Czech Gas Networks Investments S.à r.l.

Annual Report for the year ended 31 December 2023

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Czech Gas Networks Investments S.à r.l.

Consolidated Management Report

31 December 2023

1. CGNI Group Profile

The Czech Gas Networks Investments S.à r.l. consolidation scope is made up of Czech Gas Networks Investments S.à r.l. (the “Company” or “CGNI”) and its subsidiaries Czech Grid Holding, a.s., GasNet, s.r.o. and GasNet Služby, s.r.o. (together referred to as the “GasNet Group”). All subsidiaries are fully owned by Czech Gas Networks Investments S.à r.l. (together the “Group“).

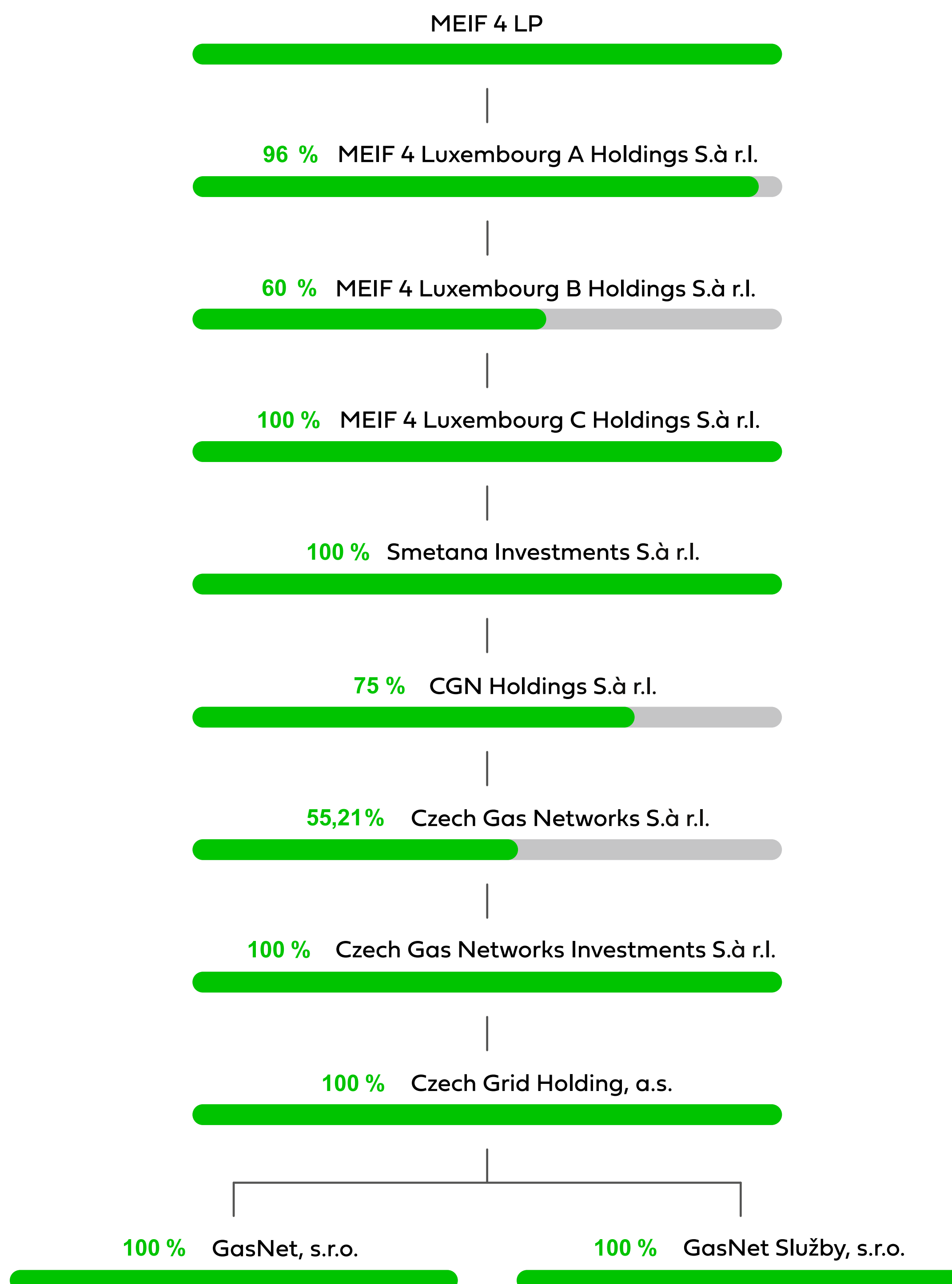
The Company was incorporated on 22 March 2019 and is domiciled in the Grand Duchy of Luxembourg. The Company’s registered office is located at 20, Boulevard Royal, L-2449 Luxembourg.

On 30 September 2019, the Group purchased 100% shares in GasNet Group.

GasNet Group distributes natural gas throughout the territory of the Czech Republic with the exception of Prague and South Bohemia. The gas distribution activity is regulated by an independent regulatory body, Energy Regulatory Office (“ERO“). The regulation is conducted by determining the overall level of allowed revenues (the Revenue Cap) and the subsequent calculating of tariffs for distribution services for individual customers. These distribution prices (tariffs) are published annually in a price resolution issued by ERO. Further, GasNet Group oversees the operation and maintenance of the distribution system and the corresponding gas assets. The Group's other business activities include comprehensive document management and administration, measuring natural gas consumption and quality, connecting and disconnecting customers, and, no less importantly, engineering services for the construction and reconstruction of natural gas distribution networks.

The Group prepares consolidated financial statements in accordance with IFRS Accounting Standards (“IFRS“) as adopted by the European Union (“EU”) under the historical cost convention. The Group financial year begins on 1 January and ends on 31 December.

The structure of CGNI Group for the period from 1 January to 31 December 2023 is as follows:



Minority shareholders of Czech Gas Networks S.à r.l.:

- Varese IRR LP with a 26.29% share
- Allianz Infrastructure Luxembourg II S.à r.l. with an 18.5% share

2. Background and significant events in the year 2023

2.1 Key Group Ratios 2023

In millions of CZK

Total sales revenue	13,047
EBITDA	7,660
Operating profit	834
Loss before income tax	(2,937)
Loss for the year	(4,178)
Investments	4,598
Number of employees (FTE)	2,285

2.2 Current social and economic situation and its impact on the Group

In its second year now, the Russian aggression against Ukraine had a continuing effect on the social and economic situation in the country, impacting the Group's business operations as well. However, the adverse effect of severing the supply of natural gas from the Russian Federation to EU countries was almost eliminated in 2023 thanks to securing alternative sources of gas. In the case of the Czech Republic, the quantity of gas supplied from Russia reached a record historical low.

In the course of 2023, a fundamental change took place in the Czech Republic regarding sources of natural gas. The Czech Republic began relying mainly on gas of Norwegian provenience as well as LNG. These alternative sources accounted for 92% of gas supplied to the Czech Republic. Thanks to diversifying gas sources and the option to store gas in underground storage facilities in the Czech Republic, the supply of gas to end consumers was secured throughout 2023, with no need for any restrictions or interruptions. Reducing dependence on gas supplies from the Russian Federation was also reflected in gas prices on the commodity exchange, which, apart from minor fluctuations, continued falling starting at the beginning of 2023 to reach levels at the end of the year that were below one half of their value at the start of the year.

Despite the favourable development, however, the Group continued its efforts and preparations for increasing the share of distributed renewable and low-carbon gaseous fuels. In accordance with the REPowerEU pan-European strategy, new biomethane production facilities are currently being connected to the Group's network. In addition, the Group develops activities aimed at the future distribution of hydrogen. Apart from reducing dependence on Russian fossil gas, pursuing this strategy has a positive effect on fulfilling the EU's greenhouse gas emission reduction targets. In 2023, the inflation rate reached 10.7% and had an impact mainly on the Group's cost of gas transportation and cost for operating losses within gas transportation.

In 2023, energy prices for gas distributors in the Czech Republic were subject to capping by the state keeping them at the 2022-year level, which slowed their negative impact on the Company's costs relating to gas purchased for the Company's own consumption and mainly for compensation of losses in the distribution network in 2023.

2.3 Group Investments

Throughout the reported year, the Group executed investment projects worth CZK 4,598 million in total in accordance with the approved investment plan. Most of the funds were invested in renovating the distribution system.

2.4 Distribution System

The distribution system is operated by GasNet, s.r.o., based on Gas Distribution License No. 220604925 awarded on 1 January 2007.

Overview of Gas Assets		2023
Length of operated pipelines		
Local networks	km	42,793
Service lines	km	11,174
Long-distance lines	km	11,081
Transfer and very-high-pressure regulating stations	units	56
High-pressure regulating stations	units	2,742
Medium-pressure regulating stations	units	751
Cadastral communities with a gas distribution license	units	6,879

The number of offtake points connected to the distribution system decreased year-on-year by 22,428 down to 2,228,993. At the same time, the quantity of distributed gas fell from 65 TWh to 59 TWh. This 9% decrease in consumption was mainly due to very warm weather and customers' continuing cost-saving efforts resulting from high energy prices. The average temperature during the 2023 heating season was 1.0°C higher compared to 2022. As part of the strategy of transition to renewable gases, three new biomethane production facilities were connected to the Group’s network in 2023.

2.5 Business and Risk Management

Business activities

In 2023, the situation on the gas market began to stabilise, and prices for gas supplied to end customers gradually decreased. The specific situation on the gas market in the preceding years, caused by reducing and subsequently halting gas supplies from Russia, resulted in a change in the direction of gas flow, as the Czech Republic reoriented itself to gas of Norwegian provenience and LNG.

