–	1,438
Total comprehensive income for the year	–	–	1,438	3,795	5,233
<i>Transactions with owners</i>					
Contribution outside registered capital (Note 16)	–	3,981	–	–	3,981
Decrease of contribution outside registered capital (Note 16)	–	(10,831)	–	–	(10,831)
Dividends paid	–	–	–	(1,084)	(1,084)
Advance dividends paid	–	–	–	(2,900)	(2,900)
Balance as at 31 December 2021	2,750	6,617	1,362	883	11,612
<i>Total comprehensive income</i>					
Profit for 2022	–	–	–	6,241	6,241
Cash flow hedge – including related tax effect	–	–	326	–	326
Total comprehensive income for the year	–	–	326	6,241	6,567
<i>Transactions with owners</i>					
Contribution outside registered capital (Note 16)	–	–	–	–	–
Decrease of contribution outside registered capital (Note 16)	–	–	–	–	–
Dividends paid	–	–	–	–	–
Advance dividends paid	–	–	–	–	–
Balance as at 31 December 2022	2,750	6,617	1,688	7,124	18,179

The accompanying notes on pages 46 to 94 are an integral part of these consolidated financial statements.

NET4GAS Group
Consolidated Statement of Cash Flows
for the year ended 31 December 2022

In millions of Czech crowns	Note	2022	2021
Cash flows from operating activities			
Profit before tax		7,685	4,696
Adjustments for:			
Depreciation and amortisation	8, 9	2,497	2,548
Finance income	26	(657)	(120)
Finance costs	27	1,842	1,831
Impairment		–	(1)
Gains less losses on disposals of property, plant and equipment	8	1	(2)
Proceeds from intangible assets		–	–
Other non-cash operating expenses / (gains)		(3)	(49)
thereof: – employee benefit provision		(17)	(6)
– creation and release of provisions		(10)	–
– other		24	(43)
Operating cash flows before working capital changes		11,365	8,903
Decrease / (Increase) in trade and other receivables	13, 14	(274)	(272)
Increase / (Decrease) in trade and other payables	22, 23	582	(823)
Decrease in inventories	11	(36)	(24)
Operating cash flows after changes in working capital		11,637	7,784
Interest paid	27	(1,450)	(686)
Interest received	26	430	11
Income tax paid	28	(1,454)	(806)
Net cash flows from operating activities		9,163	6,303
Cash flows from investing activities:			
Purchase of property, plant and equipment	8	(3,773)	(2,639)
Purchase of intangible assets	9	(27)	(30)
Proceeds from sale of property, plant and equipment	8	–	1
Proceeds from intangible assets	9	–	–
Purchase of other financial assets	14	(4,810)	(1,053)
Net cash flows used in investing activities		(8,610)	(3,721)

The accompanying notes on pages 46 to 94 are an integral part of these consolidated financial statements.

In millions of Czech crowns	Note	2022	2021
Cash flows from financing activities:			
Payments of decreased contributions outside registered capital to the Company's shareholder	16	–	(10,831)
Payments of increased contributions outside registered capital from Company's shareholder	16	–	3,981
Dividends paid	16	–	(1,084)
Advance dividends paid	16	–	(2,900)
Repayments of borrowings	17	(389)	(12,597)
Proceeds from borrowings	17	486	18,922
Net cash flows from financing activities		97	(4,509)
Net decrease (-) / increase (+) in cash and cash equivalents		650	(1,927)
Cash and cash equivalents at the beginning of the period	15	299	2,226
Cash and cash equivalents at the end of the period	15	949	299

The accompanying notes on pages 46 to 94 are an integral part of these consolidated financial statements.

NET4GAS GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2022

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 2022 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 Luxembourg I 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 2022	As at 31 December 2021
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 2022	Function	As at 31 December 2021	Function
Michael Raymond Mc Nicholas	Chairman	Jaroslava Korpancová	Chairwoman
Mario Fischer	Member	Michael Raymond Mc Nicholas	Member
Delphine Voeltzel	Member	Delphine Voeltzel	Member
Igor Emilievic Lukin	Member	Igor Emilievic Lukin	Member
Georg Nowack	Member	Georg Nowack	Member

Jaroslava Korpancová ceased to be the Chairwoman of the Supervisory Board on 24 June 2022. The change was entered in the Commercial Register on 11 July 2022.

Michael Raymond Mc Nicholas became the Chairman of the Supervisory Board on 24 June 2022. The change was entered in the Commercial Register on 11 July 2022.

Jaroslava Korpancová ceased to be a member of the Supervisory Board on 14 August 2022. The change was entered in the Commercial Register on 4 November 2022.

Mario Fischer became a member of the Supervisory Board on 15 August 2022. The change was entered in the Commercial Register on 4 November 2022.

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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 in recent years has been the Capacity4Gas Project which 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 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 was implemented in two main stages, where the first stage was completed in 2019 and the second in the end of 2020. Certain finishing works have were also running during 2021 and were completed in 2022.

The last significant project, which entered its implementation phase in 2021, is the national Moravia Capacity Extension project which aim is to enhance the transmission capacity in the region of middle and north Moravia. The main part of the project was completed in 2022. There are still certain finishing works running on the project which are expected to be finished by the end of 2023.

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 2022 and 2021:

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 ends on 30 November. The reporting period for 2022 started on 1 December 2021 and ended on 30 November 2022. In preparing the Group’s consolidated financial statements as at 31 December 2022, the actual transactions of BRAWA for January–December 2022 and balances as at 31 December 2022 were used.

Note
The consolidated financial statements have been prepared in Czech and in English. In the event of differing interpretations 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 license under the Energy Act and its operations are subject to regulation by the Energy Regulatory Office ("ERO"). The transmission system operator is obliged to comply with the obligations arising from both directly applicable European Union legislation and the Energy Act, which incorporates the relevant European Union regulations and regulates (following directly applicable European Union regulations) business conditions and the performance of state administration in energy sectors, as well as the rights and obligations of natural and legal persons, and other legislation.

(b) Regulatory framework pertaining to the transmission system operator

Gas transmission prices are set annually by the ERO on the basis of the regulatory methodology valid in the given regulatory period. In accordance with Commission Regulation (EU) 2017/460, the reference prices for interconnection points and multipliers applied to shorter than standard annual capacity products are published in the Price Decision no later than 30 days before the annual yearly capacity auction. By 30 November at the latest, the gas transmission prices for other points in the transmission system for the following year are published in the ERO Price Decision.

Gas transmission prices for 2022 were set by ERO Price Decisions No. 3/2021 of 27 May 2021 and No. 7/2021 of 30 November 2021, on regulated prices related to the gas supply

(c) Current regulatory period

The transmission system operator is currently subject to the rules of the fifth regulatory period, which began on 1 January 2021 and ends on 31 December 2025.

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

The transmission system operator regulation methodology for domestic gas transmission is based on setting a ceiling for

allowed revenues for each regulated year during the regulatory period, the so-called revenue cap regime.

Prices for reserved transmission capacities are then derived from the allowed revenues. The variable price component covering the actual costs of energy consumption of mainly compression work is determined for each regulated year in accordance with the applicable regulatory methodology and a model approved by the ERO decision meeting the requirements of Commission Regulation (EU) 2017/460 and published in the Energy Regulatory Bulletin, No. 3/2019 of 27 May 2019.

(e) Transit transmission regulation methodology applicable in the fifth regulatory period

In accordance with Commission Regulation (EU) 2017/460, the Energy Regulatory Office changed the method of regulating the revenues of the transmission system operator for gas transit. From 2020 on, the historical method of pricing based on benchmarking of comparable transport routes has shifted to a cost-oriented methodology and determination of the rate of return. The price cap regime valid for the whole regulatory period is maintained for setting the price for capacities in transit gas transmission. Pricing, including its variable component, is governed by the applicable regulatory methodology and the ERO decision meeting the requirements of Commission Regulation (EU) 2017/460, published in the Energy Regulatory Bulletin, No. 3/2019 of 27 May 2019. The variable component (i.e. a financial compensation for the energy required for gas transmission) should be, according to the methodology, subject to further regulatory corrections as there are naturally occurring differences between the actual energy demand and a variable standard set by the Energy Regulatory Office for the relevant period (the Company records a balance which will be subject to a later decision by the ERO).

(f) Unregulated part

According to the decision of the ERO of 28 July 2011, the GAZELLE interconnecting pipeline has been under the conditions set out in the Energy Act exempted from the obligation to grant third-party access at a regulated price.

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 except where the transaction indicates an impairment of the transferred asset. The Company and all of its subsidi-

aries 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 deriva-

tive 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 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
Rights of use	6 – 70 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 value 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 Group 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 2022 and 31 December 2021.

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

In tons	31 December 2022	31 December 2021
Emission allowances	5,805	11,702

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) Non-current assets held for sale

Assets (or disposal groups) are classified as non-current 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.

The windfall tax (temporary) has been introduced for a period of 3 years (i.e. 2023–2025) starting 1 January 2023 and will operate as a 60% surcharge on corporate income tax. Specifically listed companies based on the type of industry (including gas transmission) shall be subject to the windfall tax. The windfall tax shall apply to the excess profit determined as the difference between the tax base in the given year and the average of the tax bases for the last 4 years (2018–2021) increased by 20%. Furthermore, the windfall tax should be reported in the financial statements as part of the income tax payable. The Company, as a taxpayer, continuously evaluates the potential impact of windfall tax on the Company.

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 future economic developments and the situation 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 Group 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 modifica-

tion 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.

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 30, section 'Hedging of 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 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.

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.

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 Group 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 re-measurements (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 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 (includ-

ing 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 contract

The Group entered into long-term contract expiring on 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 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, namely the EUGAL pipeline, and to increase its capacity for gas supplies to the Czech Republic and for further transit through Slovakia. The project was commissioned in 2019.

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 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 obtains 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 considers the whole Group as one segment for the purpose of segment reporting.

Assessment of non-current asset impairment

In connection with the ongoing military conflict in Ukraine and the sanctions imposed against the Russian Federation,

the Company has analysed the possible impact of this situation on its business as at the date of these financial statements. The Company’s management has prepared several scenarios of possible future developments with respect to the use of the transmission system and the supply of gas through the transmission system and has analysed the impact of these scenarios on its future operations, profit or loss and possible impairment of the Company’s non-current assets. The scenarios were based on market assumptions at the time of their preparation and include both the continuation of Russian gas flows to Europe and the termination of Russian gas supplies to Europe. In the case of the continuation of Russian gas supplies to Europe, the Company expects lower volumes of such supplies compared to historical volumes, given the EU’s plans to diversify its gas sources and its efforts to reduce its dependence on Russian gas. In scenarios where Russian gas supplies to Europe are terminated, the flows are based on the assumption of gas demand and supply developments in the CEE region and the existence of available gas infrastructure, including the expected development of LNG terminals. Scenarios based on non-Russian gas supplies assume flows of approximately 2/3 of the historical average for 2019-2021. Actual future gas flows may differ from the Company’s estimates and these differences may be significant.

The cash flows estimated under the different scenarios were discounted to present value using the weighted average cost of capital (WACC). At the reporting date, our calculation took into account, among other things, the cost of external financing and the Company’s cost of equity. In calculating the cost of equity, the Company took into account the yield to maturity of Czech government bonds, a risk premium derived from the Czech market risk premium and a beta coefficient calculated based on data from a group including relevant energy companies. The data were collected from reliable external sources.

Based on the assessment of the above scenarios, the Company has not identified any impairment of property, plant and equipment as of 31 December 2022 that would require an adjustment to the financial statements in accordance with applicable accounting policies. However, future developments cannot be reliably estimated; therefore, the need for future adjustments to the amounts of property, plant and equipment cannot be excluded.

On 4 January 2023, the Company published the following information:

“NET4GAS, s.r.o. (“N4G”) continues to actively monitor the market conditions and geopolitical situation in which it operates and analyses its options to promote financial resilience in its role as owner and operator of critical infrastructure in the Czech Republic. N4G notes that it has not received the latest monthly payments due under its material contracts with a major Russian shipper (the “Major Shipper”). N4G’s revenues under these material contracts accounted for approximately three quarters of N4G’s total 2021 revenues. With respect to the uncertainties related to the current geopolitical situation, N4G notes that, when confirming the current rating of N4G in its announcement of 19 October 2022, Fitch Ratings stated that its base scenario already incorporates full or near-complete shut-off of Russian pipeline gas to Europe and no payments from the Major Shipper, which

includes the non-payment that is the subject of this announcement. N4G is currently investigating the reasons for this non-payment, which in N4G’s view represents a contractual breach on the part of the Major Shipper. N4G further notes that it is currently able to cover its ongoing operating and financing costs.”

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 2022

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for an accounting period that begins on 1 January 2022:

Document	Major change	Effective from	Impact on the Group’s financial statements
Amendments to IFRS 3 Business Combinations	References to the Conceptual Framework	1. 1. 2022	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Amendments to IAS 16 Property, Plant and Equipment	References to the intended use	1. 1. 2022	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Amendments to IAS 37 Provisions, Contingent Liabilities and Contingent Assets	Onerous contracts – cost of fulfilling a contract	1. 1. 2022	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Improvements to IFRS (cycle 2018–2020)	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	1. 1. 2022	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.

b) New standards and interpretations not effective in the current reporting period

At the date of authorisation of these financial statements, the Group has not applied the following new IFRS and amendments to the existing standards that were not effective in the EU before 31 December 2022:

Document	Major change	Effective from	Adopted by the EU?
IFRS 17 <i>Insurance Contracts</i> including amendments to IFRS 17	New standard and its amendments	1. 1. 2023	Yes
Amendments to IFRS 17 <i>Insurance Contracts</i>	Initial Application of IFRS 17 and IFRS 9 – Comparative Information	1. 1. 2023	Yes
Amendments to IAS 1 <i>Presentation of Financial Statements</i>	Disclosure of Accounting Policies	1. 1. 2023	Yes
Amendments to IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Definition of Accounting Estimates	1. 1. 2023	Yes
Amendments to IAS 12 <i>Income Taxes</i>	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1. 1. 2023	Yes
Amendments to IAS 1 <i>Presentation of Financial Statements</i>	Classification of Liabilities as Current or Non-Current, Non-Current Liabilities with Covenants and Deferral of Effective Date	1. 1. 2024	No
Amendments to IFRS 16 <i>Leases</i>	Lease Liability in a Sale and Leaseback	1. 1. 2024	No

The Group anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Group in the period of initial application.

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 2022, revenues from international transit represented 82 %, revenues from domestic transmission 17 % 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 2022 and 31 December 2021 is set out below:

In millions of Czech crowns	Natural gas transmission	Natural gas transmission
	2022	2021
Revenues	12,950	10,373
Other operating income	22	78
Other finance income	657	120
Total segment income	13,629	10,571
Materials consumed	572	445
Employee benefits	595	582
Depreciation and amortisation	2,497	2,548
Services purchased and lease charges	456	428
Changes in fair value of derivatives, net	(64)	(140)
Foreign exchange differences, net	1	49
Other operating expenses	44	135
Income tax expense	1,445	901
Finance costs	1,842	1,831
Gains less losses on disposal of property, plant and equipment, Impairment	1	(3)
Segment profit for the year	6,241	3,795
Segment other comprehensive income for the year	325	1,438
Segment total comprehensive income for the year	6,566	5,233
Capital expenditure – additions at cost (Note 8, 9)	3,642	1,743

In millions of Czech crowns	Natural gas transmission	Natural gas transmission
	31 December 2022	31 December 2021
Total reportable segment Assets	62,628	54,603
Total reportable segment Liabilities	44,450	42,991

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	2022	2021
Czech Republic	2,087	1,532
Other EU countries	3,316	1,724
Non-EU countries	7,547	7,117
Total consolidated revenues from core activities	12,950	10,373

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

In millions of Czech crowns	2022	2021
Czech Republic	3,642	1,743
Total consolidated capital expenditure – additions at cost (Note 8,9)	3,642	1,743

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	2022	2021
Customer 1 (Major Shipper)*	7,176	7,845
Customer 2	1,425	1,036
Total revenues from major customers	8,601	8,881

* 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 Luxembourg I 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 2022, the outstanding balances with related parties were as follows:

In millions of Czech crowns	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Borrowings (Note 17)		
NET4GAS Holdings, s.r.o.	–	60

The income and expense items with related parties for the year ended 31 December 2022 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 2021, the outstanding balances with related parties were as follows:

In millions of Czech crowns	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Borrowings (Note 17)		
NET4GAS Holdings, s.r.o.	–	63

The income and expense items with related parties for the year ended 31 December 2021 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 2022 and 2021 the Group did not have any other rights and obligations connected to related parties.