In total, there were 135 thousand supplier switches in 2023, a figure below the average recorded during the entire time since gas market liberalisation. In line with the gradual decline in gas prices during 2023, there was an observable trend of rising number of supplier switches, particularly in the fourth quarter of 2023, as customers and traders responded to lessening price-related tensions and new offers on the gas market.

Risk management

Risks to which the Group is exposed are regularly monitored and assessed, and the management is informed of the current state of risks by means of reports. In 2023, adopted measures and intensive communication led to reducing the Group's risk exposure on the one hand, and they also improved risk awareness across the entire spectrum of tasks and processes, where risk assessment became an intrinsic part of the decision-making process in change management, project-related procedures, and regular operations in all departments.

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

Foreign exchange rate risk

The Group is exposed to currency risk stemming from loans and bonds denominated in EUR. Based on internal policies, for at least 85% of the notional amount of each facility, which is denominated in a currency other than CZK, cross-currency swaps are contracted for a term of at least 12 months. The Group does not operate internationally, and only the FX risk that the Group is exposed to is from financing facilities and negligible from operational matters.

Interest-rate risk

The Group is exposed to the interest-rate risk which relates primarily to the Group's loan facilities and bonds with a floating interest rate. To mitigate the interest-rate risk, the Group took internal measures and for a minimum of 90% of the notional amount of all loan facilities and bonds entered into interest-rate swaps in the past.

Credit risk

The Group exposes itself to credit risk, which is the risk that one party to a financial instrument will cause a financial loss to the other party by failing to meet its obligations. Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets. Credit risk is one of the most significant risks for the Group´s core distribution business. However, a major part of the Group´s risk related to gas distribution services provided mostly to traders, gas suppliers and local distributors is managed by means of credit rules called "Conditions of Financial Eligibility" implemented in the Group´s Network Code (that is a part of legal framework approved by ERO based on non-discriminatory rules). Moreover, the credit loss related to the P&L impact from bad debts is recognised by ERO and is fully reimbursed with a time lag as an eligible cost.

Liquidity risk

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

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

Legislative Changes on the EU Gas Market

The Group's business operations continue to be affected by the decarbonisation of the energy supply sector in the EU. The process consists of approving various legislative measures aimed at meeting the main target of the European Green Deal, specifically reducing greenhouse gas emissions in the EU by 55% between the years 1990 and 2030, and to attain climate neutrality by the year 2050.

The important specific measure applicable to the gas supply sector and to the transition to a growing share of renewable gases, hydrogen in particular, in transport is the adopted revision of the rules laid down under the Gas Package that introduces the basic framework for the development of hydrogen infrastructure, which will be subject to rules similar to those that have proved effective on the electricity and natural gas markets. This approach leads to an environment conducive to securing necessary technical measures and minimum investments into the ongoing transformation of the gas supply network for the distribution of hydrogen.

Legislative Changes Concerning the Czech Gas Market

Toward the end of 2023, an amendment to the Energy Act (458/2000 Coll.) was approved coming into effect starting on 1 January 2024, whereby hydrogen has been placed among energy gases permitted to be injected into the gas supply system and deliver to consumers. Therefore, hydrogen now has the same legal framework as natural gas or biomethane.

2.6 Financial instruments

Derivative financial instruments, including currency and interest-rate swaps 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. Changes in the fair value of derivative instruments are included in profit or loss for the year. All the realised and unrealised results from trading derivatives are presented net in finance costs or finance income within profit or loss for the year. The Group does not apply hedge accounting.

The fair value of cross-currency swap agreements amounted to CZK 6,732 million recognised as a derivative liability of CZK 6,878 million and a derivative asset of CZK 146 million and the fair value of interest swap agreements (derivative asset) amounted to CZK 3,987 million as at 31 December 2023.

2.7 Human Resources

In 2023, employee headcount (FTE) in the Group was 2,285. Wages developed in accordance with the Group's business strategy and the remuneration principles agreed with the trade union.

2.8 OHS and Environmental Protection

In 2023, the Group continued the past trend of improving occupational health and safety as one of its key corporate values. Conditions were created for all employees to monitor (potential) hazards and to propose improvements to workplace safety.

In 2023, the Group underwent two independent assessments, both of which confirmed that Group’s Environmental, Social & Governance (ESG) efforts are properly managed. The first instrument for inspecting ESG performance was the GRESB rating, where the Group obtained 87 out of 100 points. The second rating was given by Sustainalytics, a widely recognised independent international agency, which showed that the Group ranks at the top of the gas supply sector. As of November 2023, the Company received an ESG Risk Rating of 14.6 and was assessed to be at Low Risk of experiencing material financial impacts from ESG factors. The Company’s ESG Risk Rating places it 3rd among the Gas Utilities assessed by Sustainalytics.

The autumn saw the completion of the Climate Risk Project, which identified climate risks and opportunities in the context of their potential impact on the Group.

In August 2023, the third edition of the Sustainability Report was released, which provides information on the Group's impact on the environment, society, and the market, and presents actions through which we endeavour to contribute to a sustainable future. The report can be found on the Company's website at www.cgni.eu.

In 2023, no significant adverse environmental impact was recorded.

2.9 Outlook

The Group is closely involved in the process aimed at decarbonising the energy sector and reducing greenhouse gas emissions. An important role in efforts to that effect is played by renewable and low-carbon gases, specifically biomethane and hydrogen. The Group is convinced that biomethane can replace as much as 15% of the overall consumption of natural gas in the Czech Republic. Measures implemented by the Group are ready to meet the anticipated increase in demand for the connection of biomethane production plants to the network. Currently, there are five biomethane stations connected to the network. An additional five are expected to be connected in 2024, but the Group has already now signed close to 20 connection agreements. Likewise, the Group is preparing for the prospective increase in biomethane production, a trend supported and required by the European Union, where support for biomethane production in the Czech Republic was reported to the European Commission in October 2023. It can be expected that 2024 will see intensive efforts to incorporate hydrogen in other related laws and regulations. With that in mind, the Group will continue in the upcoming years getting the distribution network ready for the connection of hydrogen production facilities to the distribution system and for the safe, reliable distribution of hydrogen and natural gas blends. Another important area targeted by the Group is increasing the effectiveness of gas leak detection using modern inspection technologies.

The Group will continue concentrating on securing the safe, reliable, and efficient operation of gas facilities. The Group's objective is to implement organisational and technological measures to reduce emissions related to natural gas. Moreover, the Group will continue improving the quality of services provided to third parties through the ongoing development of digitisation and automation of processes.

A project launched by the ERO in the spring of 2023 to define the regulatory rules and methodology for the subsequent regulatory period (2026-2030) will continue in 2024. Apart from GasNet, the project is executed with the participation of other regulated companies from the gas and electricity supply sectors. The outcome of the project will be a new methodology for regulated prices, which will subsequently be submitted for public consultation. Following the consultation process, the ERO will publish a new binding methodology for price regulation during the Sixth Regulatory Period.

2.10 Subsequent events

In 2023, the Macquarie Group initiated steps leading to the divestment of its majority stake in the Group and invited prospective buyers to submit their proposals. The divestment process continued in 2024. On 20 March 2024, the Macquarie Group, on behalf of managed funds, reached an agreement to sell its 55.21% stake in the Group and in the shareholder loans to ČEZ Group for EUR 846.5 million in total (equivalent of CZK 21.4 billion). The transaction value indicates an enterprise value of the whole business of approximately EUR 4.5 billion (equivalent of CZK 112 billion) and, therefore, there is no indication of impairment as a result of this transaction. The transaction is subject to further regulatory approvals, including an approval from the European Commission, and is expected to reach a financial close in the third quarter of 2024.

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

Czech Gas Networks Investments S.à r.l.

Consolidated Financial Statements

31 December 2023

20, Boulevard Royal

L-2449 Luxembourg

RCS Luxembourg: B 233444

Share capital: CZK 700,000

Audit report

To the Board of Managers of
Czech Gas Networks Investments S.à r.l.

Our opinion

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of Czech Gas Networks Investments S.à r.l. (the “Company”) and its subsidiaries (the “Group”) as at 31 December 2023, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the European Union.

What we have audited

The Group’s consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2023;
- the consolidated statement of profit or loss and other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, including material accounting policy information and other explanatory information.

Basis for opinion

We conducted our audit in accordance with the Law of 23 July 2016 on the audit profession (Law of 23 July 2016) and with International Standards on Auditing (ISAs) as adopted for Luxembourg by the “Commission de Surveillance du Secteur Financier” (CSSF). Our responsibilities under the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the “Responsibilities of the “Réviseur d’entreprises agréé” for the audit of the consolidated financial statements” section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants (IESBA Code) as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the consolidated financial statements. We have fulfilled our other ethical responsibilities under those ethical requirements.

Other information

The Board of Managers is responsible for the other information. The other information comprises the information stated in the annual report but does not include the consolidated financial statements and our audit report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Managers for the consolidated financial statements

The Board of Managers is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards as adopted by the European Union, and for such internal control as the Board of Managers determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Managers is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Managers either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "Réviseur d'entreprises agréé" for the audit of the consolidated financial statements

The objectives of our audit are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an audit report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal 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 Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Managers;

- conclude on the appropriateness of the Board of Managers' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our audit report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our audit report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities and 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 those charged with governance 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 those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

Restriction on distribution and use

This report, including the opinion, has been prepared for and only for the Board of Managers in accordance with the terms of our engagement letter and is not suitable for any other purpose. We do not accept any responsibility to any other party to whom it may be distributed.

PricewaterhouseCoopers, Société coopérative
Represented by

Luxembourg, 6 June 2024

Emanuela Sardi

Consolidated Statement of Financial Position as at 31 December 2023

In millions of CZK	Note	31 December 2023	31 December 2022
ASSETS			
Non-current assets			
Property, plant and equipment	3.1	97,302	99,450
Right-of-use assets	3.3	3,352	3,151
Intangible assets	3.2	731	818
Derivative financial assets	3.12	2,151	4,962
Other non-current assets		1	1
Total non-current assets		**103,537**	**108,382**
Current assets			
Inventories		6	6
Trade and other receivables	3.5	653	585
Income tax prepayment		7	8
Other taxes receivable		3	1
Cash and cash equivalents	3.4	1,194	4,040
Derivative financial assets	3.12	1,982	2,888
Total current assets		**3,845**	**7,528**
TOTAL ASSETS		**107,382**	**115,910**
EQUITY			
Share capital	3.7	1	1
Share premium	3.7	26,173	26,173
Accumulated deficit		(16,277)	(9,382)
Total equity		**9,897**	**16,792**
LIABILITIES			
Non-current liabilities			
Borrowings	3.8	69,076	68,554
Lease liabilities	3.3	2,209	2,037
Deferred income tax liabilities	4.5	15,011	14,133
Provisions		26	56
Other non-current liabilities	3.9	276	320
Derivative financial liabilities	3.12	4,794	7,179
Total non-current liabilities		**91,392**	**92,279**
Current liabilities			
Borrowings	3.8	526	595
Lease liabilities	3.3	235	235
Trade and other payables	3.11	2,397	2,261
Contract liabilities	3.6	627	745
Current income tax payable		-	43
Other taxes payable	3.10	170	168
Provisions		54	77
Derivative financial liabilities	3.12	2,084	2,715
Total current liabilities		**6,093**	**6,839**
Total liabilities		**97,485**	**99,118**
TOTAL LIABILITIES AND EQUITY		**107,382**	**115,910**

Approved for issue and signed on behalf of Board of Managers on 6 June 2024.

William Price
Statutory Director

Rosa Villalobos
Manager

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2023

In millions of CZK	Note	2023	2022
Revenue	4.1	13,047	13,981
Other income		81	106
Work performed by the Group and capitalised	3.1	519	465
Net impairment charge on financial assets	3.5	(17)	(24)
Raw materials and consumables used		(274)	(337)
Employee benefits expense	4.2.1	(2,218)	(2,085)
Depreciation and amortisation	3.1, 3.2, 3.3	(6,826)	(6,887)
Services	4.2.2	(2,848)	(2,666)
Other operating expenses	4.2.3	(630)	(263)
Operating profit		**834**	**2,290**
Finance income	4.4	142	1,361
Finance costs	4.3, 3.8	(3,913)	(6,260)
Loss before income tax		**(2,937)**	**(2,609)**
Income tax expense	4.5	(1,241)	(106)
Loss for the year		**(4,178)**	**(2,715)**
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(4,178)**	**(2,715)**

Consolidated Statement of Changes in Equity for the year ended 31 December 2023

In millions of CZK	Note	Share capital	Share premium	Accumulated deficit	Total
Balance as at 1 January 2022		**1**	**27,219**	**(6,667)**	**20,553**
Loss for the year		-	-	(2,715)	**(2,715)**
Total comprehensive loss for the year		-	-	(2,715)	**(2,715)**
Transactions with owners in their capacity as owners:					
Share premium redemption	3.7	-	(1,046)	-	**(1,046)**
Balance as at 31 December 2022		**1**	**26,173**	**(9,382)**	**16,792**
Loss for the year		-	-	(4,178)	**(4,178)**
Total comprehensive loss for the year		**-**	**-**	(4,178)	**(4,178)**
Transactions with owners in their capacity as owners:					
Dividends declared and paid	3.7	-	-	(2,717)	**(2,717)**
Balance as at 31 December 2023		**1**	**26,173**	**(16,277)**	**9,897**

Consolidated Statement of Cash Flows for the year ended 31 December 2023

In millions of CZK	Note	2023	2022
Cash flows from operating activities			
Loss before income tax		(2,937)	(2,609)
Adjustments:			
Depreciation and impairment of property, plant and equipment	3.1	6,334	6,441
Amortisation and impairment of other intangible assets	3.2	275	234
Depreciation of right-of-use assets	3.3	217	212
Net impairment charge on financial assets	3.5	17	24
Net loss on disposals of property, plant and equipment	4.2.3	201	272
Interest income	4.4	(142)	(171)
Finance costs	4.3	2,337	2,133
Net (profit) / loss on trading derivatives	4.3, 4.4	600	4,126
Net foreign exchange gain on borrowings	3.8	976	(1,190)
Operating cash flows before working capital changes		**7,878**	**9,472**
(Increase) / decrease in trade and other receivables		(85)	7
Increase in inventories		-	(1)
Decrease in other non-current liabilities	3.9	(44)	(19)
Increase/(decrease) in contract liabilities, trade and other payables		(42)	502
Decrease in provisions		(53)	(87)
Net change in other taxes receivables and payables	3.10	2	(12)
Income taxes paid		(405)	(737)
Interest income received		142	171
Interest paid	3.8	(2,422)	(1,871)
Net receipts / (payments) for settlement of derivatives	3.12	101	(245)
Net cash generated from operating activities		**5,072**	**7,180**
Cash flows used in investing activities			
Purchases of property, plant and equipment and intangible assets		(4,477)	(3,784)
Proceeds from the sale of property, plant and equipment		21	34
Net cash used in investing activities		**(4,456)**	**(3,750)**
Cash flows used in financing activities			
Capital distributions to shareholders other than dividends	3.7	-	(1,046)
Principal elements of lease payments	3.8	(245)	(220)
Loans received from credit institutions	3.8	-	500
Loans repaid to credit institutions and shareholder	3.8	(500)	-
Dividends paid to the Company´s shareholders	3.7	(2,717)	-
Net cash used in financing activities		**(3,462)**	**(766)**
Net change in cash and cash equivalents		(2,846)	2,664
Cash and cash equivalents at the beginning of the year		**4,040**	**1,376**
Cash and cash equivalents at the end of the year		**1,194**	**4,040**

Notes to the Consolidated Financial Statements

1 General Information

1.1 Group and its Operations

These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as adopted by the EU for the year ended 31 December 2023 for Czech Gas Networks Investments S.à r.l. (the “Company” or “CGNI”) and its subsidiaries (together the “Group”). CGNI controls the operating entities GasNet, s.r.o. and GasNet Služby, s.r.o. through the intermediate holding entity Czech Grid Holding a.s.

The entities Czech Grid Holding a.s., GasNet, s.r.o. and GasNet Služby, s.r.o. are together referred to as “GasNet Group”. There are no non-controlling interests within the Group.

The Company was incorporated on 22 March 2019 and is domiciled in the Grand Duchy of Luxembourg. The Company is organised under the laws of Luxembourg as a Société a Responsabilité Limitée for an unlimited period of time and was set up in accordance with the laws and regulations of Luxembourg. The Company’s registered office is located at 20, Boulevard Royal, L-2449 Luxembourg.

As at 31 December 2023 and 31 December 2022, the Company’s immediate parent company, with its ownership share and shareholder voting rights of 100%, was Czech Gas Network S.à r.l. (“CGN”), with registered office at 20, Boulevard Royal, L-2449 Luxembourg. The ultimate parent company of the Group is fund MEIF IV LP (Macquarie European Infrastructure Fund) registered in the Grand Duchy of Luxembourg.

The Group’s immediate parent was incorporated on 18 January 2019 and prepares its consolidated financial statements for the year ended 31 December 2023 according to IFRS Accounting Standards as adopted by the European Union.

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

One of the main priorities of the Group is also environmental protection; a priority that is reflected in the majority of tasks, processes, and decisions. The Group’s business operations continue to be affected by the decarbonisation of the energy supply sector in the EU. The process consists of approving various legislative measures aimed at meeting the main target of the European Green Deal, specifically reducing greenhouse gas emissions in the EU by 55% between the years 1990 and 2030, and to attain carbon neutrality by the year 2050.

The Group is carefully assessing the potential impact of climate change and the energy transition on its business in terms of risks to its markets and its physical assets and is adapting its business strategy accordingly.

The ESG strategy is also supported by the issuance of Green Bonds in September 2021. They were issued with the main purpose of financing investments to prepare our network for the future distribution of low carbon gasses, mainly hydrogen. The Group has issued a Green Bond Allocation & Impact Report in June 2024 as a third report on the allocation of the net proceeds from the Green Bonds issued.

These events did not significantly impact the judgments and estimates of management used in preparing these consolidated financial statements.

The Russian aggression against Ukraine had a continuing effect on the social and economic situation in the Czech Republic, impacting the Group's business operations as well. Thanks to securing alternative sources of gas, the adverse effect of severing the supply of natural gas from the Russian Federation to EU countries was almost eliminated.

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

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

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

The year 2023 was the third year of the 5th regulatory period. In 2023, the Office launched a project aimed at preparing a price regulation methodology for the 6th regulatory period, i.e. for the years 2026-2030. The project will run until at least mid-2024, when the Office will publish a draft methodology through a public consultation process.

In 2023, energy prices for gas distributors in the Czech Republic were subject to capping by the state keeping them at the 2022-year level, which slowed down their negative impact on the Company's costs relating to gas purchased for the Company's own consumption and mainly for compensation of losses in the distribution network in 2023.

1.2 Material Accounting Policies

Basis of preparation. These consolidated financial statements have been prepared in accordance with IFRS Accounting Standards as adopted by the European Union ("EU").

The consolidated financial statements have been prepared on a historical cost basis, except for derivative financial instruments, which are measured 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.