Key management compensation is presented below:

In millions of Czech crowns	2022		2021	
	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term employee benefits:</i>				
– Salaries	67	4	78	4
– Short-term bonuses	19	19	19	14
<i>Other long-term employee benefits:</i>				
– Long-term bonus scheme	21	34	20	34
– Defined contribution benefits	7	5	8	3
Total	114	62	125	55

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 2020	284	74,532	198	8,935	73	796	84,818
Accumulated depreciation	–	(25,967)	(42)	(5,711)	(44)	–	(31,764)
Carrying amount at 1 January 2021	284	48,565	156	3,224	29	796	53,054
Cost:							
Additions	–	–	–	–	21	1,686	1,707
Capitalised interest expense	–	1	–	–	–	5	6
Transfers	24	549	–	402	–	(975)	–
Disposals	–	–	–	(33)	(11)	–	(44)
Accumulated depreciation:							
On disposals	–	–	–	33	11	–	44
Depreciation charge	–	(1,972)	(21)	(503)	(23)	–	(2,519)
Cost at 31 December 2021	308	47,143	135	3,123	27	1,512	52,248
Cost at 31 December 2021	308	75,082	198	9,304	83	1,512	86,485
Accumulated depreciation	–	(27,939)	(63)	(6,181)	(56)	–	(34,238)
Carrying amount at 1 January 2022	308	47,143	135	3,123	27	1,512	52,248
Cost:							
Additions	–	–	78	–	62	3,503	3,642
Capitalised interest expense	–	44	–	–	–	(44)	–
Transfers	3	3,949	–	507	–	(4,459)	–
Disposals	(1)	–	–	(65)	(42)	–	(108)
Accumulated depreciation:							
On disposals	–	–	–	65	42	–	107
Depreciation charge	–	(1,867)	(19)	(566)	(23)	–	(2,475)
Carrying amount at 31 December 2022	310	49,269	194	3,064	65	512	53,414
Cost at 31 December 2022	310	79,075	276	9,746	103	512	90,022
Accumulated depreciation	–	(29,806)	(82)	(6,682)	(38)	–	(36,608)

The Group is a tenant of the office space and parking spaces in the building of Kavčí Hory Office Park. The 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 passenger cars especially for the employees’ business trips. The rental period is in the range of two to seven years and during this period the ownership of the vehicles belongs to the lessor. At the end of the lease period, the 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 and was 4.06% in 2022 (2021: 2.56%).

The Group invested a total of CZK 3,642 million in property, plant and equipment (additions of property, plant and equipment – at cost) in 2022 (2021: CZK 1,712 million). The total amount of the commissioning was CZK 4,503 million (2021: CZK 975 million) of which CZK 3,767 million was invested in the Moravia Capacity Extension project and CZK 736 million to the other projects.

As at 31 December 2022, the total amount of work in progress was CZK 512 million which consisted mainly of project construction of the Moravia Capacity Extension of CZK 135 million. Upon completion, the assets are expected to be transferred to buildings and constructions.

9. Intangible Assets

In millions of Czech crowns	Acquired software licences	Development costs	Other	Assets under construction	Total
Carrying amount at 1 January 2021	42	–	1	29	72
Additions at cost:					
Additions	–	–	–	30	30
Transfers	13	–	–	(13)	–
Disposals at cost	(7)	–	–	–	(7)
Amortisation:					
Accumulated amortisation on disposals	7	–	–	–	7
Amortisation charge	(28)	–	(1)	–	(29)
Carrying amount at 31 December 2021	27	–	1	46	73
Cost at 31 December 2021	546	51	26	46	669
Accumulated amortisation at 31 December 2021	(519)	(51)	(26)	–	(596)
Additions at cost:					
Additions	–	–	–	26	26
Transfers	13	–	–	(13)	–
Disposals at cost	(4)	(1)	(4)	–	(9)
Amortisation:					
Accumulated amortisation on disposals	4	1	4	–	9
Amortisation charge	(22)	–	–	–	(22)
Carrying amount at 31 December 2022	18	–	–	59	77
Cost at 31 December 2022	555	50	22	59	686
Accumulated amortisation at 31 December 2022	(537)	(50)	(22)	–	(609)

The Group invested (additions of intangible fixed assets – at cost) a total of CZK 26 million in intangible assets in 2022 (2021: CZK 30 million).

10. Other Non-Current Assets

In millions of Czech crowns	31 December 2022	31 December 2021
Advances for acquisition of non-current assets	310	139
Total other non-current assets	310	139

11. Inventories

In millions of Czech crowns	31 December 2022	31 December 2021
Material	191	155
Total inventories	191	155

Material represents mainly spare parts for the gas transmission system. There are no inventories valued at net realisable value as at 31 December 2022 and 2021.

12. Loans to Related Parties

No loans were provided to related parties in 2022 and 2021.

13. Trade and Other Receivables

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

	31 December 2022 Trade and estimated receivables	31 December 2021 Trade and estimated receivables
In millions of Czech crowns		
<i>Neither past due nor impaired – exposure to</i>		
– Between A- and BBB-*	9	290
– Not rated	65	47
Total neither past due nor impaired	74	337
<i>Past due but without impairment</i>		
– less than 30 days overdue	174	54
– between 30 – 60 days overdue	–	–
– 60 days or more overdue	–	–
Total past due	174	54
<i>Individually determined to be impaired (gross)</i>		
– 360 days or more overdue	–	–
Total individually impaired	–	–
Less impairment provision	–	–
Total net trade and other receivables**	248	391

* 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

In millions of Czech crowns	31 December 2022	31 December 2021
Value-added tax prepaid	–	15
Prepayments for services	168	23
Total non-financial assets	168	38

15. Cash and Cash Equivalents, Other Financial Assets

In millions of Czech crowns	31 December 2022	31 December 2021
Other financial assets (Deposit bills of exchange)	5,863	1,053
Bank balances available on demand	949	299
Total cash and cash equivalents, other financial assets	6,812	1,352

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

In millions of Czech crowns	31 December 2022	31 December 2021
<i>Neither past due nor impaired</i>		
– A+ to A- rated	6,812	1,352
– BBB+ to BBB- rated	–	–
Total	6,812	1,352

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	2022	2021
Dividends payable at 1 January	–	–
Dividends declared and paid during the year*	–	1,084
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	2022	2021
Advance dividends paid*	–	2,900
Total advance dividends paid	–	2,900

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

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

On 23 September 2022, the Sole Shareholder of the Company decided on the transfer of the 2021 profit of CZK 3,757 million to retained earnings of previous years. As part of the decision, the Company was to be refunded an advance dividend of CZK 2,900 million paid in December 2021 (i.e. its receivable). The Company also decided on the payment of an advance dividend from retained earnings in the same amount of CZK 2,900 million (i.e. its payable).

The receivable and the payable were offset without any transfer of funds.

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 2021	13,467	(76)	13,391
Revaluation gains or losses – hedge accounting	–	1,775	1,775
Revaluation gains or losses – revenues	–	(676)	(676)
Revaluation gains or losses – costs	–	2	2
Deferred tax effect	–	337	337
Contribution outside registered capital	3,981	–	3,981
Decrease of contribution outside registered capital	(10,831)	–	(10,831)
Balance as at 31 December 2021	6,617	1,362	7,979
Revaluation gains or losses – hedge accounting	–	402	402
Revaluation gains or losses – revenues	–	(155)	(155)
Revaluation gains or losses – costs	–	2	2
Deferred tax effect	–	77	77
Contribution outside registered capital	–	–	–
Decrease of contribution outside registered capital	–	–	–
Balance as at 31 December 2022	6,617	1,688	8,305

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	In millions of Czech crowns	Comment on settlement
January 2021	590	Incoming payment – Other equity funds project Capacity4Gas
March 2021	(6,916)	Outgoing payment – Dissolution of other equity funds
July 2021	(3,415)	Outgoing payments – Dissolution of other equity funds
July 2021	3,391	Incoming payment – Other equity funds project MCE
December 2021	(500)	Outgoing payment – Dissolution of other equity funds
Total decrease in 2021	(6,850)	
No movement in 2022		
Total increase/decrease in 2022	–	

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 ‘Revenue’ or ‘Finance costs’/‘Finance income’) when the associated hedged transaction affects profit or loss.

17. Borrowings

In millions of Czech crowns	31 December 2022	31 December 2021
Short-term borrowings from related parties (cash pooling NET4GAS Holdings)	60	63
Current portion of bonds and bank borrowings		
– CZK denominated bank borrowings (repayable on 24 May 2025, 31 July 2025, 28 July 2028)	172	63
– CZK denominated bonds (repayable on 17 July 2025)*	30	30
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2014*	53	55
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2015*	14	14
– CZK denominated bonds (repayable on 28 January 2028)*	147	30
– CZK denominated bonds (repayable on 28 January 2031)*	170	171
Non-current bonds and bank borrowings		
– CZK denominated bank borrowings (repayable on 24 May 2025, 31 July 2025, 28 July 2028)	14,441	14,430
– CZK denominated bond (repayable on 17 July 2025)	2,638	2,636
– EUR denominated bond (repayable on 28 July 2026) – issued in 2014	3,848	3,964
– EUR denominated bond (repayable on 28 July 2026) – issued in 2015	1,204	1,241
– CZK denominated bond (repayable on 28 January 2028)	4,088	4,085
– CZK denominated bond (repayable on 28 January 2031)	6,877	6,874
Total borrowings – current	646	426
Total borrowings – non-current	33,096	33,230
Total borrowings	33,742	33,656

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

Bank borrowings and bonds

The borrowings as at 31 December 2021 included bank borrowings acquired in 2017, 2020 and bonds issued in 2014, 2015, 2018 and 2021.

The Company had a committed revolving facility agreement in the equivalent of EUR 80 million (CZK 1,929.2million per the Czech National Bank’s foreign exchange rate as at 31 December 2022) which expired in 24 May 2022. Further, the Company had the Overdraft facility in the equivalent of EUR 20 million (CZK 482.3 million per the Czech National Bank’s foreign exchange rate as at 31 December 2022) which expired in 27 May 2022.

Six banks with different shares participated in the total bank borrowings as at 31 December 2022 (seven banks as at 31 December 2021).

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 selected future cash lows 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 2022	31 December 2021
Bond EUR, serial no. 2, ISIN XS1090449627**	EUR 160,000,000	28 Jul 2026	Each 28 Jul in arrears	3,901	4,019
Bond EUR, serial no. 4, ISIN XS1172113638**	EUR 50,000,000	28 Jul 2026	Each 28 Jul in arrears	1,218	1,255
Bond CZK, domestic, serial no. 5, ISIN CZ0003519472*	CZK 2,643,000,000	17 Jul 2025	Each 17 Jul in arrears	2,668	2,666
Bond CZK, domestic, serial no. 6, ISIN CZ0003529786*	CZK 4,098,000,000	28 Jan 2028	Each 28 Jan/Jul in arrears	4,235	4,115
Bond CZK domestic, serial no. 7, ISIN CZ0003529794*	CZK 6,900,000,000	28 Jan 2031	Each 28 Jan/Jul in arrears	7,047	7,045
Total bonds				19,069	19,100

* 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 2.745% – 8.39% p.a. The weighted average interest rate of the Company's bonds in 2022 was 3.53% for CZK-denominated bonds and 3.43% for EUR-denominated bonds (3.19% for CZK-denominated bonds and 3.43% for EUR-denominated bonds in 2021). The terms of issue of all the above stated bonds have been approved by the decision of the Central Bank of Ireland (serial no. 2 and 4) or the Czech National Bank (domestic bond, serial no. 5 – 7).

The bonds with serial no. 2 were accepted for trading on a regulated market of the Irish Stock Exchange on 28 July 2014. The 2015 bonds, serial no. 4, were issued via private placement. Domestic “CZ” bonds were accepted for trading on a regulated market of the Prague Stock Exchange on 17 July 2018 (bond with serial no. 5) and 28 January 2021 (bonds with serial no. 6 – 7).

The fair value of borrowings is disclosed in Note 33.

18. Finance Lease Liability

Minimum lease payments under finance 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 2022	37	140	128	305
Less future finance charges	8	22	11	41
Present value of minimum lease payments at 31 December 2022	29	118	117	264
Minimum lease payments at 31 December 2021	35	111	32	178
Less future finance charges	4	9	1	14
Present value of minimum lease payments at 31 December 2021	31	102	31	164

Total interest expense on lease liabilities under IFRS 16:53 (b) amounted to CZK 8 million in the 2022 reporting period (CZK 5 million in 2021).

The cost of leases of low-value assets under IFRS 16:53 (d) was CZK 1 million in the 2022 reporting period (CZK 1 million in 2021).

Costs related to IFRS 16:53 € variable lease payments amounted to CZK 1 million in the 2022 reporting period (CZK 2 million in 2021).

The Group's total expenditure on lease under IFRS 16:53 (g) in 2022 was CZK 39 million (CZK 50 million in 2021).

19. Government and Other Grants

In millions of Czech crowns	31 December 2022	31 December 2021
Grants	–	1

In 2022, the Group did not receive any subsidy from the European Commission for construction project. The value of the subsidy (grant) 1 mil. CZK which the Group received in previous years, following the fulfilment of the applicable conditions, was subtracted from the book value of applicable item of property, plant and equipment.

20. Other Taxes Payable

In millions of Czech crowns	31 December 2022	31 December 2021
<i>Other taxes payable within one year comprise:</i>		
Employee income tax	6	4
Social and health insurance	21	16
Value added tax	10	8
Other taxes payable – current	37	28

21. Provisions for Liabilities

Movements in provisions are as follows:

In millions of Czech crowns	2022		2021	
	Current	Non-current	Current	Non-current
Carrying amount at 1 January	10	–	1	–
Additions charged to profit or loss	–	–	10	–
Unused amounts reversed	(10)	–	(1)	–
Amounts used during the year	–	–	–	–
Carrying amount at 31 December	–	–	10	–

22. Trade and Other Payables

In millions of Czech crowns	31 December 2022	31 December 2021
Trade payables for purchased property, plant and equipment	276	484
Trade payables – other	126	109
Estimated payables – purchased property, plant and equipment	573	297
Estimated payables – other	69	100
Received deposits from customers	658	81
Other financial liabilities	–	1
Total financial payables within trade and other payables – current	1,702	1,072
Other payables	13	15
Total financial payables within other payables – non-current	13	15

23. Accrued Employee Benefits

In millions of Czech crowns	31 December 2022	31 December 2021
Employee benefits		
– Salaries and bonuses*	120	128
– Defined contribution costs – retirement compensation	11	10
– Untaken holiday costs	16	13
– Unused leisure-time benefits	3	5
Total employee benefits – current	149	156

* Salaries and bonuses in 2022 include estimates for extraordinary bonuses in the amount of CZK 23 million (CZK 34 million in 2021)

In millions of Czech crowns	31 December 2022	31 December 2021
Employee benefits – other long-term benefits	128	126
Total employee benefits – non-current	128	126

24. Other Non-Financial Liabilities

In millions of Czech crowns	31 December 2022	31 December 2021
Received advances for ordered gas transit and gas transport services	34	400
Total other non-financial liabilities – current	34	400

In millions of Czech crowns	31 December 2022	31 December 2021
Grant prepayments received (Note 19)	–	1
Total other non-financial liabilities – non-current	–	1

25. Expenses

In millions of Czech crowns	2022	2021
Raw materials consumed*	572	445
<i>Salaries</i>	398	361
<i>Statutory and private pension contribution</i>	197	221
Employee benefits**	595	582
Depreciation and amortisation	2,497	2,548
<i>Repairs and maintenance services</i>	185	183
<i>IT & Telecommunications expenses</i>	98	91
<i>Consultancy and advisory services</i>	70	69
<i>Lease charges</i>	29	23
<i>Marketing</i>	20	20
<i>Other services</i>	54	42
Services purchased and lease charges	456	428
Losses / (gains) on derivative financial instruments, net	(64)	(140)
Foreign exchange differences, net	1	49
Other expenses	44	135
Total operating expenses	4,101	4,047

* Represents mainly consumption of natural gas.
** Excluding costs capitalised as part of the acquisition of fixed assets (2022: CZK 147 million, 2021: CZK 133 million).

26. Finance Income

In millions of Czech crowns	2022	2021
Financial instruments measured at amortised cost:		
■ Interest income on other financial assets	563	11
■ Foreign Exchange Differences	94	109
Total finance income recognised in profit or loss	657	120

27. Finance Costs

In millions of Czech crowns	2022	2021
Financial instruments measured at amortised cost:		
■ Interest expense – lease	8	5
■ Interest expense – other	1,664	780
Financial instruments measured at FVTPL:		
■ Finance costs – release of hedge reserve reported in OCI*	2	2
■ Finance costs – hedging activities	143	975
■ Other finance costs	25	69
Total finance costs recognised in profit or loss	1,842	1,831

* 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).

28. 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	2022	2021
Adjustment in respect of current income tax from prior year	(8)	2
Current income tax expense	1,433	859
Deferred income tax expense / income	19	40
Income tax expense for the year in statement of profit or loss	1,444	901

(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 2022 and 2021 income is 19%. The reconciliation between the expected and the actual tax charge is provided below.

In millions of Czech crowns	2022	2021
Profit before tax	7,685	4,696
Theoretical tax charge at statutory rate of 19%:	1,460	892
Tax effect of items which are not deductible or assessable for income tax purposes:		
– Non-deductible expenses	(8)	7
Difference from previous periods	(8)	2
Income tax expense for the year	1,444	901

(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.