The preparation of consolidated financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. It also requires that management exercises its judgement in the process of applying the Group's accounting policies. Areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 1.3.

Foreign currency translation. The functional currency of each of the Group's consolidated entities is the currency of the primary economic environment in which the entity operates. The functional currency of the Company and its subsidiaries, and the Group's presentation currency, is the national currency of the Czech Republic, Czech koruna (CZK). Judgement involved in determining the functional currency of the Company is disclosed in Note 1.3.

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

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

Material accounting policies related to specific line items of the consolidated statement of the financial position and the consolidated statement of profit or loss and other comprehensive income are presented in the relevant sections of these financial statements (Notes 3-4). Other potentially material accounting policies are presented in Note 6.4.

1.3 Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Functional currencies of different entities of the Group. The functional currency is assessed individually for each entity based on the underlying economic conditions of their operations. This determination, of what the specific underlying economic conditions are, requires judgement. In making this judgement, the Group evaluates among other factors, the location of activities, the sources of revenue, risks associated with activities and denomination of currencies of operations of different entities. Specifically, in determining the functional currencies of the Company, the Group based its judgement on the fact that the Company operates on markets mainly influenced by the Czech crown (CZK) and its major activities include the provision of services to Czech subsidiaries. Moreover, the majority of its operations are denominated in CZK and, also, CZK is the currency in which the business risks and exposures are managed, and the performance of its business is measured.

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

The Board of Managers ("Management") of the Group is the "chief operating decision maker". Management assesses financial performance based on the key performance indicators of the whole Group. Management of the Group regularly reviews the operating results of the whole Group based on financial information prepared according to IFRS and makes decisions about resources to be allocated to business activities and assesses the Group's performance. Additionally, the means of controlling and assessing operating managers is carried out at the Group level. Their remuneration depends on the Group's key performance indicators being fulfilled.

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

Impairment analysis

Impairment assessment in 2023 As presented in the Note 7 Subsequent events, in 2023, the Macquarie Group initiated steps leading to the divestment of its majority stake in the Group. The relating transaction value indicates an enterprise value of the whole business above the recoverable amount of the non-current assets recored by the Group as at 31 December 2023. Based on that the management concluded that there is no impairment indication as at 31 December 2023 as a result of this transaction as there were no material events between the balance sheet date and the date of this transaction.

Impairment assessment in 2022 The Group assesses whether the recoverable amount of non-current assets calculated as a fair value less costs to sell is higher than the carrying amount of these assets. These calculations use cash-flow projections based on financial budgets approved by management. Based on the triggers identified during the year 2022, the Group performed an impairment analysis that reveals that there is no need for an impairment to be reflected in the Group consolidated financial statements prepared as at 31 December 2022.

The recoverable amount was determined based on a valuation model that estimates fair value less cost to sell derived from discounted cash flow ("DCF"). It is based on a long cash-flow projection period till 2070 and terminal value beyond this year. The reason behind the long projection is that only a sufficiently long projected period can properly reflect the impact of capital expenditures (CAPEX) and related transformation to hydrogen distribution. It Is assumed that hydrogen will be distributed within the same distribution system.

The DCF model:

- reflects the regulatory rules in the 5th regulatory period ("5th RP") that came into force from 2021 until 2025;
- is based on financial and investment budgets approved by the management for the period until 2027;
- assumes a pre-tax base, i.e. the estimated cash flows in the Model represent pre-tax amounts and were discounted using the pre-tax discount rate.

Assumptions used for this impairment test calculation to which the recoverable amount is most sensitive were the discount rate and the regulatory WACC (its value fixed by the legislation for the 5th regulatory period and estimated for the period beyond that).

A Sensitivity analysis for break-even points was performed on the key assumptions with the following conclusions:

- change in the discount rate by +0.58% above the base case; and
- change in regulatory WACC by (0.95%) above the base case.

Applying of IFRIC 12 Service Concession Arrangements or IAS 16 Property, plant and equipment to items of gas distribution infrastructure – see further information in Note 3.1.

Useful lives of property, plant and equipment - see further information in Note 3.1.

Revenue recognition - see further information in Note 4.1.

Determination of the lease term - see further information in Note 3.3.

1.4 Adoption of New or Revised Standards and Interpretations

The following amendment became effective from 1 January 2023, have been adopted by the Group and had an impact on these financial statements of the Group.

Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

As a result of these amendments, management disclosed in Note 1.2 material accounting policies instead of significant accounting policies presented earlier, only. For this purpose, management assessed which accounting policies are expected to be material for these financial statements. Accounting policy information is material if, when considered together with other information included in the Group's financial statements, it can reasonably be expected to influence decisions that the primary users of financial statements would make on the basis of those financial statements. Thus, the immaterial accounting policy information was removed from these financial statements. The Group also restructured the accounting policy information previously presented in Note 1.2; so after the change, Note 1.2 contains only general material accounting policy information, while the specific material accounting policy information was moved to the respective note (Notes 3-4). The same principle was applied to the significant judgement section (refer to Note 1.3). Other potentially material accounting policies are presented in Note 6.4.

The following amendments became effective from 1 January 2023 and have been adopted by the Group but did not have any material impact on the Group.

IFRS 17 "Insurance Contracts" (issued on 18 May 2017 and effective for annual periods beginning on or after 1 January 2023 IFRS 17 is a single principle-based standard to account for all types of insurance contracts, including reinsurance contracts that an insurer holds. The standard requires recognition and measurement of groups of insurance contracts at: (i) a risk-adjusted present value of the future cash flows (fulfilment cash flows) that incorporates all of the available information about the fulfilment cash flows in a way that is consistent with observable market information; plus (if this value is a liability) or minus (if this value is an asset) (ii) an amount representing the unearned profit in the group of contracts (the contractual service margin). Insurers will be recognising the profit from a group of insurance contracts over the period they provide insurance coverage, and as they are released from risk. If a group of contracts is or becomes loss-making, an entity will be recognising the loss immediately.

Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

The amendments include a number of clarifications intended to ease implementation of IFRS 17, and simplify some requirements of the standard and transition.

Transition option to insurers applying IFRS 17 – Amendments to IFRS 17 (issued on 9 December 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to the transition requirements in IFRS 17 provides insurers with an option aimed at improving the usefulness of information to investors on initial application of IFRS 17. The amendment will help insurers to avoid temporary accounting mismatches in the adoption of IFRS 17 and, therefore, will improve the usefulness of comparative information for investors.

Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023). The amendment to IAS 8 clarified how companies should distinguish changes in accounting policies from changes in accounting estimates.

Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023). The amendments to IAS 12 specify how to account for deferred tax on transactions such as leases and decommissioning obligations. In specified circumstances, entities are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. Previously, there had been some uncertainty about whether the exemption applied to transactions such as leases and decommissioning obligations – transactions for which both an asset and a liability are recognised. The amendments clarify that the exemption does not apply and that entities are required to recognise deferred tax on such transactions. The amendments require companies to recognise deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences.

Management applied judgement in determining whether tax deductions are attributable to the lease asset or lease liability, having considered the applicable Czech tax law. Under the provisions of the relevant Czech tax law income tax deductions are mainly related to the lease payments, therefore, the Group concluded that the tax deductions that it will receive for lease payments relate to the repayment of the lease liability.

Consequently, the Group recognised lease liability and right of use assets on a gross basis retrospectively as at 1 January 2021, 31 December 2022 and 31 December 2023 (Note 4.5). Since the conditions necessary for offsetting deferred tax related to a lease were met, the relevant amendments did not have material impact on the statement of financial position.

Amendments to IAS 12 Income taxes: International Tax Reform – Pillar Two Model Rules (issued 23 May 2023 effective for annual periods beginning on or after 1 January 2023). In May 2023, the IASB issued narrow-scope amendments to IAS 12, 'Income Taxes'. This amendment was introduced in response to the imminent implementation of the Pillar Two model rules released by the Organisation for Economic Co-operation and Development's (OECD) as a result of international tax reform. The amendments provide a temporary exception from the requirement to recognise and disclose deferred taxes arising from enacted or substantively enacted tax law that implements the Pillar Two model rules. In accordance with IASB effective date, the companies may apply the exception immediately, but disclosure requirements are required for annual periods commencing on or after 1 January 2023.

The Company does not expect to become a payer of the top-up taxes in the period. Top-up taxes were therefore not considered in calculating the deferred tax.

1.5 New Accounting Pronouncements

Certain new standards and interpretations have been issued that are mandatory for annual periods beginning on or after 1 January 2024 or later, and which the Group has not early adopted.

Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback (issued on 22 September 2022 and effective for annual periods beginning on or after 1 January 2024). The amendments relate to sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate. The amendments are not expected to have a material impact on the financial statements of the Group.

Classification of liabilities as current or non-current – Amendments to IAS 1 (originally issued on 23 January 2020 and subsequently amended on 15 July 2020 and 31 October 2022, ultimately effective for annual periods beginning on or after 1 January 2024). These amendments clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Liabilities are non-current if the entity has a substantive right, at the end of the reporting period, to defer settlement for at least twelve months. The guidance no longer requires such a right to be unconditional. The October 2022 amendment established that loan covenants to be complied with after the reporting date do not affect the classification of debt as current or non-current at the reporting date. Management's expectations whether they will subsequently exercise the right to defer settlement do not affect classification of liabilities. A liability is classified as current if a condition is breached at or before the reporting date even if a waiver of that condition is obtained from the lender after the end of the reporting period. Conversely, a loan is classified as non-current if a loan covenant is breached only after the reporting date. In addition, the amendments include clarifying the classification requirements for debt a company might settle by converting it into equity. 'Settlement' is defined as the extinguishment of a liability with cash, other resources embodying economic benefits or an entity's own equity instruments.

Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures: Supplier Finance Arrangements (Issued on 25 May 2023, not yet endorsed by the EU These amendments require disclosures of the entity's supplier finance arrangements that would enable the users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows and on the entity's exposure to liquidity risk. The purpose of the additional disclosure requirements is to enhance the transparency of the supplier finance arrangements. The new disclosure requirements will be effective for the annual reporting periods beginning on or after 1 January 2024. The amendments are not expected to have a material impact on the financial statements of the Group.

Amendments to IAS 21 Lack of Exchangeability (Issued on 15 August 2023, not yet endorsed by the EU). In August 2023, the IASB issued amendments to IAS 21 to help entities assess exchangeability between two currencies and determine the spot exchange rate, when exchangeability is lacking. The amendments to IAS 21 set out a framework under which an entity can determine the spot exchange rate at the measurement date. When applying the new requirements, it is not permitted to restate comparative information. It is required to translate the affected amounts at estimated spot exchange rates at the date of initial application, with an adjustment to retained earnings or to the reserve for cumulative translation differences. The amendments are not expected to have a material impact on the financial statements of the Group.

IFRS 18 Presentation and Disclosure in Financial Statements (issued on 9 April 2024, not yet endorsed by EU). The objective of IFRS 18 is to set out requirements for the presentation and disclosure of information in general purpose financial statements (financial statements) to help ensure that they provide relevant information that faithfully represents an entity's assets, liabilities, equity, income, and expenses. The Group is currently assessing the impact of the new standard.

2 Entity-wide disclosures

The Group derived revenue from the customer innogy Energie, s.r.o. in the amount of CZK 5,005 million in the year ended 31 December 2023 (2022: CZK 5,183 million), which represented 38% of the Group's total revenue as at the year ended 31 December 2023 (2022: 37%). Revenue from the customer ČEZ Prodej a.s. exceeded 10% of the Group´s total revenue in the year ended 31 December 2023 with an amount of CZK 1,600 million (2022: CZK 1,672 million), which represented 12% of the Group´s total revenue (2022: 12%). Revenue from the other customers of the Group individually did not exceed 10% of the Group's total revenue in both 2023 and 2022.

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

3 Statement of Financial Position Items

3.1 Property, Plant and Equipment

Material accounting policy

Property, plant and equipment. Property, plant and equipment are stated at cost, less accumulated depreciation and provision for impairment, where required. Cost includes expenditure that is directly attributable to the acquisition of the items. Property, plant and equipment include assets under construction for future use as property, plant and equipment.

Repairs and maintenance expenditures are expensed as incurred. Costs of replacing major parts or components of property, plant and equipment items are capitalised (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) and the replaced part is retired.

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

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

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

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

Critical Accounting Estimates and Judgments in Applying Accounting Policies

Applying of IFRIC 12 Service Concession Arrangements or IAS 16 Property, plant and equipment to items of gas distribution infrastructure. Gas distribution licences are provided to the Group by the government for an indefinite period. The gas pipelines are fully owned by the Group, where the Group controls construction or maintenance. Decisions related to these pipelines are done at the Group level. The Group is not restricted in its practical ability to sell or pledge the infrastructure (gas pipeline). The Group is not obliged to hand over the pipeline at the end of service performance period to any of government institutions. It has full discretion to sell its infrastructure to a third party that would then operate it going forward (the process of disposal would be monitored by ERO though). The consideration for the infrastructure would be a result of negotiations between the two parties. In limited circumstances, the government, in accordance with Czech legislation, can entrust some parts of the Group's gas infrastructure to other operators; however, any restriction of ownership title should only be performed in exchange for a consideration. The specific terms of the consideration/compensation should fairly reflect the potential losses suffered by the Group in such a situation. The Group doesn't have any restrictions regarding the operation of the infrastructure (that has to be in line with the legislative requirements, e.g. safety).

Based on the facts and circumstances, despite the price regulation, there are no predefined conditions to hand over the infrastructure to any another party at the end of the period of the arrangement for little or no incremental consideration. The potential consideration in such cases (and such cases are rare) shall represent the fair value of the losses incurred by the Group. Therefore, based on management's judgement, the necessary condition according to IFRIC 12 about control over any significant residual interest in the infrastructure at the end of the term of the arrangement is not met. Thus, the gas distribution infrastructure and the infrastructure are accounted for in accordance with IAS 16, *Property, plant and equipment*.

Useful lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. Management assesses the remaining useful lives in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. The following primary factors are considered (a) the expected usage of the assets; (b) the expected physical wear and tear, which depends on operational factors and maintenance programme; and (c) the technical or commercial obsolescence arising from changes in market conditions.

Were the estimated useful lives to differ by 10% from management's estimates, the impact on depreciation for the period ended 31 December 2023 would be to increase it by CZK 529 million or decrease it by CZK 811 million (as at 31 December 2022: increase it by CZK 527 million or decrease it by CZK 829 million).

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

In millions of CZK	Freehold Land	Buildings	Gas Network	Equipment	Construction in progress	Total
Carrying amount as at 1 January 2022	**222**	**2,603**	**94,671**	**3,970**	**729**	**102,195**
Additions	4	142	2,785	589	479	3,999
Transfers	2	34	356	59	(451)	-
Disposals	(2)	(9)	(249)	(42)	(1)	(303)
Depreciation charge	-	(266)	(5,372)	(803)	-	(6,441)
Carrying amount as at 31 December 2022	**226**	**2,504**	**92,191**	**3,773**	**756**	**99,450**
Cost at as 31 December 2022	226	3,668	110,175	6,630	756	121,455
Accumulated depreciation	-	(1,164)	(17,984)	(2,857)	-	(22,005)
Carrying amount as at 31 December 2022	**226**	**2,504**	**92,191**	**3,773**	**756**	**99,450**
Additions	3	213	2,946	699	548	4,409
Transfers	1	19	345	49	(414)	-
Disposals	(1)	(5)	(187)	(14)	(16)	(223)
Depreciation charge	-	(220)	(5,333)	(781)	-	(6,334)
Carrying amount as at 31 December 2023	**229**	**2,511**	**89,962**	**3,726**	**874**	**97,302**
Cost at as 31 December 2023	229	3,884	113,214	7,312	874	125,513
Accumulated depreciation	-	(1,373)	(23,252)	(3,586)	-	(28,211)
Carrying amount as at 31 December 2023	**229**	**2,511**	**89,962**	**3,726**	**874**	**97,302**

Construction in progress comprises mainly construction of the gas network. Upon completion, assets are transferred to use. Borrowing costs were capitalised to construction in progress in the year ended 31 December 2023 in the amount of CZK 63 million (2022: CZK 48 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 7,59% in the year ended 31 December 2023 (2022: 7,92%). No assets are pledged.

The Group capitalised its own constructed fixed assets (mainly gas network) of CZK 519 million in the year ended 31 December 2023 (2022: CZK 465 million).

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

3.2 Intangible Assets

Material accounting policy

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

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

	Useful lives in years
Software acquired	3
Other	up to 6

Capitalised development costs are recorded as intangible assets and amortised from the month in which the asset is ready for use.

Movements in the carrying amount of intangible assets were as follows:

In millions of CZK	**Acquired software**	**Acquired software under development**	**Other**	**Total**
Carrying amount as at 1 January 2022	**750**	**46**	**30**	**826**
Additions	195	31	-	226
Transfers	43	(43)	-	-
Amortisation charge	(222)	-	(12)	(234)
Carrying amount as at 31 December 2022	**766**	**34**	**18**	**818**
Cost as at 31 December 2022	1,211	34	57	1,302
Accumulated amortisation	(445)	-	(39)	(484)
Carrying amount as at 31 December 2022	**766**	**34**	**18**	**818**
Additions	138	4	47	189
Transfers	19	-	(19)	-
Disposals	(1)	-	-	(1)
Amortisation charge	(266)	(9)	-	(275)
Carrying amount as at 31 December 2023	**656**	**13**	**62**	**731**
Cost as at 31 December 2023	1,343	58	62	1,463
Accumulated amortisation	(687)	(45)	-	(732)
Carrying amount as at 31 December 2023	**656**	**13**	**62**	**731**

Additions to intangible assets in the year ended 31 December 2023 and 31 December 2022 are related mainly to the IT environment.

3.3 Leases

Material accounting policy

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

Assets and liabilities arising from a lease are initially measured on a present-value basis. Lease liabilities include the net present value of the fixed lease payments (including in-substance fixed payments), less any lease incentives receivable.

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

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

(a) The amount of the initial measurement of lease liability,
(b) Any lease payments made at or before the commencement date.

Payments associated with short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) and leases of low-value assets are recognised on a straight-line basis as other operating expenses in profit or loss. Low-value assets are assets of a value of CZK 0.1 million when new.

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

Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

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

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

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

A 10% increase or decrease in the lease term as at 31 December 2023 would result in an increase of CZK 159 million or, respectively, a decrease in the amount of CZK 176 million in lease liabilities (as at 31 December 2022: increase in the amount of CZK 146 million, decrease in the amount of CZK 161 million).