	1 January 2022	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2022
In millions of Czech crowns				
Tax effect of deductible/(taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(6,689)	(19)	–	(6,708)
Other liabilities; tax deductible in different periods	55	–	1	56
Cash flow hedges	(320)	39	(115)	(396)
Net deferred tax asset/(liability)	(6,954)	20	(114)	(7,048)

Management estimates that net deferred tax liabilities of CZK 7,048 million (2021: CZK 6,954 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 2021 were:

	1 January 2021	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2021
In millions of Czech crowns				
Tax effect of deductible/(taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(6,645)	(44)	–	(6,689)
Other liabilities; tax deductible in different periods	51	4	–	55
Cash flow hedges	17	–	(337)	(320)
Net deferred tax asset/(liability)	(6,577)	(40)	(337)	(6,954)

(d) *Tax effects on other comprehensive income*

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

	31 December 2022			31 December 2021		
In millions of Czech crowns	Before tax	Tax effects	After tax	Before tax	Tax effects	After tax
Cash flow hedge	2,084	(396)	1,688	1,681	(319)	1,362
Other comprehensive income for the period	2,084	(396)	1,688	1,681	(319)	1,362

29. Contingencies and Commitments

Capital expenditure commitments. As at 31 December 2022 the Group has contractual investment obligations in respect of tangible fixed assets totalling CZK 848 million (31 December 2021: CZK 782 million). The commitments relate predominantly to the Moravia Capacity Extension project.

Guarantees. The Group did not recognise any obligations from financial guarantees as at 31 December 2022 and 2021.

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 2022 and 31 December 2021.

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 2022 and 2021.

30. 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.

Cash flow hedge (IFRS 7 requirements for disclosures):

- Value of the hedged item used as a basis for recognising hedge ineffectiveness amounts to CZK 0 million as at 31 December 2022 (31 December 2021: CZK 0 million)
- The balance of the cash flow hedge reserve amounts to CZK 1,687 million. (31 December 2021: CZK 1,362 million)
- The balance remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied amounts to CZK 756 million. (31 December 2021: CZK 1,025 million)
- Hedging profits of the reporting period that were recognised in other comprehensive income amount to CZK 402 million (31 December 2021: hedging profits CZK -1,775 million)
- Hedge ineffectiveness recognised in profit or loss amounts to CZK 0 million (31 December 2021: CZK 0 million)

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 2022.

31 December 2022				
In millions of Czech crowns	Current		Non-Current	
	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 (-)	–	(250)	–	(4,890)
– EUR receivable on settlement (+)	–	133	–	3,857
EUR/CZK swap				
– CZK payable on settlement (-)	–	(38)	–	(1,285)
– EUR receivable on settlement (+)	–	33	–	1,180
CZK interest rate swap				
– CZK payable on settlement (-)	–	–	–	–
– CZK receivable on settlement (+)	375	–	904	–
CZK/USD swap				
– USD payable on settlement (-)	(37)	–	–	(2,071)
– CZK receivable on settlement (+)	145	–	–	2,000
Total USD payable on settlement (-)	(37)	(250)	–	(6,961)
Total EUR receivable on settlement (+)	–	166	–	5,036
Total CZK payable on settlement (-)	519	(38)	904	715
Net fair value of cross currency interest rate swaps and interest rate swap	482	(122)	904	(1,210)

* 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 2021				
In millions of Czech crowns	Current		Non-Current	
	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 (-)	–	(250)	–	(5,421)
– EUR receivable on settlement (+)	–	140	–	4,586
EUR/CZK swap				
– CZK payable on settlement (-)	–	(38)	(1,347)	–
– EUR receivable on settlement (+)	–	35	1,395	–
CZK interest rate swap				
– CZK payable on settlement (-)	–	–	–	–
– CZK receivable on settlement (+)	152	–	636	–
CZK/USD swap				
– USD payable on settlement (-)	(37)	–	–	(2,191)
– CZK receivable on settlement (+)	93	–	–	2,068
Total USD payable on settlement (-)	(37)	(250)	–	(7,612)
Total EUR receivable on settlement (+)	–	175	1,395	4,586
Total CZK payable on settlement (-)	245	(38)	(711)	2,068
Net fair value of cross currency interest rate swaps and interest rate swap	208	(113)	684	(958)

* 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 2022.

31 December 2022				
In thousands of Czech crowns	31 December 2022		31 December 2021	
	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 (+)	–	–	–	–
USD payable on settlement (-)	–	–	–	(439)
– EUR payable on settlement (-)	–	–	–	–
– CZK receivable on settlement (+)	–	–	–	427
Net fair value of foreign exchange forwards and swaps – current	–	–	–	(12)

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 2022 were EUR 210 million / USD 315 million / CZK 3,477 million (2021: EUR 210 million / USD 315 million / CZK 3,477 million). All cross-currency interest rate swaps have fixed interest rates on both legs. At 31 December 2022, the fixed interest rates vary from 1.652 % to 5.23 % p.a. (as at 31 December 2021: 1.652% 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 31, Hedging of currency risk).

In 2021, the Group entered into a cross currency interest rate swap with an effective period from 22 July 2021 to 26 May 2025 and a notional principal of USD 100 million. The derivative instrument is designated as floating-to-fixed interest rate, where the floating rate is 6M PRIBOR and the fixed rate is 1.652% p.a. The cross currency interest rate swap is part of the cash-flow hedge (Note 31 – Hedging of currency risk).

Interest rate swap

In 2020, the Group entered into a forward starting interest rate swap with an effective period from 22 July 2021 to 22 July 2028 and a notional principal of CZK 7,400 million. The derivative instrument is designated as floating-to-fixed interest rate, where the floating rate is 3M PRIBOR and the fixed rate is 1.662% p.a. The interest rate swap is part of the cash-flow hedge (Note 31 – Hedging of interest rate risk).

All derivatives are measured at FVTPL.

31. Financial Risk Management

The risk management function within the Group is carried out in respect of financial risks, operational risks, market risks and business 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 a potentially significant credit position and financial counterparties such as banks or insurance companies. The conditions are incorporated in the Network Code, relevant tender documentation 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 reports outstanding foreign exchange swap and no foreign exchange forwards as at 31 December 2022. The Group reported outstanding foreign exchange swaps and no foreign exchange forwards as at 31 December 2021.

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 2022					At 31 December 2021				
	Monetary financial assets	Monetary financial liabilities	Derivatives (assets)	Derivatives (liabilities)	Net position	Monetary financial assets	Monetary financial (liabilities)	Derivatives (assets)	Derivatives (liabilities)	Net position
In millions of Czech crowns										
US Dollars	8	–	–	7,125	(7,117)	86	–	–	6,915	(6,829)
Euros	784	5,119	5,064	–	729	182	5,274	5,221	–	129
Total exposed to currency risk	792	5,119	5,064	7,125	(6,388)	268	5,274	5,221	6,915	(6,700)
Czech crowns	6,267	29,501	2,080	1,397	(22,551)	1,486	29,787	2,080	1,397	(27,618)
Total	7,059	34,620	7,144	8,522	(28,939)	1,754	35,061	7,301	8,312	(34,318)

As at 31 December 2022 and 2021 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 the foreign exchange rate as at 31 December 2022 and 2021. The fair values are disclosed in Note 33.

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 bonds maturing in 2026 denominated in EUR and cross currency interest rate swaps EUR/USD (Note 17, Note 30). 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 30). There was no ineffectiveness to be recorded from cash flow hedges in 2022 and 2021.

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 30).

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 30). There was no ineffectiveness to be recorded from cash flow hedges in 2022 and 2021.

In 2021, the Group introduced additional cash-flow hedge. The financial instruments designated as hedging instruments are represented by committed term loan maturing 2025 and cross currency interest rate swap USD/CZK (Note 17, Note 30). The hedged item is represented by contracted or highly probable forecasted natural gas transmission revenues denominated in foreign currency (in USD) 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 17, Note 30). There was no ineffectiveness to be recorded from cash flow hedges in 2022.

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

	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
In millions of Czech crowns						
31 December 2022						
Currency risk exposure:						
Hedging of future cash flows – future receivables USD	898	1,466	1,362	4,573	3,226	11,525
Hedging of future cash flows – future receivables EUR	–	–	–	–	–	–
Hedging of future cash flows – future payables EUR	(32)	(63)	(1,162)	–	–	(1,257)
TOTAL	866	1,403	200	4,573	3,226	10,268

	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
In millions of Czech crowns						
31 December 2021						
Currency risk exposure:						
Hedging of future cash flows – future receivables USD	926	1,568	1,111	4,189	3,624	11,418
Hedging of future cash flows – future receivables EUR	–	–	–	–	–	–
Hedging of future cash flows – future payables EUR	(34)	(70)	(1,313)	–	–	(1,417)
TOTAL	892	1,498	(202)	4,189	3,624	10,001

The amount of reclassified other comprehensive income to revenues during 2022 decreased revenues by CZK 103 million (2021: decreased revenues by CZK 109 million). The amount of reclassified other comprehensive income to finance income during 2022 increased finance income by CZK 91 million (2021: increased finance costs by CZK 2 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 2022		At 31 December 2021	
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%	1	(727)	9	(792)
US Dollar weakening by 10%	(1)	727	(9)	792
Euro strengthening by 10%	78	520	10	614
Euro weakening by 10%	(78)	(520)	(10)	(614)

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 2022 is influenced by (i) cash balances held in foreign currency, (ii) by existing loans to related parties provided in EUR (Note 12) 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 30). There was no ineffectiveness to be recorded from cash flow hedges in 2022.

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.

	On demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
In millions of Czech crowns					
31 December 2022					
Financial assets – floating rate	949	–	–	–	949
Financial assets – fixed rate with re-pricing risk	5,863	–	–	–	5,863
Financial liabilities – floating rate	(4,476)	(4,806)	–	–	(9,282)
Financial liabilities – fixed rate with re-pricing risk	(174)	(104)	(9,946)	(14,236)	(24,460)
Financial liabilities – interest rate pre-hedging*					
Net interest sensitivity gap at 31 December 2022	2,162	(4,910)	(9,946)	(14,236)	(26,930)
31 December 2021					
Financial assets – floating rate	299	–	–	–	299
Financial assets – fixed rate with re-pricing risk	1,053	–	–	–	1,053
Financial liabilities – floating rate	(4,250)	(4,871)	–	–	(9,121)
Financial liabilities – fixed rate with re-pricing risk	(174)	(106)	(10,029)	(14,226)	(24,535)
Financial liabilities – interest rate pre-hedging*	–	–	–	–	–
Net interest sensitivity gap at 31 December 2021	(3,072)	(4,977)	(10,029)	(14,226)	(32,304)

* Note 30 – 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 2022
In millions of Czech crowns	
Impact on profit or loss	
1M CZK PRIBOR increase of 25 bps	(8)
1M CZK PRIBOR decrease of 25 bps	8
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	–

	At 31 December 2021
In millions of Czech crowns	
Impact on profit or loss	
1M CZK PRIBOR increase of 25 bps	(20)
1M CZK PRIBOR decrease of 25 bps	20
1M EURIBOR increase of 25 bps	1
1M EURIBOR decrease of 25 bps	(1)
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 2022 and 2021 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. Increase in CZK effective interest rates in 2022 is caused by increased CZK base rates.

	31 December 2022			31 December 2021		
In % p.a.	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and cash equivalents	0.01	0.00	0.79	0.11	0.00	0.00
Loans to related parties	n/a	n/a	n/a	n/a	n/a	n/a
Liabilities						
Borrowings	4.23	n/a	3.43	3.12	n/a	3.43

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 Company has prepared a liquidity analysis which is based on a very conservative projection of future cash flows assuming, among other things, only revenues from the delivery of gas to the Czech Republic and a very small portion of contracted transit revenues (not related to the situation with the Major Shipper as described in Note 4). The Company does not plan to pay dividends. Management believes that the situation does not affect the going concern assumption in 2023.

The tables below show liabilities as at 31 December 2022 and 2021 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 2022 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)	589	1,315	19,368	19,589	40,861
Trade and other payables (Note 22)	1,702	–	13	–	1,715
Gross settled cross currency interest rate swaps (Note 30)					
– inflows	(136)	(692)	(9,201)	(239)	(10,268)
– outflows	31	428	9,968	94	10,521
Total future payments, including future principal and interest payments	2,186	1,051	20,148	19,444	42,829

The maturity analysis of financial liabilities at 31 December 2021 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)	336	916	19,057	19,947	40,256
Trade and other payables (Note 22)	1,072	–	15	–	1,087
Gross settled cross currency interest rate swaps (Note 30)					
– inflows	(40)	(510)	(9,335)	(372)	(10,257)
– outflows	32	419	10,060	219	10,730
Total future payments, including future principal and interest payments	1,400	825	19,797	19,794	41,816

The net current liquidity position calculated as difference between current assets and current liabilities at 31 December 2022 is a net current receivable of CZK 5,202 million (31 December 2021: a net current payable of CZK 114 million).

Payments in respect of gross cross currency interest rate swaps will be accompanied by related cash inflows which are disclosed at their present values in Note 30.

32. 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 2022	At 31 December 2021
Equity	18,179	11,612
Non-subordinated borrowings from banks and bonds	33,682	33,594
Non-subordinated short-term borrowings from related parties	60	63
Total	51,921	45,269

The Group has complied with all covenants arising from the borrowings as at 31 December 2022 and 2021.

33. 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 2022 and 2021.

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 2022:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(1,224)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Interest rate swap contracts	1,278	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	54		

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2021:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(968)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Interest rate swap contracts	789	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Currency forward contracts	(12)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	(191)		

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

In millions of Czech crowns	2022	2021
Opening balance	(191)	(1,528)
Change in fair value of contracts concluded and realised during the period	–	–
Settlement of contracts held and performed during the period	12	5
Change in unrealised gains or losses for the period included in other comprehensive income for contracts held at the end of the reporting period	233	1,332
Closing balance	54	(191)

(c) Non-recurring fair value measurements

There are no non-current assets held for sale or other items held for sale with non-recurring fair value measurements as at 31 December 2022 and 31 December 2021.

(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 2022					31 December 2021			
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	–	–	60	60	63	–	–	63
– Bank borrowings	–	–	14,678	14,613	–	–	14,519	14,493
– Bonds	2,497	8,865	–	19,069	4,470	14,119	–	19,100
TOTAL LIABILITIES	2,497	8,865	14,738	33,742	4,533	14,119	14,519	33,656

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.

34. Subsequent Events


On 4 January 2023, the Company released regulatory information (see Note 4 for the full wording) in which it stated that it had not received the latest monthly payments due under its material contracts with the Major Shipper. Since that time, the situation has not changed, and the Major Shipper has not paid the invoices due (which constitutes a breach of contract).


On 24 January 2023, Fitch Ratings stated that N4G’s rating was not affected by the cessation of payments from the Company’s Major Shipper (as already reflected in their previous projections), but uncertainty was growing


The Company’s management continuously monitors the current situation and assesses potential impacts on its business. As of the date of these financial statements, management believes that the situation does not affect the going concern assumption in 2023. However, it cannot be ruled out that there will be further developments in this situation, which may subsequently have a significant impact on the Company’s financial position, financial results, cash flows and assets.

No other events occurred after the balance sheet date that would have a significant impact on the financial statements.

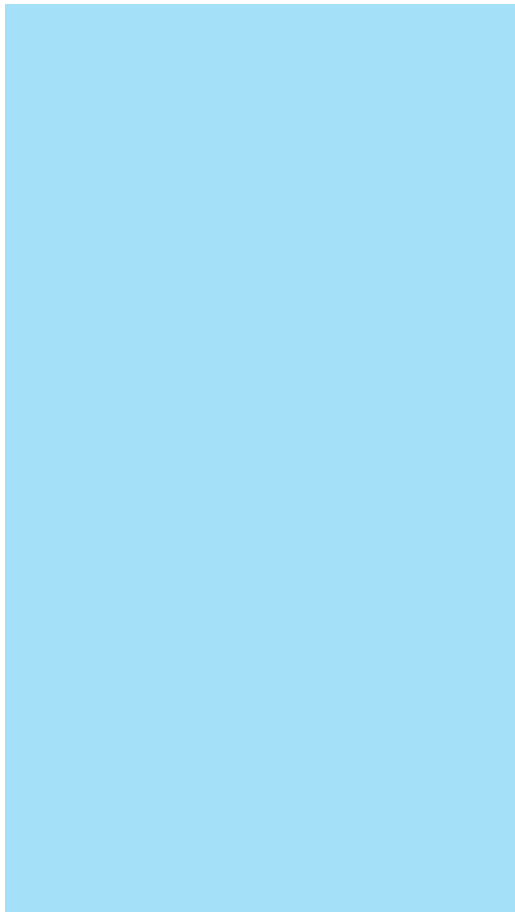
24 February 2023


Andreas Rau
Statutory Director


Radek Benčík
Statutory Director


Václav Hrach
Statutory Director

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 2022

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NET4GAS, s.r.o.
Separate Balance Sheet as at 31 December 2022

In millions of Czech crowns	Note	31 December 2022	31 December 2021
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	53,390	52,234
Intangible assets	9	77	73
Investment in subsidiary	10	5,835	5,972
Derivative financial instruments	32	904	684
Other non-current assets	11	311	139
Total non-current assets		60,517	59,102
CURRENT ASSETS			
Inventories	12	191	155
Trade and other receivables	14	258	402
Derivative financial instruments	32	483	208
Current income tax prepayments	30	21	–
Other non-financial assets	15	168	38
Other financial assets	16	5,863	1,053
Cash and cash equivalents	16	949	299
Total current assets		7,933	2,155
TOTAL ASSETS		68,450	61,257
EQUITY AND LIABILITIES			
EQUITY			
Registered capital	17	2,750	2,750
Capital contributions outside registered capital	17	6,617	6,617
Cash flow hedge reserve	17	1,688	1,362
Retained earnings		7,100	857
Total equity		18,155	11,586
NON-CURRENT LIABILITIES			
Other payables	23	13	15
Borrowings	18	33,096	33,231
Lease liability	19	6,688	6,695
Derivative financial instruments	32	1,210	958
Deferred income tax liability	30	6,224	6,187
Long-term employee benefits	24	127	126
Other non-financial liabilities	25	–	1
Total non-current liabilities		47,358	47,213

The accompanying notes on pages 106 to 158 are an integral part of these separate financial statements.

In millions of Czech crowns	Note	31 December 2022	31 December 2021
CURRENT LIABILITIES			
Borrowings	18	718	429
Lease liability	19	137	141
Trade and other payables	23	1,748	1,168
Derivative financial instruments	32	122	126
Current income tax payable	30	–	8
Other taxes payable	21	30	20
Provisions	22	–	10
Short-term employee benefits	24	148	106
Other non-financial liabilities	25	34	450
Total current liabilities		2,937	2,458
Total liabilities		50,295	49,671
EQUITY AND LIABILITIES		68,450	61,257

24 February 2023



Andreas Rau
Statutory Director



Radek Benčík
Statutory Director



Václav Hrach
Statutory Director

The accompanying notes on pages 106 to 158 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 2022

In millions of Czech crowns	Note	2022	2021
Revenue	6	12,953	10,376
Raw materials consumed	26	(571)	(445)
Services purchased and lease charges	26	(460)	(432)
Employee benefits	26	(594)	(581)
Depreciation and amortisation	8, 9, 26	(2,497)	(2,549)
Impairment		–	1
Gains less losses on disposal of property, plant and equipment		(1)	2
Changes in fair value of derivatives, net		64	140
Foreign exchange differences, net	26	(1)	(49)
Other operating income	27	302	390
Other operating expenses	26	(44)	(173)
Operating profit		9,151	6,680
Finance income	28	657	120
Finance costs	29	(2,185)	(2,216)
Finance result (net)		(1,528)	(2,096)
Profit before income tax		7,623	4,584
Income tax expense	30	(1,380)	(827)
PROFIT FOR THE YEAR		6,243	3,757
Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge	17	402	1,775
Income tax recognised directly in other comprehensive income – cash flow hedge	30	(76)	(337)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		326	1,438
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		6,569	5,195

The accompanying notes on pages 106 to 158 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 2022

In millions of Czech crowns	Registered capital	Capital contributions outside registered capital	Cash flow hedge reserve	Retained earnings	Total
Balance as at 1 January 2021	2,750	13,467	(76)	1,084	17,225
Total comprehensive income					
Profit for the year 2021	–	–	–	3,757	3,757
Cash flow hedge – net of related tax effect	–	–	1,438	–	1,438
Total comprehensive income for the year	–	–	1,438	3,757	5,195
Transactions with owners					
Contribution outside registered capital (Note 17)	–	3,981	–	–	3,981
Decrease of contribution outside registered capital (Note 17)	–	(10,831)	–	–	(10,831)
Dividends paid	–	–	–	(1,084)	(1,084)
Advance dividends paid	–	–	–	(2,900)	(2,900)
Balance as at 31 December 2021	2,750	6,617	1,362	857	11,586
Total comprehensive income					
Profit for the year 2022	–	–	–	6,243	6,243
Cash flow hedge – net of related tax effect	–	–	326	–	326
Total comprehensive income for the year	–	–	326	6,243	6,569
Transactions with owners					
Contribution outside registered capital (Note 17)	–	–	–	–	–
Decrease of contribution outside registered capital (Note 17)	–	–	–	–	–
Dividends paid	–	–	–	–	–
Advance dividends paid	–	–	–	–	–
Balance as at 31 December 2022	2,750	6,617	1,688	7,100	18,155

The accompanying notes on pages 106 to 158 are an integral part of these separate financial statements.

NET4GAS, s.r.o.
Separate Statement of Cash Flows
for the year ended 31 December 2022

In millions of Czech crowns	Note	2022	2021
Cash flows from operating activities			
Profit before tax		7,623	4,584
Adjustments for:			
Depreciation and amortisation	8, 9	2,497	2,549
Finance income	28	(657)	(120)
Finance costs	29	2,185	2,216
Impairment		–	(1)
Gains less losses on disposals of property, plant and equipment	8	1	(2)
Proceeds from intangible assets		–	–
Dividend income from subsidiary		(280)	(312)
Other non-cash operating expenses / (gains)		(4)	(49)
thereof: – employee benefit provisions		(17)	(6)
– creation and release of provisions		(10)	–
– other		23	(43)
Operating cash flows before working capital changes		11,365	8,865
Decrease / (Increase) in trade and other receivables	14, 15	(282)	(967)
Increase / (Decrease) in trade and other payables	23, 25	539	(102)
Decrease in inventories	12	(36)	(24)
Operating cash flows after changes in working capital		11,586	7,772
Interest paid	29	(1,791)	(1,070)
Interest received	28	430	11
Income tax paid	30	(1,449)	(803)
Net cash flows from operating activities		8,776	5,910
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(3,761)	(2,512)
Purchase of intangible fixed assets	9	(27)	(30)
Proceeds from sale of property, plant and equipment	8	–	1
Proceeds from intangible assets	9	–	–
Proceeds from decreased other capital funds of the subsidiary	10	137	185
Loans provided to related parties	13	–	–
Purchase of other financial assets	15	(4,810)	(1,053)
Dividends received from subsidiary	27	280	312
Net cash flows used in investing activities		(8,181)	(3,097)

The accompanying notes on pages 106 to 158 are an integral part of these separate financial statements.

In millions of Czech crowns	Note	2022	2021
Cash flows from financing activities			
Payments of decreased contributions outside registered capital to the Company's owner	17	–	(10,831)
Payments of increased contributions outside registered capital from the Company's owner	17	–	3,981
Dividends paid	17	–	(1,084)
Advance dividends paid	17	–	(2,900)
Repayment of borrowings	18	(499)	(12,827)
Proceeds from borrowings	18	554	18,922
Net cash flows from financing activities		55	(4,739)
Net increase in cash and cash equivalents		650	(1,926)
Cash and cash equivalents at the beginning of the year	16	299	2,225
Cash and cash equivalents at the end of the year	16	949	299

The accompanying notes on pages 106 to 158 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 2022

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 2022 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 Luxembourg I 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 2022	As at 31 December 2021
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 2022	Function	As at 31 December 2021	Function
Michael Raymond Mc Nicholas	Chairman	Jaroslava Korpancová	Chairwoman
Mario Fischer	Member	Michael Raymond Mc Nicholas	Member
Delphine Voeltzel	Member	Delphine Voeltzel	Member
Igor Emilievic Lukin	Member	Igor Emilievic Lukin	Member
Georg Nowack	Member	Georg Nowack	Member

Jaroslava Korpancová ceased to be the Chairwoman of the Supervisory Board on 24 June 2022. The change was entered in the Commercial Register on 11 July 2022.

Michael Raymond Mc Nicholas became the Chairman of the Supervisory Board on 24 June 2022. The change was entered in the Commercial Register on 11 July 2022.

Jaroslava Korpancová ceased to be a member of the Supervisory Board on 14 August 2022. The change was entered in the Commercial Register on 4 November 2022.

Mario Fischer became a member of the Supervisory Board on 15 August 2022. The change was entered in the Commercial Register on 4 November 2022.

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 in recent years has been the Capacity4Gas Project which 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 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 was implemented in two main stages, where the first stage was completed in 2019 and the second in the end of 2020. Certain finishing works have been also running during 2021 and were completed in 2022.

The last significant project, which entered its implementation phase in 2021, is the national Moravia Capacity Extension project which aim is to enhance the transmission capacity in the region of middle and north Moravia. The main part of the project was completed in 2022. There are still certain finishing works running on the project which are expected to be finished by the end of 2023.

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 Company

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 license under the Energy Act and its operations are subject to regulation by the Energy Regulatory Office (“ERO”).

The transmission system operator is obliged to comply with the obligations arising from both directly applicable European Union legislation and the Energy Act, which incorporates the relevant European Union regulations and regulates (following directly applicable European Union regulations) business conditions and the performance of state administration in energy sectors, as well as the rights and obligations of natural and legal persons, and other legislation.

(b) Regulatory framework pertaining to the transmission system operator

Gas transmission prices are set annually by the ERO on the basis of the regulatory methodology valid in the given regulatory period. In accordance with Commission Regulation (EU) 2017/460, the reference prices for interconnection points and multipliers applied to shorter than standard annual capacity products are published in the Price Decision no later than 30 days before the annual yearly capacity auction. By 30 November at the latest, the gas transmission prices for other points in the transmission system for the following year are published in the ERO Price Decision.

Gas transmission prices for 2022 were set by ERO Price Decisions No. 3/2021 of 27 May 2021 and No. 7/2021 of 30 November 2021, on regulated prices related to the gas supply.

(c) Current regulatory period

The transmission system operator is currently subject to the rules of the fifth regulatory period, which began on 1 January 2021 and ends on 31 December 2025.

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

The transmission system operator regulation methodology for domestic gas transmission is based on setting a ceiling for allowed revenues for each regulated year during the regulatory period, the so-called revenue cap regime.

Prices for reserved transmission capacities are then derived from the allowed revenues. The variable price component covering the actual costs of energy consumption of mainly compression work is determined for each regulated year in accordance with the applicable regulatory methodology and a model approved by the ERO decision meeting the requirements of Commission Regulation (EU) 2017/460 and published in the Energy Regulatory Bulletin, No. 3/2019 of 27 May 2019.

(e) Transit transmission regulation methodology applicable in the fifth regulatory period

In accordance with Commission Regulation (EU) 2017/460, the Energy Regulatory Office changed the method of regulating the revenues of the transmission system operator for gas transit. From 2020 on, the historical method of pricing based on benchmarking of comparable transport routes has shifted to a cost-oriented methodology and determination of the rate of return. The price cap regime valid for the whole regulatory period is maintained for setting the price for capacities in international gas transmission. Pricing, including its variable component, is governed by the applicable regulatory methodology and the ERO decision meeting the requirements of Commission Regulation (EU) 2017/460, published in the Energy Regulatory Bulletin, No. 3/2019 of 27 May 2019. The variable component (i.e. financial compensation for the energy required for gas transmission), due to the naturally occurring difference between the actual energy demand and the variable standard set by the Energy Regulatory Office in the relevant period should, according to the methodology, be subject to further regulatory adjustments (the Company records a balance which will be subject to a later decision by the ERO).

(f) Unregulated part

According to the decision of the ERO of 28 July 2011, the GAZELLE interconnecting pipeline has been under the conditions set out in the Energy Act exempted from the obligation to grant third-party access at a regulated price.

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 classifies certain derivative instruments as hedges against a particular risk associated with highly probable forecast transactions (cash flow hedge).

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 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 33, 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 sub-

stantially 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
Right of use	6 – 70 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 value 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 2022	31 December 2021
Emission allowances	5,805	11,702

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) Non-current assets held for sale

Assets (or disposal groups) are classified as non-current 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.

The windfall tax (temporary) has been introduced for a period of 3 years (i.e. 2023–2025) starting 1 January 2023 and will operate as a 60% surcharge on corporate income tax. Specifically listed companies based on the type of industry (in-

cluding gas transmission) shall be subject to the windfall tax. The windfall tax shall apply to the excess profit determined as the difference between the tax base in the given year and the average of the tax bases for the last 4 years (2018–2021) increased by 20%. Furthermore, the windfall tax should be reported in the financial statements as part of the income tax payable. The Company, as a taxpayer, continuously evaluates the potential impact of windfall tax on the Company.

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 his-

torical 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 classi-

fied 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.

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 33, section 'Hedging of 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 evi-

denced 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 '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 trans-

lated 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 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.

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.

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 re-measurements (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 contract expiring on 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 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, namely the EUGAL pipeline, and to increase its capacity for gas supplies to the Czech Republic and for further transit through Slovakia. The first part of the project was commissioned in 2019, the second in 2022.

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 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 obtains 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 considers the whole Company as one segment for the purpose of segment reporting.

Assessment of non-current asset impairment

In connection with the ongoing military conflict in Ukraine and the sanctions imposed against the Russian Federation, the Company has analysed the possible impact of this situation on its business as at the date of these financial statements. The Company's management has prepared several scenarios of possible future developments with respect to the use of the transmission system and the supply of gas through the transmission system and has analysed the impact of these scenarios on its future operations, profit or loss and possible impairment of the Company's non-current assets. The scenarios were based on market assumptions at the time of their preparation and include both the continuation of Russian gas flows to Europe and the termination of Russian gas supplies to Europe. In the case of the continuation of Russian gas supplies to Europe, the Company expects lower volumes of such supplies compared to historical volumes, given the EU's plans to diversify its gas sources and its efforts to reduce its dependence on Russian gas. In scenarios where Russian gas supplies to Europe are terminated, the flows are based on the assumption of gas demand and supply developments in the CEE region and the existence of available gas infrastructure, including the expected development of LNG terminals. Scenarios based on non-Russian gas supplies assume flows of approximately 2/3 of the historical average for 2019–2021. Actual future gas flows may differ from the Company's estimates and these differences may be significant.

The cash flows estimated under the different scenarios were discounted to present value using the weighted average cost of capital (WACC). At the reporting date, our calculation took into account, among other things, the cost of external financing and the Company's cost of equity. In calculating the cost of equity, the Company took into account the yield to maturity of Czech government bonds, a risk premium derived from the Czech market risk premium and a beta coefficient calculated based on data from a group including relevant energy companies. The data were collected from reliable external sources.

Based on the assessment of the above scenarios, the Company has not identified any impairment of property, plant and equipment as of 31 December 2022 that would require an adjustment to the financial statements in accordance with applicable accounting policies. However, future developments cannot be reliably estimated; therefore, the need for future adjustments to the amounts of property, plant and equipment cannot be excluded.

On 4 January 2023, the Company published the following information:

NET4GAS, s.r.o. ("N4G") continues to actively monitor the market conditions and geopolitical situation in which it operates, and analyses its options to promote financial resilience in its role as owner and operator of critical infrastructure in the Czech Republic. N4G notes that it has not received the latest monthly payments due under its material contracts with a major Russian shipper (the "Major Shipper"). N4G's revenues under these material contracts accounted for approximately three quarters of N4G's total 2021 revenues. With respect to the uncertainties related to the current geopolitical situation, N4G notes that, when confirming the current rating of N4G in its announcement

of 19 October 2022, Fitch Ratings stated that its base scenario already incorporates full or near-complete shut-off of Russian pipeline gas to Europe and no payments from the Major Shipper, which includes the non-payment that is the subject of this announcement. N4G is currently investigating the reasons for this non-payment, which in N4G's view represents a contractual breach on the part of the Major Shipper. N4G further notes that it is currently able to cover its ongoing operating and financing costs.

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 2022

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for an accounting period that begins on 1 January 2022:

Document	Major change	Effective from	Impact on the Group's financial statements
Amendments to IFRS 3 <i>Business Combinations</i>	References to the Conceptual Framework	1. 1. 2022	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Amendments to IAS 16 <i>Property, Plant and Equipment</i>	References to the intended use	1. 1. 2022	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Amendments to IAS 37 <i>Provisions, Contingent Liabilities and Contingent Assets</i>	Onerous contracts – cost of fulfilling a contract	1. 1. 2022	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Improvements to IFRS (cycle 2018–2020)	Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41	1. 1. 2022	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.

b) New standards and interpretations not effective in the current reporting period

At the date of authorisation of these financial statements, the Company has not applied the following new IFRS and amendments to the existing standards that were not effective in the EU before 31 December 2022:

Document	Major change	Effective from	Adopted by the EU?
IFRS 17 <i>Insurance Contracts</i> including amendments to IFRS 17	New standard and its amendments	1. 1. 2023	Yes
Amendments to IFRS 17 <i>Insurance Contracts</i>	Initial Application of IFRS 17 and IFRS 9 – Comparative Information	1. 1. 2023	Yes
Amendments to IAS 1 <i>Presentation of Financial Statements</i>	Disclosure of Accounting Policies	1. 1. 2023	Yes
Amendments to IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Definition of Accounting Estimates	1. 1. 2023	Yes
Amendments to IAS 12 <i>Income Taxes</i>	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	1. 1. 2023	Yes
Amendments to IAS 1 <i>Presentation of Financial Statements</i>	Classification of Liabilities as Current or Non-Current, Non-Current Liabilities with Covenants and Deferral of Effective Date	1. 1. 2024	No
Amendments to IFRS 16 <i>Leases</i>	Lease Liability in a Sale and Leaseback	1. 1. 2024	No

The Company anticipates that the adoption of these new standards and amendments to the existing standards will have no material impact on the financial statements of the Company in the period of initial application.

6. Segment Information

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

The Company is organised based on one main business segment – Natural gas transmission (representing natural gas trans- mission services).