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

A 10% increase or decrease in the discount rate as at 31 December 2023 would result in a decrease of CZK 71 million or, respectively, an increase in the amount of CZK 75 million in lease liabilities (as at 31 December 2022 decrease in the amount of CZK 68 million, increase in the amount of CZK 72 million).

i) Amounts recognised in the balance sheet:

The movement in right-of-use assets is presented below:

In millions of CZK	**Gas Network**	**Subsurface rights**	**Buildings**	**Motor vehicles**	**Land**	**Other equipment**	**Total**
Carrying amount as at 1 January 2022	**1,737**	**956**	**213**	**25**	**115**	**-**	**3,046**
Additions	73	102	117	11	31	7	341
Modifications	(17)	-	(2)	-	(4)	-	(23)
Depreciation charge	(87)	(32)	(67)	(17)	(9)	(1)	(213)
Carrying amount as at 31 December 2022	**1,706**	**1,026**	**261**	**19**	**133**	**6**	**3,151**
Carrying amount as at 1 January 2023	**1,706**	**1,026**	**261**	**19**	**133**	**6**	**3,151**
Additions	74	100	215	17	44	-	450
Modifications	(15)	-	(1)	(1)	(12)	(2)	(32)
Depreciation charge	(88)	(33)	(71)	(13)	(9)	(4)	(217)
Carrying amount as at 31 December 2023	**1,677**	**1,093**	**404**	**22**	**156**	**-**	**3,352**

Additions represent mainly new leases. Modifications caused by an increase in the lease term and lease payments are shown as Additions; modifications caused by the shortening of the lease term are shown as Modifications.

Increase in the lease liabilities reflects additions to the right-of-use assets (including subsurface rights), which amounted during the year ended 31 December 2023 CZK 450 million (2022: 341 million), thereof subsurface rights related to gas network CZK 100 million (2022: CZK 102 million).

A significant part of lease contracts for the gas distribution network is concluded mainly with municipalities for an indefinite lease period, and the lease payment is a subject to the regulation.

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

In millions of CZK	**31 December 2023**	**31 December 2022**
Lease liabilities		
Non-current	2,209	2,037
Current	235	235
Total lease liabilities	**2,444**	**2,272**

ii) Amounts recognised in the statement of profit or loss

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

In millions of CZK	**2023**	**2022**
Depreciation charge of right-of-use assets		
Gas network	88	87
Buildings	70	67
Subsurface rights	33	32
Motor vehicles	13	17
Land	9	9
Other equipment	4	1
Total depreciation charge	**217**	**213**
Interest expense (included in finance cost) – Note 4.3	**83**	**78**

Expenses related to short-term leases were presented as Other operating expenses (see Note 4.2.3). Expenses related to leases of low-value assets and expenses related to variable lease payments were insignificant in the years ended 31 December 2023 and 31 December 2022.

The total cash outflow for leases in 2023 was CZK 328 million (2022: CZK 365 million). Out of that, the amount CZK 100 million (2022: CZK 102 million) was paid in advance for the whole length of the contract.

During the current financial year, there was no significant financial effect of revising lease terms to reflect the effect of exercising termination options.

3.4 Cash and Cash Equivalents

Cash and cash equivalents were as follows:

In millions of CZK	**31 December 2023**	**31 December 2022**
Cash at bank	1,194	4,040
Total cash and cash equivalents	**1,194**	**4,040**

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

In millions of CZK	**31 December 2023**	**31 December 2022**
A1	385	2,974
A2	756	1,005
Aa3	53	61
Total cash and cash equivalents	**1,194**	**4,040**

There was no expected credit loss allowance recognised in respect of cash and cash equivalents as at 31 December 2023 and 2022, as the expected loss was assessed as insignificant.

No cash at bank was pledged as at 31 December 2023 and 2022.

3.5 Trade and Other Receivables

Material accounting policy

Trade receivables. A receivable represents the Group's right to an amount of consideration that is unconditional (i.e. only the passage of time is required before payment of the consideration is due). Refer to the accounting policies of financial assets in the section on Financial instruments – initial recognition and subsequent measurement (Note 6.4).

Expected credit losses ("ECL"). For trade receivables, the Group applies a simplified approach when calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for the impact of macroeconomic factors. The Group has identified the Czech GDP to be the most relevant factor and, accordingly, adjusts the historical loss rates based on expected changes in these factors.

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

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2023 and 2022, respectively, and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of customers to settle receivables.

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

Trade and other receivables were as follows:

In millions of CZK	**31 December 2023**	**31 December 2022**
Trade receivables gross amount	602	520
Other financial receivables	13	10
Less credit loss allowance	(50)	(40)
Total financial assets within trade and other receivables	**565**	**490**
Prepayments	88	95
Total non-financial assets within trade and other receivables	**88**	**95**
Total trade and other receivables	**653**	**585**

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

In % of gross value		31 December 2023	
	Loss rate	**Gross carrying amount**	**Lifetime ECL**
Trade receivables			
- current	0.16%	542	1
- less than 30 days overdue	2.10%	8	-
- 30 to 90 days overdue	57.00%	4	3
- 91 to 180 days overdue	68.00%	3	2
- 181 to 360 days overdue	95.00%	16	16
- over 360 days overdue	98.00%	29	28
Total trade receivables		**602**	**50**
Other financial receivables			
- current	0.5%	13	-
Total financial assets within trade and other receivables		**615**	**50**
Total credit loss allowance		(50)	
Total financial assets within trade and other receivables (Net carrying amount)		**565**	

In % of gross value		31 December 2022	
	Loss rate	**Gross carrying amount**	**Lifetime ECL**
Trade receivables			
- current	0.16%	465	-
- less than 30 days overdue	1.00%	15	-
- 30 to 90 days overdue	64.00%	6	6
- 91 to 180 days overdue	75.00%	6	6
- 181 to 360 days overdue	88.00%	15	15
- over 360 days overdue	99.00%	13	13
Total trade receivables		**520**	**40**
Other financial receivables			
- current	0.5%	10	
Total financial assets within trade and other receivables		**530**	**40**
Total credit loss allowance		(40)	
Total financial assets within trade and other receivables (net carrying amount)		**490**	

The trade receivables gross carrying amount included to the line “gross amount over 360 days overdue” as at 31 December 2023 and 2022 comprised mainly trade receivables that were more than three years overdue as at 31 December 2023 and 2022.

3.6 Contract Balances

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

In millions of CZK	**31 December 2023**	**31 December 2022**
Trade receivables	552	480

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

In millions of CZK	**31 December 2023**	**31 December 2022**
Contract liabilities – advances from customers for gas distribution (third parties)	627	745
Total current contract liabilities	**627**	**745**

As at 31 December 2023, total contract liabilities decreased by CZK 118 million compared to the balance as at 31 December 2022 due to the decrease in advance payments caused by customers' saving behaviour and the effect of the increase in the current distribution tariffs in 2023 compared to 2022. Another influence affecting the amount of liabilities is lower value of unbilled gas due to warmer weather, especially in Q4 2023.

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities.

In millions of CZK	**2023**	**2022**
Revenue recognised that was included in the contract liability balance at the beginning of the year:		
Gas distribution (third parties)	745	200
Total	**745**	**200**

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

3.7 Share Capital

Material accounting policy

Share capital and share premium. Ordinary shares are classified as equity. Incremental costs directly attributable to the issuance of new shares are shown in equity as a deduction, net of tax, from the proceeds. Any excess of the fair value of a consideration received over the par value of shares issued is recorded as share premium in equity.

In millions of CZK	**Share Capital**	**Share premium**	**Legal reserves**
At 1 January 2022	**1**	**27,219**	**0.07**
Share premium redemption	-	(1,046)	-
At 31 December 2022	**1**	**26,173**	**0,07**
At 31 December 2023	**1**	**26,173**	**0,07**

Share capital consisted of 700,000 ordinary shares with a nominal value of CZK 1 each as at 31 December 2023 and 2022, all were fully paid. Each ordinary share carried one vote. They entitle the holder to participate in dividends, and to share in the proceeds of winding up the company in proportion to the number of and amounts paid on the shares held.

The movement in share premium during the accounting period ended 31 December 2022 corresponded to a decrease of CZK 1,046 million paid in cash following the decision taken by the General Meeting of the sole shareholder held on 23 December 2022.

The Company is obliged to allocate at least 5 per cent of the profits each year to the legal reserve until it reaches an amount equal to 10 per cent of the share capital. The legal reserve is not available for distribution to shareholders.

On 24 May 2023, the Board of Managers decided on the interim dividend distribution of CZK 2,406 million and on 4 December 2023 on interim dividend distribution of CZK 311 million (CZK 3,882 per share in total). The interim dividend was recorded as a decrease in equity and was paid in 2023.

	As at 31 December 2023		**As at 31 December 2022**	
Shareholder structure	**Number of shares (in thousands)**	**Share (%)**	**Number of shares (in thousands)**	**Share (%)**
Czech Gas Network S.à r.l.	700	100	700	100
Total	**700**	**100**	**700**	**100**

The ultimate controlling party was Macquarie European Infrastructure Fund IV LP as at 31 December 2023 and 2022.

3.8 Borrowings

Material accounting policy

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

Borrowings comprise lease liabilities (disclosed in the Note 3.3), the loans received by the Group from its sole shareholder, borrowings from credit institutions and bonds issued, as follows:

In millions of CZK	**31 December 2023**	**31 December 2022**
Term loans		
- Non-current portion	69,076	68,554
- Current portion	526	595
Total borrowings	**69,602**	**69,149**

In millions of CZK	**31 December 2023**	**31 December 2022**
Non-current borrowings		
Bonds		
- EUR Tranche	39,391	38,377
- CZK Tranche	6,744	6,742
Bank borrowings		
- Multiple lenders	8,897	9,391
Loans from shareholder		
- Czech Gas Network S.à r.l.	14,044	14,044
Total non-current borrowings	**69,076**	**68,554**
Current borrowings – interest accrued		
- Loans from shareholder Czech Gas Network S.à r.l.	115	173
- Bonds	411	422
Total current borrowings	**526**	**595**
Total borrowings	**69,602**	**69,149**

Bank borrowings. Non-current bank borrowings consist of 1 tranche as at 31 December 2023 with the interest rate of 7.79% p.a. (as at 31 December 2022: 2 tranches with weighted average interest rate of 6.63% p.a.)