Revenues from core activities comprise revenues from international transit, domestic transmission and other. In 2022, revenues from international transit represented 82%, revenues from domestic transmission 17% 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 2022 and 31 December 2021 is set out below:

In millions of Czech crowns	Natural gas transmission	Natural gas transmission
	2022	2021
Revenues from core activities	12,953	10,376
Other operating income	302	390
Other finance income	657	120
Total segment income	13,912	10,886
Raw materials consumed	571	445
Employee benefits	594	581
Depreciation and amortisation	2,497	2,549
Services purchased and lease charges	460	432
Changes in fair value of derivatives, net	(64)	(140)
Foreign exchange differences, net	1	49
Other operating expenses	44	173
Income tax expense	1,380	827
Finance costs	2,185	2,216
Gains less losses on disposal of property, plant and equipment, Impairment	1	(3)
Segment profit for the year	6,243	3,757
Segment other comprehensive income for the year	325	1,438
Segment total comprehensive income for the year	6,568	5,195
Capital expenditures – additions at cost (Note 8, 9)	3,657	1,731

In millions of Czech crowns	Natural gas transmission	Natural gas transmission
	31 December 2022	31 December 2021
Total reportable segment Assets	68,450	60,573
Total reportable segment Liabilities	50,295	48,987

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	2022	2021
Czech Republic	2,090	1,535
Other EU countries	3,316	1,724
Non-EU countries	7,547	7,117
Total revenues from core activities	12,953	10,376

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

In millions of Czech crowns	2022	2021
Czech Republic	3,657	1,731
Total capital expenditure – additions at cost (Note 8, 9)	3,657	1,731

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	2022	2021
Customer 1* (Major Shipper)*	7,176	7,845
Customer 2	1,425	1,036
Total revenues from major customers	8,601	8,881

* 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 Luxembourg I 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 2022, 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.	11	–
Loans to related parties (Note 13)		
NET4GAS Holdings, s.r.o.	–	–
BRAWA, a.s.	–	–
Lease liability (Note 19)		
BRAWA, a.s. – non-current	6,453	–
– current	109	–
Borrowings (Note 18)		
NET4GAS Holdings, s.r.o.	–	60
BRAWA, a.s. – cash-pooling	72	–
Gross value of trade and other payables		
BRAWA, a.s. – pipeline rent 12/2022	45	–
BRAWA, a.s. – interest on borrowings	2	–

The income and expense items with related parties for the year ended 31 December 2022 are as follows:

In millions of Czech crowns	Subsidiary	Immediate parent
Purchases / expenses		
BRAWA, a.s. – interest expense from lease	328	–
BRAWA, a.s. – interest expense from cash-pooling	14	–
BRAWA, a.s. – services	109	–
Other revenues / gains / received payments		
NET4GAS Holdings, s.r.o. – services	–	1
BRAWA, a.s. – services	3	–
BRAWA, a.s. – dividends	280	–
BRAWA, a.s. – payment received from decreased capital contributions outside share capital	137	–

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

At 31 December 2021, 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.	11	–
Loans to related parties (Note 13)		
NET4GAS Holdings, s.r.o.	–	–
BRAWA, a.s.	–	–
Lease liability (Note 19)		
BRAWA, a.s. – non-current	6,562	–
– current	109	–
Borrowings (Note 18)		
NET4GAS Holdings, s.r.o.	–	63
BRAWA, a.s. – cash-pooling	3	–
Gross value of trade and other payables		
BRAWA, a.s. – pipeline rent 11/2021, 12/2021	96	–
BRAWA, a.s. – interest on borrowings	1	–

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

In millions of Czech crowns	Subsidiary	Immediate parent
Purchases / expenses		
BRAWA, a.s. – interest expense from lease	383	–
BRAWA, a.s. – interest expense from cash-pooling	2	–
BRAWA, a.s. – services	109	–
Other revenues / gains / received payments		
NET4GAS Holdings, s.r.o. – services	–	1
BRAWA, a.s. – services	3	–
BRAWA, a.s. – dividends	312	–
BRAWA, a.s. – payment received from decreased capital contributions outside share capital	185	–

At 31 December 2022 and 2021 the Company did not have any other rights and obligations connected to related parties.

Key management compensation is presented below:

	2022		2021	
In millions of Czech crowns	Expense	Accrued liability	Expense	Accrued liability
<i>Short-term employee benefits:</i>				
– Salaries	67	4	78	4
– Short-term bonuses	19	19	19	14
<i>Other long-term employee benefits:</i>				
– Long-term bonus scheme	21	34	20	34
– Defined contribution benefits	7	5	8	3
Total	114	62	125	55

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 2021	282	66,753	7,953	8,935	73	797	84,793
Accumulated depreciation	–	(24,967)	(902)	(5,711)	(44)	–	(31,624)
Carrying amount at 1 January 2021	282	41,786	7,051	3,224	29	797	53,169
Cost:							
Additions	–	–	–	–	21	1,674	1,695
Capitalised interest expense	–	1	–	–	–	5	6
Transfers	24	549	–	402	–	(975)	–
Others	–	–	22	–	–	–	22
Disposals	–	–	–	(33)	(11)	–	(44)
Accumulated depreciation:							
On disposals	–	–	–	33	11	–	44
Others	–	–	(138)	–	–	–	(138)
Depreciation charge	–	(1,864)	(131)	(503)	(22)	–	(2,520)
Carrying amount at 31 December 2021	306	40,472	6,804	3,123	28	1,501	52,234
Cost at 31 December 2021	306	67,303	7,975	9,303	83	1,501	86,471
Accumulated depreciation	–	(26,831)	(1,171)	(6,180)	(55)	–	(34,237)
Carrying amount at 1 January 2022	306	40,472	6,804	3,123	28	1,501	52,234
Cost:							
Additions	–	–	78	–	62	3,492	3,632
Capitalised interest expense	–	44	–	–	–	(44)	–
Transfers	3	3,949	–	507	–	(4,459)	–
Others	–	–	–	–	–	–	–
Disposals	(1)	–	–	(65)	(42)	–	(108)
Accumulated depreciation:							
On disposals	–	–	–	65	42	–	107
Others	–	–	–	–	–	–	–
Depreciation charge	–	(1,758)	(128)	(566)	(23)	–	(2,475)
Carrying amount at 31 December 2022	308	42,707	6,754	3,064	67	490	53,390
Cost at 31 December 2022	308	71,252	8,053	9,745	103	534	89,995
Accumulated depreciation	–	(28,589)	(1,299)	(6,681)	(36)	–	(36,605)

The Company is a tenant of the office space and parking spaces in the building of Kavčí Hory Office Park. The 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 landlord has the ownership title to the office space and the Company has no right or option to purchase the space.

The Company rents passenger cars especially for the employees’ business trips. The rental period is in the range of two to seven years and during this period the ownership of the vehicles belongs to the lessor. At the end of the lease period, the 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 Company leases the GAZELLE pipeline. The lease is recorded in the books as a right of use and is amortised on a straight-line basis.

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 and was 4.06 % in 2022 (2021: 2.56 %).

The Company invested a total of CZK 3,631 million in property, plant and equipment (additions of property, plant and equipment – at cost) in 2022 (2021: CZK 1,701 million). The total amount of the commissioning was CZK 4,503 million (2021: CZK 975 million) of which CZK 3,767 was invested in the Moravia Capacity Extension project and CZK 736 million to the other projects.

As at 31 December 2022 the total amount of work in progress was CZK 490 million which consisted mainly of project construction of the Moravia Capacity Extension of CZK 135 million. Upon completion, the assets are expected to be transferred to buildings and constructions. Other items include low-value projects.

9. Intangible Assets

In millions of Czech crowns	Acquired software licences	Development costs	Other	Assets under construction	Total
Carrying amount at 1 January 2021	42	–	1	29	72
Additions at cost:					
Additions	–	–	–	30	30
Transfers	13	–	–	(13)	–
Disposals at cost	(7)	–	–	–	(7)
Amortisation:					
Accumulated amortisation on disposals	7	–	–	–	7
Amortisation charge	(28)	–	(1)	–	(29)
Carrying amount at 31 December 2021	27	–	–	46	73
Cost at 31 December 2021	546	51	26	46	669
Accumulated amortisation at 31 December 2021	(519)	(51)	(26)	–	(596)
Additions at cost:					
Additions	–	–	–	26	26
Transfers	13	–	–	(13)	–
Disposals at cost	(4)	(1)	(4)	–	(9)
Amortisation:					
Accumulated amortisation on disposals	4	1	4	–	9
Amortisation charge	(22)	–	–	–	(22)
Carrying amount at 31 December 2022	18	–	–	59	77
Cost at 31 December 2022	555	50	22	59	686
Accumulated amortisation at 31 December 2022	(537)	(50)	(22)	–	(609)

The Company invested a total of CZK 26 million in intangible assets (additions of intangible fixed assets – at cost) in 2022 (2021: CZK 30 million).

10. Investment in Subsidiary

The Company’s interest in its subsidiary as at 31 December 2022 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	5,835	100 %	Czech Republic	100 %	100 %
Total		5,835				

In December 2022, 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 137 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 2021 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	5,972	100 %	Czech Republic	100 %	100 %
Total		5,972				

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 2022	31 December 2021
Advances for acquisition of non-current assets	311	139
Total other non-current assets	311	139

12. Inventories

In millions of Czech crowns	31 December 2022	31 December 2021
Raw materials	191	155
Total inventories	191	155

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

There are no inventories valued at net realisable value as at 31 December 2022 and 2021.

13. Loans to Related Parties

No loans to related parties in 2022 and 2021.

14. Trade and Other Receivables

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

	31 December 2022	31 December 2021
	Trade and estimated receivables	Trade and estimated receivables
In millions of Czech crowns		
Neither past due nor impaired – exposure to		
– Between A- and BBB-*	9	290
– Not rated	75	58
Total neither past due nor impaired	84	348
Past due but without impairment		
– less than 30 days overdue	174	54
– between 30 – 60 days overdue	–	–
– 60 days or more overdue	–	–
Total past due	174	54
Individually determined to be impaired (gross)		
– 360 days or more overdue	–	–
Total individually impaired	–	–
Less impairment provision	–	–
Total net trade and other receivables **	258	402

* 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 2022	31 December 2021
Value-added tax prepaid	–	15
Prepayments for services	168	23
Total non-financial assets	168	38

16. Cash and Cash Equivalents, Other Financial Assets

In millions of Czech crowns	31 December 2022	31 December 2021
Other financial assets Deposit bills of exchange	5,863	1,053
Bank balances available on demand	949	299
Total cash and cash equivalents, other financial assets	6,812	1,352

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

In millions of Czech crowns	31 December 2022	31 December 2021
Neither past due nor impaired		
– A+ to A- rated	6,812	1,352
– BBB+ to BBB- rated	–	–
Total	6,812	1,352

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	2022	2021
Dividends payable at 1 January	–	–
Dividends declared and paid during the year*	–	1,084
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	2022	2021
Advance dividends paid*	–	2,900
Total advance dividends paid	–	2,900

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

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

On 23 September 2022, the Sole Shareholder of the Company decided on the transfer of the 2021 profit of CZK 3,757 million to retained earnings of previous years. As part of the decision, the Company was to be refunded an advance dividend of CZK 2,900 million paid in December 2021 (i.e. its receivable). The Company also decided on the payment of an advance dividend from retained earnings in the same amount of CZK 2,900 million (i.e. its payable).

The receivable and the payable were offset without any transfer of funds.

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

	Capital contributions outside registered capital	Cash flow hedges	Total other reserves
In millions of Czech crowns			
Balance as at 1 January 2021	13,467	(76)	13,391
Revaluation gains or losses – hedge accounting	–	1,775	1,775
Revaluation gains or losses – revenues	–	(676)	(676)
Revaluation gains or losses – costs	–	2	2
Deferred tax effect	–	337	337
Contribution outside registered capital	3,981	–	3,981
Decrease of contribution outside registered capital	(10,831)	–	(10,831)
Balance as at 31 December 2021	6,617	1,362	7,979
Revaluation gains or losses – hedge accounting	–	402	402
Revaluation gains or losses – revenues	–	(155)	(155)
Revaluation gains or losses – costs	–	2	2
Deferred tax effect	–	77	77
Contribution outside registered capital	–	–	–
Decrease of contribution outside registered capital	–	–	–
Balance as at 31 December 2022	6,617	1,688	8,305

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	(In millions of CZK)	Comment on settlement
January 2021	590	Incoming payment – Other equity funds project C4G
March 2021	(6,916)	Outgoing payment – Dissolution of other equity funds
July 2021	(3,415)	Outgoing payment – Dissolution of other equity funds
July 2021	3,391	Incoming payment – Other equity funds project MCE
December 2021	(500)	Outgoing payment – Dissolution of other equity funds
Total decrease in 2021	(6,850)	
No movement in 2022		
Total decrease in 2022	–	

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 33 – Hedging of currency risk, Hedging of interest rate risk. Amounts are reclassified to profit or loss (line Revenue or Finance costs/Finance income) when the associated hedged transaction affects profit or loss.

18. Borrowings

In millions of Czech crowns	31 December 2022	31 December 2021
Short-term borrowings from related parties (cash pooling BRAWA)	72	3
Short-term borrowings from related parties (cash pooling NET4GAS Holdings)	60	63
Current portion of bonds and bank borrowings		
– CZK denominated bank borrowings (repayable on 24 May 2025, 31 July 2025, 28 July 2028)	172	63
– CZK denominated bonds (repayable on 17 July 2025)*	30	30
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2014*	53	55
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2015*	14	14
– CZK denominated bonds (repayable on 28 January 2028)*	147	30
– CZK denominated bonds (repayable on 28 January 2031)*	170	171
Non-current bonds and bank borrowings		
– CZK denominated bank borrowings (repayable on 24 May 2025, 31 July 2025, 28 July 2028)	14,441	14,431
– CZK denominated bonds (repayable on 17 July 2025)	2,638	2,636
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2014	3,848	3,964
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2015	1,204	1,241
– CZK denominated bonds (repayable on 28 January 2028)	4,088	4,085
– CZK denominated bonds (repayable on 28 January 2031)	6,877	6,874
Total borrowings – current	718	429
Total borrowings – non-current	33,096	33,231
Total borrowings	33,814	33,660

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

Bank borrowings and bonds

The borrowings as at 31 December 2022 included bank borrowings acquired in 2017, 2020 and bonds issued in 2014, 2015, 2018 and 2021.

The Company had a committed revolving facility agreement in the equivalent of EUR 80 million (CZK 1,929.2 million per the Czech National Bank’s foreign exchange rate as at 31 December 2022) which expired in 24 May 2022. Further, the Company had the Overdraft facility in the equivalent of EUR 20 million (CZK 482.3 million per the Czech National Bank’s foreign exchange rate as at 31 December 2022) which expired in 27 May 2022.

Six banks with different shares participated in the total bank borrowings as at 31 December 2022 (seven banks as at 31 December 2021).

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 2022	31 December 2021
Bond EUR, serial no. 2, ISIN XS1090449627**	EUR 160,000,000	28 Jul 2026	Each 28 Jul in arrears	3,901	4,019
Bond EUR, serial no. 4, ISIN XS1172113638**	EUR 50,000,000	28 Jul 2026	Each 28 Jul in arrears	1,218	1,255
Bond CZK, domestic, serial no. 5, ISIN CZ0003519472*	CZK 2,643,000,000	17 Jul 2025	Each 17 Jul in arrears	2,668	2,666
Bond CZK, domestic, serial no. 6, ISIN CZ0003529786*	CZK 4,098,000,000	28 Jan 2028	Each 28 Jan/Jul in arrears	4,235	4,115
Bond CZK domestic, serial no. 7, ISIN CZ0003529794*	CZK 6,900,000,000	28 Jan 2031	Each 28 Jan/Jul in arrears	7,047	7,045
Total bonds				19,069	19,100

* 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 2.745% – 8.39% p.a. The weighted average interest rate of the Company's bonds in 2022 was 3.53% for CZK-denominated bonds and 3.43% for EUR-denominated bonds (3.19% for CZK-denominated bonds and 3.43% for EUR-denominated bonds in 2021). 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, serial no. 5 – 7).

The bonds with serial no. 2 were accepted for trading on a regulated market of the Irish Stock Exchange on 28 July 2014. The 2015 bonds, serial no. 4, were issued via private placement. Domestic “CZ” bonds were accepted for trading on a regulated market of the Prague Stock Exchange on 17 July 2018 (bond with serial no. 5) and 28 January 2021 (bonds with serial no. 6 – 7).

The fair value of borrowings is disclosed in Note 35.

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 2022	469	1,814	14,428	16,711
Less future finance charges	332	1,259	8,295	9,886
Present value of minimum lease payments at 31 December 2022	137	555	6,133	6,825
Minimum lease payments at 31 December 2021	521	1,993	16,005	18,519
Less future finance charges	380	1,453	9,850	11,683
Present value of minimum lease payments at 31 December 2021	141	540	6,155	6,836

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 336 million in the 2022 reporting period (CZK 388 million in 2021).

The cost of leases of low-value assets under IFRS 16:53 (d) was CZK 1 million in the 2022 reporting period (CZK 1 million in 2021).

Costs related to IFRS 16:53 (e) variable lease payments amounted to CZK 1 million in the 2022 reporting period (CZK 2 million in 2021).

The Company's total expenditure on leases under IFRS 16:53 (g) in 2022 was CZK 477 million (CZK 542 million in 2021).

20. Government and Other Subsidies (Grants)

(CZK million)	31 December 2022	31 December 2021
Subsidies (Grants)	–	1
Total subsidies (grants)	–	1

In 2022, the Company did not receive any subsidy from the European Commission for construction projects. The value of the subsidy (grant) 1 mil. CZK which the Company received in previous years, following the fulfilment of the applicable conditions, was subtracted from the book value of applicable item of property, plant and equipment.

21. Other Taxes Payable

In millions of Czech crowns	31 December 2022	31 December 2021
<i>Other taxes payable within one year comprise:</i>		
Employee income tax	6	4
Social and health insurance	22	16
Value added tax	2	–
Other taxes payable – current	30	20

22. Provisions

Movements in provisions are as follows:

In millions of Czech crowns	2022		2021	
	Current	Non-current	Current	Non-current
Carrying amount at January 1	10	–	1	–
Additions charged to profit or loss	–	–	10	–
Unused amounts reversed	(10)	–	(1)	–
Amounts used during the year	–	–	–	–
Carrying amount at December 31	–	–	10	–

23. Trade and Other Payables

In millions of Czech crowns	31 December 2022	31 December 2021
Trade payables – purchased property, plant and equipment	276	484
Trade payables – other	170	205
Estimated payables – purchased property, plant and equipment	573	297
Estimated payables – other	69	100
Received deposits from customers	658	81
Other financial liabilities	2	1
Total financial payables within trade and other payables – current	1,748	1,168
Other payables	13	15
Total financial payables within other payables – non-current	13	15

24. Accrued Employee Benefits

In millions of Czech crowns	31 December 2022	31 December 2021
Employee benefits		
– Salaries and bonuses*	119	128
– Defined contribution costs – retirement compensation	11	10
– Untaken holiday costs	15	13
– Unused leisure-time benefits	3	5
Total employee benefits – current	148	156

* Salaries and bonuses in 2022 include estimates for extraordinary bonuses in the amount of CZK 23 million (34 million in 2021)

In millions of Czech crowns	31 December 2022	31 December 2021
Employee benefits – other long-term benefits	127	126
Total employee benefits – non-current	127	126

25. Other Non-Financial Liabilities

In millions of Czech crowns	31 December 2022	31 December 2021
Received advances for ordered gas transit and gas transport services.	34	400
Total other non-financial liabilities – current	34	400

In millions of Czech crowns	31 December 2022	31 December 2021
Grant prepayments received (Note 20)	–	1
Total other non-financial liabilities – non-current	–	1

26. Expenses

In millions of Czech crowns	2022	2021
Raw materials consumed*	571	445
<i>Salaries</i>	397	360
<i>Statutory and private pension contribution</i>	197	221
Employee benefits**	594	581
Depreciation and amortisation	2,497	2,549
<i>Repairs and maintenance services</i>	186	183
<i>IT & Telecommunications expenses</i>	98	91
<i>Consultancy and advisory services</i>	69	69
<i>Lease charges</i>	29	28
<i>Marketing</i>	20	20
<i>Other services</i>	58	41
Services purchased and lease charges	460	432
Losses / (gains) on derivative financial instruments, net	(64)	(140)
Foreign exchange differences, net	1	49
Other expenses	44	173
Total operating expenses	4,103	4,089

* Represents mainly consumption of natural gas.
** Excluding costs capitalised as part of the acquisition of fixed assets (2022: CZK 147 million, 2021: CZK 138 million).

27. Other Operating Income

In millions of Czech crowns	2022	2021
Dividend from subsidiary	280	312
Other operating income	22	78
Total other operating income	302	390

28. Finance Income

In millions of Czech crowns	2022	2021
Financial instruments measured at amortised cost:		
■ Interest income on other financial assets	562	11
■ Debt securities	95	109
Total finance income recognised in profit or loss	657	120

29. Finance Costs

In millions of Czech crowns	2022	2021
Financial instruments measured at amortised cost:		
■ Interest expense – lease	336	388
■ Interest expense – other	1,679	782
Financial instruments measured at FVTPL:		
■ Finance costs – release of hedge reserve reported in OCI*	2	2
■ Finance costs – hedging activities	143	975
■ Other finance costs	25	69
Total finance costs recognised in profit or loss	2,185	2,216

* 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), the hedged item still exists.

30. 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	2022	2021
Adjustment in respect of current income tax from prior year	(8)	2
Current income tax payable	1,427	859
Deferred income tax	(39)	(34)
Income tax expense for the year in the statement of profit and loss	1,380	827

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 2022 and 2021 income is 19%. The reconciliation between the expected and the actual tax charge is provided below.

In millions of Czech crowns	2022	2021
Profit before tax	7,623	4,584
Theoretical tax charge at statutory rate of 19%:	1,448	871
Tax effect of items which are not deductible or assessable for income tax purposes:		
– Non-taxable items – Dividend income from subsidiary	(53)	(59)
– Non-deductible items	(7)	13
Difference between current income tax provision and final current income tax return	(8)	2
Income tax expense for the year	1,380	827

(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 2022	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2022
Tax effect of deductible / (taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(5,923)	39	–	(5,884)
Other liabilities; tax deductible in different periods	565	–	–	56
Provisions for liabilities and charges	–	–	–	–
Cash flow hedges	(320)	39	(115)	(396)
Net deferred tax asset / (liability)	(6,187)	78	(115)	(6,224)

Management estimates that net deferred tax liabilities of CZK 6,224 million (2021: CZK 6,187 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 2021 were:

In millions of Czech crowns	1 January 2021	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2021
Tax effect of deductible / (taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(5,952)	29	–	(5,923)
Other liabilities; tax deductible in different periods	51	5	–	565
Provisions for liabilities and charges	–	–	–	–
Cash flow hedges	17	–	(337)	(320)
Net deferred tax asset / (liability)	(5,884)	34	(337)	(6,187)

(c) Tax effects on other comprehensive income

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

In millions of Czech crowns	31 December 2022			31 December 2021		
	Before tax	Tax effects	After tax	Before tax	Tax effects	After tax
Cash flow hedge	2,084	(396)	1,688	1,681	(319)	1,362
Other comprehensive income for the period	2,084	(396)	1,688	1,681	(319)	1,362

31. Contingencies and Commitments

Capital expenditure commitments. As at 31 December 2022, the Company has contractual investment obligations in respect of tangible fixed assets totalling CZK 848 million (31 December 2021: CZK 782 million). The commitments relate predominantly to the Moravia Capacity Extension project.

Guarantees. The Company did not recognise any obligations from financial guarantees as at 31 December 2022 and 31 December 2021.

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 2022 and 31 December 2021.

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 2022 and 31 December 2021.

32. 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 swaps 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.

Cash flow hedge (IFRS 7 requirements for disclosures):

- Value of the hedged item used as a basis for recognising hedge ineffectiveness amounts to CZK 0 million as at 31 December 2022 (31 December 2021: CZK 0 million).
- The balance of the cash flow hedge reserve amounts to CZK 1,687 million (31 December 2021: CZK 1,362 million).
- The balance remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied amounts to CZK 756 million (31 December 2021: CZK 1,025 million).
- Hedging profits of the reporting period that were recognised in other comprehensive income amount to CZK 402 million (31 December 2021: hedging profits CZK 1,775 million).
- Hedge ineffectiveness recognised in profit or loss amounts to CZK 0 million (31 December 2021: CZK 0 million).

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 2022.

In millions of Czech crowns	31 December 2022			
	Current		Non-Current	
	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 (-)	-	(251)	-	(4,890)
- EUR receivable on settlement (+)	-	133	-	3,857
EUR/CZK swap				
- CZK payable on settlement (-)	-	(37)	-	(1,285)
- EUR receivable on settlement (+)	-	33	-	1,180
CZK interest rate swap				
- CZK payable on settlement (-)	-	-	-	-
- CZK receivable on settlement (+)	375	-	904	-
CZK/USD swap				
- USD payable on settlement (-)	(37)	-	-	(2,071)
- CZK receivable on settlement (+)	145	-	-	1,999
Total USD payable on settlement (-)	(37)	(251)	-	(6,961)
Total EUR receivable on settlement (+)	-	166	-	5,036
Total CZK payable on settlement (-)	519	(37)	904	715
Net fair value of cross currency interest rate swaps and interest rate swap	482	(122)	904	(1,210)

* 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.

In millions of Czech crowns	31 December 2021			
	Current		Non-Current	
	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 (-)	–	(250)	–	(5,421)
– EUR receivable on settlement (+)	–	140	–	4,586
EUR/CZK swap				
– CZK payable on settlement (-)	–	(38)	(1,347)	–
– EUR receivable on settlement (+)	–	35	1,395	–
CZK interest rate swap				
– CZK payable on settlement (-)	–	–	–	–
– CZK receivable on settlement (+)	152	–	636	–
CZK/USD swap				
– USD payable on settlement (-)	(37)	–	–	(2,191)
– CZK receivable on settlement (+)	93	–	–	2,068
Total USD payable on settlement (-)	(37)	(250)	–	(7,612)
Total EUR receivable on settlement (+)	–	175	1,395	4,586
Total CZK payable on settlement (-)	245	(38)	(711)	2,068
Net fair value of cross currency interest rate swaps	208	(113)	684	(958)

* 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 2022.

In thousands of Czech crowns	31 December 2022		31 December 2021	
	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 (+)	–	–	–	–
– USD payable on settlement (-)	–	–	–	(439)
– EUR payable on settlement (-)	–	–	–	–
– CZK receivable on settlement (+)	–	–	–	427
Net fair value of foreign exchange forwards and swaps – current	–	–	–	(12)

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 2022 were EUR 210 million / USD 315 million / CZK 3,477 million (2021: EUR 210 million / USD 315 million / CZK 3,477 million). All cross-currency interest rate swaps have fixed interest rates on both legs. At 31 December 2022, the fixed interest rates vary from 1.652% to 5.23% p.a. (as at 31 December 2021: 1.652% 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 33, Hedging of currency risk).

In 2021, the Company entered into a cross currency interest rate swap with an effective period from 22 July 2021 to 26 May 2025 and a notional principal of USD 100 million. The derivative instrument is designated as floating-to-fixed interest rate where the floating rate is 6M PRIBOR and the fixed rate is 1.652% p.a. The cross currency interest rate swap is part of the cash-flow hedge (Note 33 – Hedging of currency risk).

Interest rate swap

In 2020, the Company entered into a forward starting interest rate swap with an effective period from 22 July 2021 to 22 July 2028 and a notional principal of CZK 7,400 million. The derivative instrument is designated as floating-to-fixed interest rate where the floating rate is 3M PRIBOR and the fixed rate is 1.662% p.a. The interest rate swap is part of the cash-flow hedge (Note 33 – Hedging of interest rate risk).

All derivatives are measured at FVTPL.

33. Financial Risk Management

The risk management function within the Company is carried out in respect of financial risks, operational risks, market risks and business 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 positions 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 a potentially significant credit position and financial counterparties such as banks or insurance companies. The conditions are incorporated in the Network Code, relevant tender documentation 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 reports outstanding foreign exchange swaps and no foreign exchange forwards as at 31 December 2022. The Company reported outstanding foreign exchange swaps and no foreign exchange forwards as at 31 December 2021.

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 2022						At 31 December 2021				
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	8	–	–	7,125	(7,117)	86	–	–	6,915	(6,829)
Euros	784	5,119	5,064	–	729	181	5,274	5,221	–	128
Total exposed to currency risk	792	5,119	5,064	7,125	(6,388)	267	5,274	5,221	6,915	(6,701)
Czech crowns	6,278	36,181	2,080	1,397	(29,220)	1,486	36,462	2,080	1,397	(34,293)
Total	7,070	41,300	7,144	8,522	(35,608)	1,753	41,736	7,301	8,312	(40,994)

As at 31 December 2022 and 2021 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 the foreign exchange rate as at 31 December 2022 and 2021. The fair values are disclosed in Note 35.

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 bonds maturing in 2026 denominated in EUR and cross currency interest rate swaps EUR/USD (Note 18, Note 32). 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 32). There was no ineffectiveness to be recorded from cash flow hedges in 2022 and 2021.

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 32). 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 32). There was no ineffectiveness to be recorded from cash flow hedges in 2022 and 2021.

In 2021, the Company introduced additional cash-flow hedge. The financial instruments designated as hedging instruments are represented by committed term loan maturing 2025 and cross currency interest rate swap USD/CZK (Note 18, Note 32). The hedged item is represented by contracted or highly probable forecasted natural gas transmission revenues denominated in foreign currency (in USD) 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 32). There was no ineffectiveness to be recorded from cash flow hedges in 2022 and 2021.

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

	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
In millions of Czech crowns						
31 December 2022						
Currency risk exposure:						
Hedging of future cash flows – future receivables USD	898	1,466	1,362	4,573	3,226	11,525
Hedging of future cash flows – future receivables EUR	–	–	–	–	–	–
Hedging of future cash flows – future payables EUR	(32)	(63)	(1,162)	–	–	(1,257)
TOTAL	866	1,403	200	4,573	3,226	10,268

	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
In millions of Czech crowns						
31 December 2021						
Currency risk exposure:						
Hedging of future cash flows – future receivables USD	926	1,568	1,111	4,189	3,624	11,418
Hedging of future cash flows – future receivables EUR	–	–	–	–	–	–
Hedging of future cash flows – future payables EUR	(34)	(70)	(1,313)	–	–	(1,417)
TOTAL	892	1,498	(202)	4,189	3,624	10,001

The amount of reclassified other comprehensive income to revenues during 2022 decreased revenues by CZK 103 million (2021: decreased revenues by CZK 109 million). The amount of reclassified other comprehensive income to finance income during 2022 increased finance income by CZK 91 million (2021: increased finance costs by CZK 2 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:

In millions of Czech crowns	At 31 December 2022		At 31 December 2021	
	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10%	1	(727)	9	(792)
US Dollar weakening by 10%	(1)	727	(9)	792
Euro strengthening by 10%	71	520	10	614
Euro weakening by 10%	(71)	(520)	(10)	(614)

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 2022 is influenced by (i) cash balances held in foreign currency, (ii) by existing loans to related parties provided in EUR (Note 13) 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 35a).

In 2021, 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 32). There was no ineffectiveness to be recorded from cash flow hedges in 2022.

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 2022					
Financial assets – floating rate	949	–	–	–	949
Financial assets – fixed rate with re-pricing risk	5,863	–	–	–	5,863
Financial liabilities – floating rate	(4,548)	(4,806)	–	–	(9,354)
Financial liabilities – fixed rate with re-pricing risk	(174)	(104)	(9,946)	(14,236)	(24,460)
Financial liabilities – fixed rate with re-pricing risk – lease	(35)	(104)	(555)	(6,131)	(6,825)
Financial liabilities – interest rate pre-hedging*	–	–	–	–	–
Net interest sensitivity gap at 31 December 2022	2,055	(5,014)	(10,501)	(20,367)	(33,827)
31 December 2021					
Financial assets – floating rate	299	–	–	–	299
Financial assets – fixed rate with re-pricing risk	1,053	–	–	–	1,053
Financial liabilities – floating rate	(4,254)	(4,871)	–	–	(9,125)
Financial liabilities – fixed rate with re-pricing risk	(174)	(106)	(10,029)	(14,226)	(24,535)
Financial liabilities – fixed rate with re-pricing risk – lease	(35)	(106)	(539)	(6,156)	(6,836)
Financial liabilities – interest rate pre-hedging*	–	–	–	–	–
Net interest sensitivity gap at 31 December 2021	(3,111)	(5,083)	(10,568)	(20,382)	(39,144)

* Note 32 – Derivative Financial Instruments

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 2022	
In millions of Czech crowns	Impact on profit or loss
1M CZK PRIBOR increase by 25 bps	(7)
1M CZK PRIBOR decrease by 25 bps	7
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	–

At 31 December 2021	
In millions of Czech crowns	Impact on profit or loss
1M CZK PRIBOR increase by 25 bps	(20)
1M CZK PRIBOR decrease by 25 bps	20
1M EURIBOR increase by 25 bps	1
1M EURIBOR decrease by 25 bps	(1)
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 2022 and 2021 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. Increase in CZK effective interest rates in 2022 is caused by increased CZK base rates:

In % p.a.	31 December 2022			31 December 2021		
	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and cash equivalents	0.01	0.00	0.79	0.11	0.00	0.00
Loans to related parties	n/a	n/a	n/a	n/a	n/a	n/a
Liabilities						
Borrowings	4.23	n/a	3.43	3.12	n/a	3.43
Lease liability	7.71	n/a	n/a	6.19	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 Company has prepared a liquidity analysis based on a very conservative projection of future cash flows assuming, among other things, only revenues from gas supply to the Czech Republic and a very small portion of contracted transit revenues (not related to the Major Shipper). The Company does not plan to pay dividends. Management believes that there is no material uncertainty that could affect the going concern principles in 2023.