Non-current bank borrowings as at 31 December 2023 and 2022 have maturities in 2028.

Nature	Lender	Maturity date	Interest rate	Currency	Carrying amount as at 31 December 2023	31 December 2022
Facility A	Multiple lenders	20 May 2028	0.55% + PRIBOR 6m	CZK	8,897	8,891
CAPEX facility	Multiple lenders	20 May 2028	0.55% + PRIBOR 6m	CZK	-	500
Total					**8,897**	**9,391**

The interest rate of Facility A is composed of a margin of 0.55% and a floating rate (PRIBOR 6 months).

On 18 May 2021, the Group entered as Borrower into a new English law governed facilities agreement (the "new Facilities Agreement") between several banks as Arrangers and Komerční banka, a.s. as the agent for a total commitment of CZK 22,000 million allocated as follows: Facility A commitment of CZK 20,500 million; a new CAPEX facility commitment of CZK 1,000 million and a new revolving credit facility of CZK 500 million.

The Group has the possibility of drawing a CAPEX commitment in the amount of CZK 1,000 million (CZK 1,000 million in 2022) and a revolving credit facility in the amount of CZK 500 million (CZK 500 million in 2022). On 30 June 2023, the Company fully repaid the CAPEX facility of CZK 500 million, which was drawn on 28 April 2022.

For information about loan covenants, please refer to Note 5.3.

Bonds issued. On 31 March 2021 and on 8 September 2021, respectively, the Group issued EUR notes (the "Eurobonds") and Green EUR notes (the "Green Notes") in the amount of EUR 500 million each. There were no additional conditions in respect of Green notes except that the proceeds from the Green Bonds must be used for financing and refinancing of green-eligible assets (which are mainly used for polyethylene pipes replacing steel ones).

Details of the bonds issued were as follows:

Tranche	Issuer	Maturity date	Contractual interest rate	31 December 2023	31 December 2022
EUR fixed interest rate bonds	CGNI	16 July 2027	1.00%	14,848	14,465
CZK floating interest rate bonds	CGNI	21 July 2026	1.0%+PRIBOR 6m	6,988	7,000
EUR fixed interest rate bonds	CGNI	31 March 2031	0.875%*	12,379	12,058
EUR Green Notes	CGNI	8 September 2029	0.450%	12,331	12,018
Total				**46,546**	**45,541**

** Effective interest rate was 1.05% as at 31 December 2023 and 31 December 2022*

As at 31 December 2023, non-current bond borrowings consisted of 4 tranches (as at 31 December 2022: 4 tranches) with the fixed interest rate for the EUR tranches at the effective interest rate of 0.84% (as at 31 December 2022: 0.85%) and the floating interest rate for the CZK tranche at 8.30% as at 31 December 2023 (as at 31 December 2022: 6.90%).

EUR fixed interest rate bonds are quoted in an active market (ISINs XS2193733503, XS2322438990, XS2382953789).

Loans from shareholders. Details of the loans from shareholder were as follows:

Tranche	Noteholder	Maturity date	Interest rate	31 December 2023	31 December 2022
Loan Notes B	CGN	30 September 2044	4.90%	14,159	14,217
Total				**14,159**	**14,217**

Loan Notes B received from the shareholder are at all times subordinated in right and priority of payment to all other existing and future liabilities and obligations of the Group. In previous years, the Company entered into multiple derivative contracts with banks under which:

- A minimum of 90% of the notional amount of each borrowing effectively bears a fixed interest rate, either by a contractually fixed interest rate or by concluded derivative contracts following the maturity of the debt;
- For 85% of the notional amount of each borrowing, which is denominated in a currency other than CZK, a cross-currency swap is concluded for a term of at least 12 months.

Such derivatives do not meet the hedge accounting criteria, so they are classified as “held for trading” for accounting purposes and are accounted for at fair value through profit or loss. For more details, refer to Note 3.12.

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

In millions of CZK	Note	Bank borrowings	Loans from Shareholder	Bonds	Lease liabilities	Total liabilities from financing activities
Liabilities from financing activities as at 1 January 2023		**9,391**	**14,217**	**45,541**	**2,272**	**71,421**
Non-cash movements:						
Interest expense	4.3.	663	688	893	83	2,327
Interest capitalised	4.3, 3.1.	63	-	-	-	63
Foreign exchange difference		-	-	985	-	985
Increase of leases and lease modifications		-	-	-	417	417
Total non-cash movements		**726**	**688**	**1,878**	**500**	**3,792**
Cash movements:						
Settlement of borrowings		(500)	-	-	(245)	(745)
Interest paid (expensed and capitalised)		(720)	(746)	(873)	(83)	(2,422)
Total cash movements		**(1,220)**	**(746)**	**(873)**	**(328)**	**(3,167)**
Liabilities from financing activities as at 31 December 2023		**8,897**	**14,159**	**46,546**	**2,444**	**72,046**

In millions of CZK	Note	Bank borrowings	Loans from Shareholder	Bonds	Lease liabilities	Total liabilities from financing activities
Liabilities from financing activities as at 1 January 2022		**8,884**	**14,176**	**46,487**	**2,173**	**71,720**
Non-cash movements:						
Interest expenses	4.3	564	688	803	78	2,133
Interest capitalised	4.3, 3.1	48	-	-	-	48
Foreign exchange difference		-	-	(1,190)	-	(1,190)
Increase of leases and lease modifications		-	-	-	319	319
Total non-cash movements		**612**	**688**	**(387)**	**397**	**1,310**
Cash movements:						
Drawing of borrowings		500	-	-	-	500
Interest paid (expensed and capitalised)		(605)	(647)	(559)	(78)	(1,889)
Settlement of borrowings		-	-	-	(220)	(220)
Total cash movements		**(105)**	**(647)**	**(559)**	**(298)**	**(1,609)**
Liabilities from financing activities as at 31 December 2022		**9,391**	**14,217**	**45,541**	**2,272**	**71,421**

Fair values of borrowings are disclosed in Note 5.4.

3.9 Other Non-current Liabilities

Material accounting policy

Government grants. Government grants relating to the purchase of property, plant and equipment are recognised at their fair value, included in Other non-current liabilities as deferred income and credited to profit or loss (Other income) on a straight-line basis over the expected lives of the related assets. The balance of non-current liabilities comprises the following:

in millions of CZK	31 December 2023	31 December 2022
Financial liabilities:		
Non-current payable from gas network construction	70	80
Non-current payable from IT projects implementation	5	26
Total financial payables within other non-current liabilities	**75**	**106**
Non-financial liabilities:		
Deferred income from government grants	199	211
Other non-current liabilities	2	3
Total non-financial payables within other non-current liabilities	**201**	**214**
Total	**276**	**320**

The main part of government grants was provided in 1999 for the development of the gas network. The Group also received a government grant in the amount of CZK 14 million for construction of LNG stations in 2022. The current part of government grants amounted to CZK 10 million as at 31 December 2023 (as at 31 December 2022: CZK 10 million) and was included in the Trade and Other payables. The respective income from government grants was recognised in the profit or loss line Other income and amounted to CZK 10 million in the year ended 31 December 2022 (2021: CZK 10 million).

3.10 Other Taxes Payable

Material accounting policy

Value-added tax. Output value-added tax related to sales is payable to tax authorities based on which of the following happens first: (i) collection of receivables from customers or (ii) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. Tax authorities permit the settlement of VAT on a net basis. VAT related to sales and purchases is recognised in the consolidated statement of financial positions on a net basis and disclosed as a resulting asset and liability on each subsidiary level.

In millions of CZK	**31 December 2023**	**31 December 2022**
Other taxes payable within one year comprise the following:		
Value-added tax	151	159
Personal income tax	19	9
Other taxes payable – current	**170**	**168**

3.11 Trade and Other Payables

Material accounting policy

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

In millions of CZK	**31 December 2023**	**31 December 2022**
Trade payables	1,527	1,491
Refundable deposits received	485	430
Other advances received	11	11
Other payables	5	6
Total financial payables within trade and other payables	**2,028**	**1,938**
Other payables	13	48
Liabilities to employees	299	263
Liabilities to social security and health insurance	57	12
Total non-financial payables within trade and other payables	**369**	**323**
Total trade and other payables	**2,397**	**2,261**

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

3.12 Derivative Financial Instruments

Material accounting policy

Derivative financial instruments. *D*erivative financial instruments, including currency and interest-rate swaps 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. Changes in the fair value of derivative instruments are included in profit or loss for the year. All the realised and unrealised results from trading derivatives are presented net in finance costs or finance income within profit or loss for the year. The Group does not apply hedge accounting.

The Group entered into several derivative contracts in the past under which:

- The foreign-exchange risk of a minimum of 85% of the notional amount of the notional amount of all borrowings denominated in a currency other than CZK is mitigated through cross-currency swaps for a term of at least 12 months.
- A minimum of 90% of the notional amount of all borrowings effectively bears a fixed interest rate, either by a contractually fixed interest rate or by concluded derivative contracts following the maturity of the debt.

In April 2023, the Group entered into three fixed-to-fixed cross-currency swap agreements maturing on 16 July 2027, 8 September 2029 and 31 March 2031 to mitigate the foreign-exchange risk related to the EUR fixed interest rate notes previously issued by the Group for the total amount of EUR 239.7 million (equivalent of CZK 5,601 million) to cover the Group's position in EUR.

The Group did not enter into any derivative contract in 2022.