The tables below show liabilities at 31 December 2022 and 2021 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 2022 is as follows:

	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
In millions of Czech crowns					
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 18)	661	1,315	19,368	19,589	40,933
Lease liability (Note 19)	117	352	1,814	14,428	16,711
Trade and other payables (Note 23)	1,748	–	13	–	1,761
Gross settled cross currency interest rate swaps (Note 32)					
– inflows	(136)	(692)	(9,201)	(239)	(10,268)
– outflows	31	428	9,968	94	10,521
Total future payments, including future principal and interest payments	2,421	1,403	21,962	33,872	59,658

The maturity analysis of financial liabilities at 31 December 2021 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)	339	916	19,057	19,947	40,259
Lease liability (Note 19)	130	391	1,993	16,005	18,519
Trade and other payables (Note 23)	1,168	–	15	–	1,183
Gross settled cross currency interest rate swaps (Note 32)					
– inflows	(40)	(510)	(9,335)	(372)	(10,257)
– outflows	32	419	10,060	219	10,730
Total future payments, including future principal and interest payments	1,629	1,216	21,790	35,799	60,434

The net current liquidity position calculated as the difference between current assets and current liabilities at 31 December 2022 is a net current receivable of CZK 4,995 million (31 December 2021: a net current payable of CZK 303 million).

Payments in respect of cross-currency interest rate swaps will be accompanied by related cash inflows.

34. 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 2022	At 31 December 2021
Equity	18,154	11,586
Non-subordinated borrowings from banks and bonds	33,682	33,594
Non-subordinated short-term borrowings from related parties	132	66
Total	51,968	45,246

The Company has complied with all covenants arising from the borrowings as at 31 December 2022 and 2021.

35. 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 2022 and 2021.

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 2022:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(1,224)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Interest rate swap contracts	1,278	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	54		

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2021:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(968)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Interest rate swap contracts	789	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Currency forward contracts	(12)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Total recurring fair value measurements at level 2	(191)		

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

In millions of Czech crowns	2022	2021
Opening balance	(191)	(1,528)
Change in fair value of contracts concluded and realised during the period	–	–
Settlement of contracts held at the beginning of the period	12	5
Change in unrealised gains or losses for the period included in other comprehensive income for contracts held at the end of the reporting period	233	1,332
Closing balance	54	(191)

(c) Non-recurring fair value measurements

There are no non-current assets held for sale or other items held for sale with non-recurring fair value measurements as at 31 December 2022 and 31 December 2021.

(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:

In millions of Czech crowns	31 December 2022				31 December 2021			
	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 – current – BRAWA	–	–	72	72	3	–	–	3
– Borrowings from related parties – current – NET4GAS Holdings	–	–	60	60	63	–	–	63
– Bank borrowings	–	–	14,678	14,613	–	–	14,519	14,494
– Bonds	2,497	8,865	–	19,069	4,470	14,119	–	19,100
Lease liability								
– Finance lease from BRAWA	–	–	4,766	6,562	–	–	6,237	6,836
TOTAL LIABILITIES	2,497	8,865	19,576	40,376	4,536	14,119	20,756	40,496

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.

36. Subsequent Events

On 4 January 2023, the Company released regulatory information (see Note 4 for the full wording) in which it stated that it had not received the latest monthly payments due under its material contracts with the Major Shipper. Since that time, the situation has not changed, and the Major Shipper has not paid the invoices due (which constitutes a breach of contract). This means that the scenario anticipating the termination of Russian gas supplies to Europe as described in Note 4 has started to apply.

On 24 January 2023, Fitch Ratings stated that N4G’s rating was not affected by the cessation of payments from the Company’s Major Shipper (as already reflected in their previous projections), but uncertainty was growing.

The Company’s management continuously monitors the current situation and assesses potential impacts on its business. As of the date of these financial statements, management believes that the situation does not affect the going concern assumption in 2023. However, it cannot be ruled out that there will be further developments, which may subsequently have a significant impact on the Company’s financial position, financial results, cash flows and assets.

No other events occurred after the balance sheet date that would have a significant impact on the financial statements.

24 February 2023



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

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 2022, 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 separate 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 2022, 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 2022, 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 2022, 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
Going Concern and Impairment of the Long-Term Assets	
Refer to Notes 4, 33 and 36 of the separate and 4, 31 and 34 of the consolidated financial statements.	We performed the following audit procedures:
Revenues of the Company/Group are coming mainly from the long-term transit contracts with the Russian major shipper (55 % of the main activity revenues in 2022 and 76 % in 2021). On 24 February 2022, Russia invaded Ukraine and a military conflict started, posing significant risks to the Company/Group. The impact of the severe economic sanctions and the overall geopolitical uncertainties have led to a rating downgrade of the Russian Federation, the major shipper and the Company/Group as well. Since September 2022, the major shipper has not transported the gas through the transmission pipeline and since the end of December 2022, the payments of the major shipper to the Company/Group have been interrupted.	<ul style="list-style-type: none">• discussions with management and those charged with governance that focused on the Company's/Group's future plans, their evaluation of the uncertain situation on the gas supply market, expectations and alternative options due to the shutdown of gas supplies from the major shipper;• assessment of the assumptions made by the Company's/Group's management in preparing the financial statements with scenarios from independent international agencies, and the going concern assessment prepared by the Company's/Group's management.• assessment of the design and implementation of control procedures in connection with the evaluation of the risk of impairment of long-term assets;• analysis of the Company's/Group's plans for the period from 2023 to 2027, evaluation of the appropriateness of the assumptions used in their preparation and the impact of these facts on the possible impairment of long-term assets;• using our DT internal experts, we assessed the appropriateness of the methodology, including key assumptions in the analysis of impairment of long-term assets prepared by the Company's/Group's management;• analysis of the Company's/Group's monthly liquidity forecast for the next 12 months from the year-end, evaluation of the appropriateness of the assumptions used in their preparation;• evaluating whether the separate and consolidated financial statements contain prescribed disclosures regarding the risk of possible impairment of the Company's/Group's long-term assets in accordance with International Financial Reporting Standards as adopted by EU.

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 with 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 18 June 2021 and our uninterrupted engagement has lasted for five 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 24 February 2023 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 annual report.

In Prague on 24 February 2023

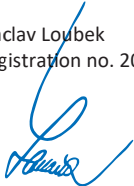
Audit firm:

Deloitte Audit s.r.o.
registration no. 079



Statutory auditor:

Václav Loubek
registration no. 2037



Annex no. 4: Consolidated disclosures pursuant to Article 8 Taxonomy Regulation

Financial year 2022



NET4GAS, s.r.o.

Consolidated disclosures pursuant to Article 8 Taxonomy Regulation

Financial year 2022

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Article 8 Taxonomy Regulation

The Taxonomy Regulation is a key component of the European Commission’s action plan to redirect capital flows towards a more sustainable economy. It represents an important step towards achieving carbon neutrality by 2050 in line with EU goals as the Taxonomy is a classification system for environmentally sustainable economic activities.

The group is from 2021 subject to the Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (later as EU Taxonomy), which establishes the criteria for determining whether an economic activity qualifies as environmentally sustainable, and set the obligation to publish qualitative and quantitative information on how and to what extent the undertaking’s activities are associated with economic activities that qualify as environmentally sustainable for the transparency purpose.

Common Delegated Regulation (EU) 2021/2139 of 4 June 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by establishing the technical screening criteria for determining the conditions under which an economic activity qualifies as contributing substantially to climate change mitigation or climate change adaptation and for determining whether that economic activity causes no significant harm to any of the other environmental objectives defines which economic activities are aligned with EU Taxonomy. The Regulation states that classification of economic activities under the EU Taxonomy is connected to the classification system NACE Revision 2, established by the Regulation (EC) No 1893/2006 of the European Parliament and of the Council of 20 December 2006.

Common Delegated Regulation (EU) 2021/2178 of 6 July 2021 supplementing Regulation (EU) 2020/852 of the European Parliament and of the Council by specifying the content and presentation of information to be disclosed by undertakings subject to Articles 19a or 29a of Directive 2013/34/EU concerning environmentally sustainable economic activities and specifying the methodology to comply with that disclosure obligation establishes the obligation for the financial year 2022 disclose the share of both taxonomy-aligned and taxonomy-eligible economic activities in the turnover, CapEx and OpEx in relation to total activities. The economic activities which are eligible for the EU Taxonomy defines the Regulation (EU) 2021/2178 as activities which are described in above mentioned Common Delegated Regulations regardless of this economic activity meets all the technical screening criteria defined in the Common Delegated Regulations.

Our activities

Details by economic activity

Eligible, aligned and non-eligible activities in total mil. CZK and % Turnover, CapEx and OpEx

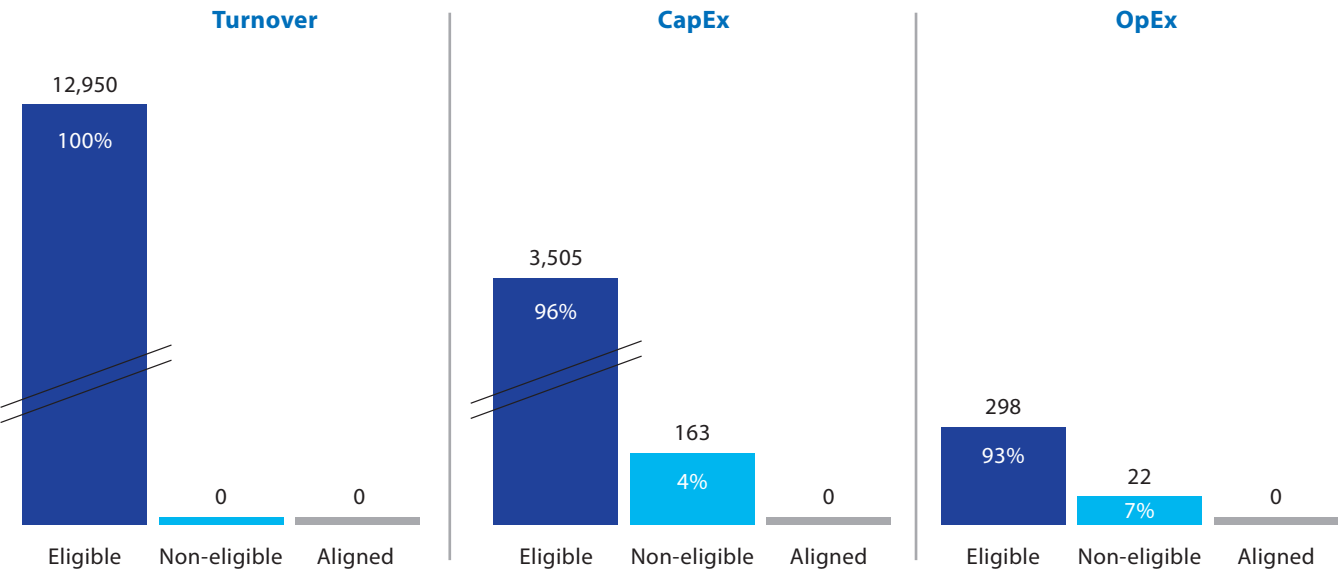


Table 1 – Proportion of Taxonomy-eligible, Taxonomy-aligned and Taxonomy-non-eligible economic activities in total turnover, CapEx and OpEx

	Total (mil. CZK)	Proportion of Taxonomy-eligible economic activities	Proportion of Taxonomy-aligned economic activities	Proportion of Taxonomy-non-eligible economic activities
Turnover	12,950	100%	0%	0%
Capital expenditure (CapEx)	3,668	96%	0%	4%
Operating expenditure (OpEx)	320	93%	0%	7%

The Group’s main business activity is natural gas transmission 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 acts (the “Energy Act”).

From a purely technical perspective, NET4GAS’s network is ready to accept and transport low-carbon gases (e.g. biomethane and synthetic methane) today. In reality, the share of such gases is negligible, as the renewable and low-carbon gas market is not sufficiently developed and the necessary regulatory framework has not been implemented yet. This is also reflected by the lack of customer demand for the transport of such gases as demonstrated by the market tests conducted by NET4GAS on a regular basis under the supervision of the Czech Energy Regulatory Office.

Definitions

Taxonomy-eligible economic activity means an economic activity that is described in the delegated acts supplementing the Taxonomy Regulation (i.e. the Climate Delegated Act as of now) irrespective of whether that economic activity meets any or all of the technical screening criteria laid down in those delegated acts.

Taxonomy-aligned economic activity means an economic activity that complies with all the following requirements:

- a) the economic activity contributes substantially to one or more of the environmental objectives;
- b) it does not significantly harm any of the environmental objectives;
- c) it is carried out in compliance with the minimum safeguards; and
- d) it complies with technical screening criteria in the delegated acts supplementing the Taxonomy Regulation (i.e. Climate Delegated Act as of now).

Taxonomy-non-eligible economic activity means any economic activity that is not described in the delegated acts supplementing the Taxonomy Regulation.

Taxonomy-eligible economic activities

We have examined the relevant Taxonomy-eligible economic activities based on our activities as a transmission system operator for gas and assigned them to the following economic activities in accordance with Annex I and II of the Climate Delegated Act. The table below indicates for which environmental objective the activities qualify as eligible:

Table 2 – Taxonomy-eligible economic activities

Eligible economic activity (number, name)	Description	NACE-Code	Climate change mitigation	Climate change adaptation
4.14 Transmission and distribution networks for renewable and low-carbon gases	Operation, construction and conversion of gas networks for transmission of renewable and low-carbon gases, and hydrogen	H49.50	yes	yes

Allocation of turnover, CapEx and OpEx to one environmental objective

The Net4Gas Group is particularly concerned with the objective of climate change mitigation. One of the Group’s main targets is to significantly contribute to climate change mitigation in all of its economic activities as well as internal policies and processes. Group’s effort to contribute to climate change mitigation is intermingling with its corporate strategy. All constructions and reconstructions of the pipeline routes are planned to fully enable to transport low-carbon gases and increase the allowable portion of hydrogen element in the transported gas mix. The company also increases the effort to purchase green electricity and invest in electric cars for its employees. All described activities have one common target – to mitigate the climate change.

It was determined that activity 4.14 should be allocated to climate change mitigation as the contribution to climate change adaptation is of minor importance and the Taxonomy does not allow double counting.

Relevant judgement on the Taxonomy-eligibility of our activities

Core business activities and external turnover

Our assessment of Taxonomy-eligible activities is focused on economic activities defined as the provision of services on a market, thus (potentially) generating revenues (at the present time or in the future). In this context, we as a transmission system operator for gas assess our business by our contribution to provide infrastructure for the transport of low-carbon gases and hydrogen. Therefore, the activity 4.14 represents our core business activity which we evaluate against the Taxonomy Regulation. Underlying activities, such as acquisition/construction of new buildings (compression stations, transfer/measuring stations) are subsumed under our core activities as they are only supporting these. They are not reported as Taxonomy-eligible activities and are not included in our turnover KPI as they are not generating external turnover on a standalone basis.

Activity 4.14

The activity 4.14 in Annex I to the Climate Delegated Act is described as „conversion, repurposing or retrofit of gas networks for the transmission and distribution of renewable and low-carbon gases“ and/or „construction or operation of transmission and distribution pipelines dedicated to the transport of hydrogen or other low-carbon gases“. As a transmission system operator of gas, the nature of the substance that we transport is decided by the market. Therefore, we assessed the eligibility of our core economic activity by the capacity of our infrastructure to carry hydrogen and other low-carbon gases, and the development in this area. Our systems are at this moment fully prepared to transport low-carbon gases (i.e. synthetic methane, biomethane, etc.) as per Section 2, Art. (b), Par. 9 of Act No. 458/2000.

As our group is fully ready to transport the low-carbon gas, we concluded that our core activity is eligible according to the taxonomy. Our main point of view is that Net4Gas provides all the necessary potential for the market to enhance utilization of low-carbon gases. Most of our capital expenditures are aimed to enhance the potential to transmit the low-carbon gases and gases with hydrogen element.

Thus, we evaluate our activity as eligible according to the taxonomy.

Notion of „low-carbon gases“

The description of activity 4.14 in Annex I to the Climate Delegated Act does not contain a clear definition of the term „low-carbon gases“. Such definition is a part of the Directive (EU) 2018/2001 of the European Parliament and of the Council which at this moment is in the state of proposal for an amendment.

Taxonomy-aligned economic activities to be assessed

As a further step, we examined our economic activities which qualify as Taxonomy-eligible. We assessed these activities against the relevant technical screening criteria and „Do no significant harm“ principles and “minimum safe-guards” of the Annex I and II of the Climate Delegated Act. The table below indicates for which environmental objective the taxonomy alignment should be assessed:

Table 3 – Taxonomy-aligned economic activities to be assessed

Eligible economic activity (number, name)	Description	Climate change mitigation	Climate change adaptation
4.14 Transmission and distribution networks for renewable and low-carbon gases	Transmission of gas (potentially low-carbon gas) through own network.	yes	yes

Relevant judgement on the Taxonomy-alignment of our activities

Assessment of compliance with the criteria for a Taxonomy-aligned activity

Regulation (EU) 2020/852 (Article 3) and the associated technical screening criteria included in the delegated acts.

Technical screening criteria

For activity 4.14 the technical screening criteria are as follows:

1. The activity consists in one of the following:

a) Construction or operation of new transmission and distribution networks dedicated to hydrogen or other low-carbon gases;

b) Conversion/repurposing of existing natural gas networks to 100% hydrogen;

c) Retrofit of gas transmission and distribution networks that enables the integration of hydrogen and other low-carbon gases in the network, including any gas transmission or distribution network activity that enables the increase of the blend of hydrogen or other low-carbon gases in in the gas system;
2. The activity includes leak detection and repair of existing gas pipelines and other network elements to reduce methane leakage.

Concerning point 1., it is our core activity to construct and operate transmission networks capable of carrying low-carbon gases as well as retrofit of our networks, that enables the increase of the blend of other low carbon gases or hydrogen. In reality, the Group operates new or retrofitted sections of the gas pipeline together with the original sections as one technically indivisible gas pipeline network.

With regard to point 2., leak detection and repair of existing gas pipelines and other network elements to reduce methane leakage is a vital part of our core business activity.

Hence, we conclude that we comply with the technical screening criteria for activity 4.14.

Do no significant harm (‘DNSH’) principle

We assessed compliance with the individual DNSH principles as follows:

1. Climate change adaptation
Net4Gas as a critical infrastructure carefully monitors physical risks related to climate change. Regular monitoring and evaluations ensure that any potential impact is proactively addressed, and potential risks are being diminished. This physical risk analysis, however, has been withheld according to Net4Gas policies that differs to the Taxonomy regulation demand. Due to the fact, that there is no best practice available yet and the fact that the suitable climate impact assessment models for our complex assessment are not yet fully available for the Czech Republic area, the Group couldn’t prepare its own climate plan that would fulfil the criteria of DNSH principles.
2. Sustainable use and protection of water and marine resources
Referring to the impossibility of fulfilling point 1 for the objective reason, we did not assess this criterion.
3. Pollution prevention and control
Referring to the impossibility of fulfilling point 1 for the objective reason, we did not assess this criterion.
4. Protection and restoration of biodiversity and ecosystems
Referring to the impossibility of fulfilling point 1 for the objective reason, we did not assess this criterion.

Minimum safeguards

The Group is very confident about compliance with the minimum safeguards as the Group is fully compliant with relevant European and Czech national legislation. Since in 2022 year we have not identified any activities that would be potentially aligned with taxonomy regulation, the Group decided to postpone the full assessment until the best practice approach is fully settled. The Group believes that the best practice approach towards the assessment will significantly evolve in the first months of 2023.

The Group’s strategy and all KPIs focus on climate change mitigation.

Taxonomy-non-eligible economic activities

Aside from the operation and construction of transmission systems, NET4GAS Group offers only few other services and in a very limited scale, such as purchase or sale of gas (gas balancing), and maintenance/repairs services to other TSO’s. Net4Gas also invests in back-office improvement. Due to their nature, we consider none of these activities as Taxonomy-eligible.

Taxonomy-eligible and Taxonomy-aligned CapEx and OpEx

With regard to CapEx and OpEx related to our Taxonomy-eligible and Taxonomy-aligned economic activities and CapEx/OpEx related to purchases and measures that we consider as individually Taxonomy-eligible and Taxonomy-aligned, we refer to the explanations in the sections „CapEx KPI“ and „OpEx KPI“ in the description of our accounting policies.

Our KPIs and accounting policies

The key performance indicators („KPIs“) include the turnover KPI, the CapEx KPI and the OpEx KPI. For the reporting period 2022, the KPIs have to be disclosed in relation to both Taxonomy-eligible and Taxonomy-aligned economic activities as well as Taxonomy-non-eligible economic activities (Art. 10 (2) of the Art. 8 Delegated Act).

Process for data collection and validation

In order to report information on Taxonomy-eligible and Taxonomy-aligned economic activities in 2022, the Nat4Gas Group has:

- reviewed the Group's business activities and pre-identified the activities that could be eligible;
- performed a detailed analysis of the individual Taxonomy-eligible and Taxonomy-aligned economic activities;
- carried out training sessions for the Taxonomy methodology;
- set up a multidisciplinary team in charge of supporting and answering questions; and
- consulted with external experts and peers to ensure a correct and consistent interpretation of the legal requirements.

The specification of the KPIs is determined in accordance with Annex I of the Art. 8 Delegated Act. We determine the Taxonomy-eligible and Taxonomy-aligned KPIs in accordance with the legal requirements and describe our accounting policy in this regard as follows:

Turnover KPI

Definition

ELIGIBLE

The proportion of Taxonomy-eligible economic activities in our total turnover has been calculated as the part of net turnover derived from products and services associated with Taxonomy-eligible economic activities (numerator) divided by the net turnover (denominator), in each case for the financial year from 1. 1. 2022 to 31. 12. 2022.

The denominator of the turnover KPI is based on our consolidated net turnover in accordance with IAS 1.82(a). For further details on our accounting policies regarding our consolidated net turnover, cf. the Annual Report 2022, Annex no.1 Consolidated Financial Statements.

The numerator of the turnover KPI is defined as the net turnover derived from products and services associated with Taxonomy-eligible economic activities, i.e.

- Activity 4.14 „Transmission and distribution networks for renewable and low-carbon gases generates net turnover from the sale of our gas transmission services.

Reconciliation

Our consolidated net turnover can be reconciled to our consolidated financial statements, in our Annual Report 2022 Annex no.1 Consolidated Financial Statements, in the P&L Statement, Revenue.

Contribution to multiple objectives

The Group’s strategy and all KPIs target on climate change mitigation.

Contextual information

Contextual information about turnover KPI for non-financial undertakings is published in our Annual report 2022, Annex no.1 Consolidated Financial Statements, Note 6 – Segment information.

A quantitative breakdown of the numerator in order to illustrate the key drivers of the turnover KPI consists of Gas Transit &Transmission in the amount of 12,950 mil. CZK.

CapEx KPI

Definition

ELIGIBLE

The CapEx KPI is defined as Taxonomy-eligible CapEx (numerator) divided by our total CapEx (denominator).

Total CapEx consists of additions to tangible and intangible fixed assets during the financial year, before depreciation, amortization and any re-measurements, including those resulting from revaluations and impairments, as well as excluding changes in fair value. It includes acquisitions of tangible fixed assets (IAS 16), intangible fixed assets (IAS 38), right-of-use assets (IFRS 16) and investment properties (IAS 40). Additions resulting from business combinations are also included. For further details on our accounting policies regarding our CapEx, cf. the Annual Report 2022, Annex no.1 Consolidated Financial Statements, Note 8 – Property, Plant and Equipment and Note 9 – Intangible assets.

The numerator consists of the following categories of Taxonomy-eligible CapEx:

CapEx related to assets or processes that are associated with Taxonomy-eligible economic activities when they are essential components necessary to execute an economic activity 4.14 Transmission and distribution networks for renewable and low-carbon gases.

Consequently, the CapEx invested into the 4.14 activity areas is considered in the numerator of the CapEx KPI in the amount of 3,505 mil. CZK.

All projects were assessed according to the chapter Relevant judgement on the Taxonomy-eligibility of our activities (see above) and check if fulfil the technical screening criteria for alignment.

Reconciliation

Our total CapEx can be reconciled to our consolidated financial statements, cf. the Annual Report 2022, Annex no.1 Consolidated Financial Statements, Note 8 – Property, Plant and Equipment and Note 9 – Intangible assets.

They are the total of the movement types (acquisition and production costs) for intangible assets, right-of-use assets, property, plant and equipment and investment properties.

Contribution to multiple objectives

The Group’s strategy and all KPIs target on climate change mitigation.

OpEx KPI

Definition

ELIGIBLE

The OpEx KPI is defined as Taxonomy-eligible OpEx (numerator) divided by our total OpEx (denominator).

Total OpEx consists of direct non-capitalised costs that relate to research and development, building renovation measures, short-term lease, maintenance and repair, and any other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment.

- The volume of non-capitalised leases was determined in accordance with IFRS 16 and includes expenses for short-term leases and low-value leases (cf. Annual Report 2022, Annex no.1 Consolidated Financial Statements, Note 18 – Finance Lease Liability).
- Maintenance and repair and other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment were determined based on the maintenance and repair costs allocated to our internal cost centres. The related cost items can be found in various line items in our income statement, including Raw materials consumed, Services purchased and Employee benefits.
- In general, this includes staff costs, costs for services, and material costs for daily servicing as well as for regular and unplanned maintenance and repair measures. This does not include expenditures relating to the day-to-day operation of PP&E such as: raw materials, cost of employees operating the pipeline network, overheads employees, electricity or fluids that are necessary to operate the gas transmission.

The numerator consists of the Taxonomy-eligible OpEx, which means OpEx related to processes that are associated with Taxonomy-eligible economic activity 4.14 Transmission and distribution networks for renewable and low-carbon gases.

The Groups' methodology for the allocation key is based on maintenance crew costs. The maintenance working time and the other OpEx (i.e. materials, overheads, and others) mentioned above is divided into maintenance of the gas transmission equipment and other maintenance.

Contribution to multiple objectives

The Group's strategy and all KPIs target on climate change mitigation.

Proportion of turnover from products or services associated with Taxonomy-aligned economic activities – disclosure covering 2022

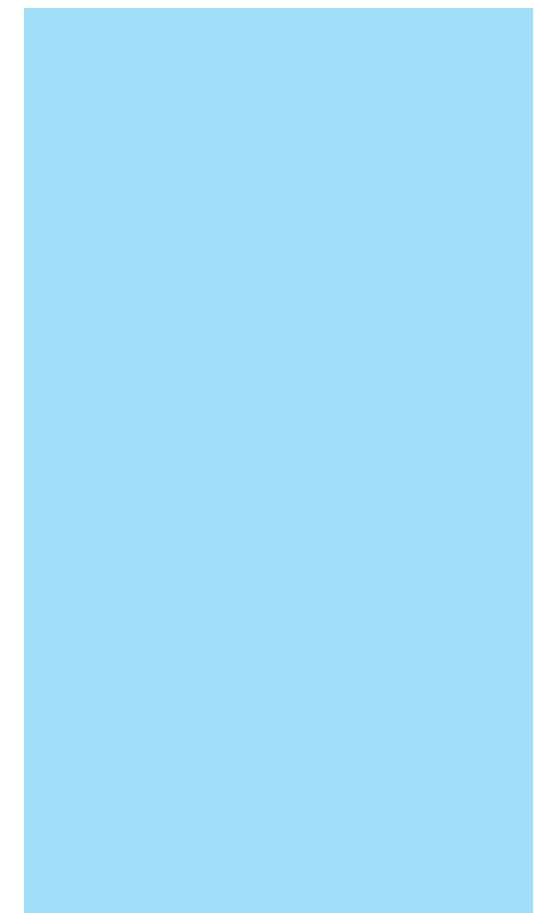
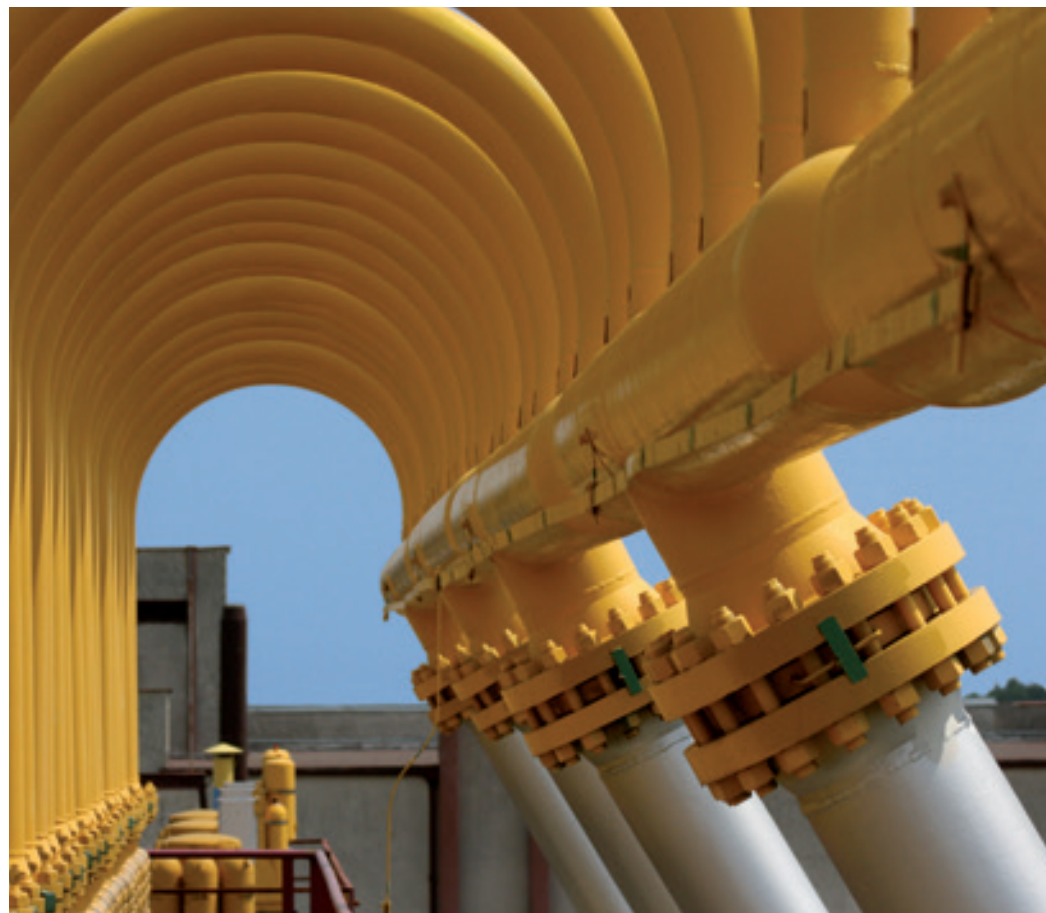
				Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')												
Economic activities (1)	Code(s) (2)	Absolute turnover (3) mil. CZK	Proportion of turnover (4)	Climate change mitigation (5) %	Climate change adaptation (6) %	Water and marine resources (7) %	Circular economy (8) %	Pollution (9) %	Biodiversity and ecosystems (10) %	Climate change mitigation (11) Y/N	Climate change adaptation (12) Y/N	Water and marine resources (13) Y/N	Circular economy (14) Y/N	Pollution (15) Y/N	Biodiversity and ecosystems (16) Y/N	Minimum safeguards (17) Y/N	Taxonomy- aligned proportion of turnover, 2022 (18) Percent	Taxonomy- aligned proportion of turnover, 2021 (19) Percent	Category (enabling activity or) (20) E	Category (‘transitional activity’) (21) T		
A. TAXONOMY-ELIGIBLE ACTIVITIES																						
A.1. Environmentally sustainable activities (Taxonomy-aligned)																						
4.14 Transmission and distribution networks for renewable and low-carbon gases	H49.50	0	0%																			
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0%	0%	0%	0%	0%	0%	0%													
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																						
4.14 Transmission and distribution networks for renewable and low-carbon gases	H49.50	12 950	100%																			
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		12 950	100%																			
Total (A.1 + A.2)		12 950	100%																			
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																						
Turnover of Taxonomy-non- eligible activities (B)		0	0%																			
Total (A + B)		12 950	100%																			

Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities – disclosure covering 2022

				Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')										
Economic activities (1)	Code(s) (2)	Absolute CapEx (3)	Proportion of CapEx (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water and marine resources (7)	Circular economy (8)	Pollution (9)	Biodiversity and ecosystems (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water and marine resources (13)	Circular economy (14)	Pollution (15)	Biodiversity and ecosystems (16)	Minimum safeguards (17)	Taxonomy- aligned proportion of CapEx, 2022 (18)	Taxonomy- aligned proportion of CapEx, 2019 (19)	Category (enabling activity) (20)	Category (transitio nal activity)' (21)
		mil. CZK	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	Percent	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																				
A.1. Environmentally sustainable activities (Taxonomy-aligned)																				
4.14 Transmission and distribution networks for renewable and low-carbon gases	H49.50	0	0%																	
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0%	0%	0%	0%	0%	0%	0%											
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																				
4.14 Transmission and distribution networks for renewable and low-carbon gases	H49.50	3 505	96%																	
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		3 505	96%																	
Total (A.1 + A.2)		3 505	96%																	
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																				
CapEx of Taxonomy-non-eligible activities (B)		163	4%																	
Total (A + B)		3 668	100%																	

Proportion of OpEx from products or services
associated with Taxonomy-aligned economic
activities – disclosure covering 2022

				Substantial contribution criteria						DNSH criteria (‘Does Not Significantly Harm’)													
Economic activities (1)	Code(s) (2)	Absolute OpEx (3) mil. CZK	Proportion of OpEx (4) %	Climate change mitigation (5) %	Climate change adaptation (6) %	Water and marine resources (7) %	Circular economy (8) %	Pollution (9) %	Biodiversity and ecosystems (10) %	Climate change mitigation (11) Y/N	Climate change adaptation (12) Y/N	Water and marine resources (13) Y/N	Circular economy (14) Y/N	Pollution (15) Y/N	Biodiversity and ecosystems (16) Y/N	Minimum safeguards (17) Y/N	Taxonomy-aligned proportion of OpEx, 2022 (18) Percent	Taxonomy-aligned proportion of OpEx, 2021 (19) Percent	Category (enabling activity) (20) E	Category ‘transitional activity’ (21) T			
A. TAXONOMY-ELIGIBLE ACTIVITIES																							
A.1. Environmentally sustainable activities (Taxonomy-aligned)																							
4.14 Transmission and distribution networks for renewable and low-carbon gases	H49.50	0	0%																				
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		0	0%	0%	0%	0%	0%	0%	0%														
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																							
4.14 Transmission and distribution networks for renewable and low-carbon gases	H49.50	298	93%																				
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		298	93%																				
Total (A.1 + A.2)		298	93%																				
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																							
OpEx of Taxonomy-non-eligible activities (B)		22	7%																				
Total (A + B)		320	100%																				



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