As at 31 December 2023, the total notional amount of all cross currency swaps the Group has entered into equals EUR 1,600 million (equivalent of CZK 40,776 million). Maturities of these swaps range between 2026 and 2031. As at 31 December 2022, the total notional amount of all cross currency swaps the Group has entered into equals EUR 1,360 million (equivalent of CZK 35,174 million). Maturities of these swaps range between 2026 and 2031.

As at 31 December 2023, the total notional amount of all interest-rate swaps the Group has entered into equals CZK 70,002 million, of which CZK 48,502 million already mitigate the interest-rate risk the Group faces as at 31 December 2023, whereas the remainder of CZK 21,500 million belong to forward-starting interest-rate swaps with the effective date of 30 September 2024. Maturities of these interest-rate swaps range between 2024 and 2031. As at 31 December 2022, the total notional amount of all interest-rate swaps the Group had entered into equalled CZK 70,002 million with maturities ranging between 2024 and 2031, of which CZK 21,500 million have the effective date of settlements from 30 September 2024.

The fair value of cross-currency swap agreements amounted to CZK 6,732 million recognised as a derivative liability of CZK 6,878 million and a derivative asset of CZK 146 million as at 31 December 2023 (as at 31 December 2022: derivative liability of CZK 9,894 million).

The fair value of interest-swap agreements (derivative asset) amounted to CZK 3,987 million (as at 31 December 2022: CZK 7,850 million).

In millions of CZK	**31 December 2023**	**31 December 2022**
Non-current assets		
Interest-rate swaps	2,005	4,962
Cross currency interest-rate swaps	146	-
Current assets		
Interest-rate swaps	1,982	2,888
Non-current liabilities		
Cross currency interest-rate swaps	(4,794)	(7,179)
Current liabilities		
Cross currency interest-rate swaps	(2,084)	(2,715)
Total net fair value of derivative financial instruments	**(2,745)**	**(2,044)**

(i) Classification of derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. The derivatives are classified as "held for trading" for accounting purposes and are accounted for at fair value through profit and loss. The portions of financial assets and liabilities expected to be realised within 12 months of the balance sheet date are presented as current assets and liabilities; the rest, where the realisation is expected after 12 months of the balance sheet date, are classified as non-current.

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

(ii) Fair-value measurement

For information about the methods and assumptions used in determining the fair value of derivatives, refer to Note 5.4.

(iii) Amounts recognised in profit or loss

The following amounts were recognised in profit or loss in relation to derivatives:

In millions of CZK	**2023**	**2022**
Interest-rate swaps		
Fair-value gain on interest-rate swaps	(813)	4,390
Cross currency interest-rate swaps		
Fair-value loss on cross-currency interest-rate swaps	213	(8,516)
Net gain / (loss) on derivative financial instruments	**(600)**	**(4,126)**

During 2023, the net cash settlements of derivatives received by the Group amounted to CZK 101 million (2022: outgoing payments CZK 225 million).

4 Profit or Loss Items

4.1 Analysis of Revenue by Category

Material accounting policy

Revenue. The Group provides natural gas distribution services within the Czech Republic, which represent the majority of the Group's revenue from contracts with customers.

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

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

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

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

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

Revenues from distribution services are divided into several categories.

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

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

The Group operates LNG stations, which are used by trucks. Revenues from the sale of LNG are recognised at a point in time when the control of the goods has been transferred, being when LNG is delivered to the customer.

The normal credit term is 14 days upon delivery.

Critical Accounting Estimates and Judgments in Applying Accounting Policies

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

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

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

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

The Group records revenue based on:

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

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

Analysis of revenue by category is presented as follows:

In millions of CZK	**2023**	**2022**
Revenues recognised over time		
Revenue from gas distribution	12,807	13,664
Revenues from rendering of other services	147	166
Total revenues recognised over time	**12,954**	**13,830**
Revenues recognised at a point in time		
Revenues from sale of LNG on LNG stations	93	151
Total revenue	**13,047**	**13,981**

As at 31 December 2023, the Group recognised 95% of total gas distribution revenue from wholesale traders of gas (as at 31 December 2022: 96%) and 5% from end consumers of gas distribution (as at 31 December 2022: 4%).

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

In millions of CZK	**2023**	**2022**
Revenues from gas distribution		
Large and medium-sized consumers category	4,982	5,166
Small sized consumers category	1,827	2,044
Household category	5,998	6,454
Total revenue	**12,807**	**13,664**

Revenues from gas distribution and other services were recognised over time in the year ended 31 December 2023 and 2022.The disaggregation of revenue from gas distribution was disclosed as such in order to present the structure of the ultimate customers' portfolio, since each customer category has its own pricing, risks, and other specifics.

4.2 Expenses

Material accounting policy

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

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

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

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

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

4.2.1 Employee benefits expense

In millions of CZK	**2023**	**2022**
Wages and salaries	1,583	1,514
Statutory pension contributions	377	345
Statutory health insurance and social security	147	131
Other employee benefits	71	55
Supplementary pension insurance	40	40
Total employee benefits expense	**2,218**	**2,085**

The following is the breakdown by professional categories as at 31 December 2023 and 2022:

Number of employees	**2023**	**2022**
Blue Collar	852	851
Other	1,434	1,435
Total number of employees	**2,286**	**2,286**

4.2.2 Services

In millions of CZK	**2023**	**2022**
Gas transportation	1,608	1,454
IT and network services	399	426
Gas network maintenance	325	264
Other maintenance	114	92
Energy market operation fees	97	120
Consultancy and other fees	87	90
Other services	74	81
Travel expenses	48	41
Measurement of gas consumption	42	41
Car fleet maintenance	26	29
Training expenses	17	17
Phone costs	11	11
Total services	**2,848**	**2,666**

4.2.3 Other operating expenses

In millions of CZK	**2023**	**2022**
Net loss on disposal of property, plant and equipment	201	293
Operating losses / (losses compensation) within gas transportation	193	(121)
Utilities	115	120
Lease expenses (low value and short-term leases)	63	69
Other items	31	(124)
Insurance expenses	15	14
Other taxes and charges	12	12
Total other operating expenses	**630**	**263**

4.2.4 Auditor’s fees

In millions of CZK	**2023**	**2022**
Audit fees	9	10
Fees for other services	2	4
Total auditor’s fees	**11**	**14**

4.3 Finance Costs

In millions of CZK	2023	2022
Interest costs		
Interest expense on borrowings	2,306	2,103
Interest expense on the lease liability	84	78
Interest expense on refundable deposits received	10	-
Less capitalised finance costs	(63)	(48)
Net interest costs recognised in profit or loss	**2,337**	**2,133**
Other finance costs		
Net exchange loss on foreign currency balances and transactions	976	-
Net loss on trading derivatives	600	4,127
Total finance costs recognised in profit or loss	**3,913**	**6,260**

4.4 Finance income

In millions of CZK	2023	2022
Net exchange gain on foreign currency balances and transactions	-	1,190
Interest income	142	171
Total finance income	**142**	**1,361**

4.5 Income Taxes

(a) Components of income tax expense

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

In millions of CZK	2023	2022
Current tax expense	363	702
Deferred tax expense / (credit)	878	(596)
Income tax expense for the year	**1,241**	**106**

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

The income tax rate applicable to the majority of the Group's 2023 and 2022 income is 19%.

The reconciliation between the expected and the actual taxation charge is provided below.

In millions of CZK	2023	Effective tax rate %	2022	Effective tax rate %
Loss before tax	**(2,937)**		**(2,609)**	
Theoretical tax charge at statutory rate of 19%:	(558)	19	(496)	19
Tax effect of items which are not deductible or assessable for taxation purposes:				
- Income which is exempt from taxation	(13)	0.46	(226)	8.67
- Non-deductible expenses	384	(13.08)	828	(31.75)
- Effect of deferred tax reassessment due to change in tax rate	1,428	(48.64)	-	-
Income tax expense for the year	**1,241**	**(42.25)**	**106**	**(4.06)**

Non-deductible expenses in the year ended 31 December 2023 were mainly related to finance costs (net loss on interest-rate swaps and cross currency swaps and net exchange loss on foreign currency balances, refer to the Note 4.3). In the year ended 31 December 2022 income that is exempt from taxation was mainly related to finance income (net exchange gain on foreign currency balances and transactions, refer to Note 4.4) and non-deductible expenses to finance costs (loss on interest-rate swaps and cross currency swaps, refer to Note 4.3).

The corporate income tax rate of 21% was applied when calculating the deferred tax as at 31 December 2023, which is the rate enacted for the accounting period beginning on and after 1 January 2024 in the Czech Republic (as at 31 December 2022: 19%). The change in the tax rate increased the deferred tax liability by CZK 1,428 million.

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and statutory taxation regulations give rise to temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

In millions of CZK	1 January 2023	Credited / (charged) to profit or loss	31 December 2023
Tax effect of deductible / (taxable) temporary differences			
Difference between tax base and carrying value of Property, plant and equipment (different tax depreciation)	(14,160)	(883)	(15,043)
Provisions, trade and other payables and others	70	(3)	67
Right of use assets	(456)	(72)	(528)
Lease liabilities	413	80	493
Net deferred tax liability recognised	**(14,133)**	**(878)**	**(15,011)**
Total deferred tax asset	483	77	560
Total deferred tax liability	(14,616)	(955)	(15,571)
Net deferred tax liability recognised	**(14,133)**	**(878)**	**(15,011)**

In millions of CZK	1 January 2022	Credited / (charged) to profit or loss	31 December 2022
Tax effect of deductible / (taxable) temporary differences			
Difference between tax base and carrying value of Property, plant and equipment (different tax depreciation)	(14,817)	657	(14,160)
Provisions, trade and other payables and others	82	(12)	70
Right of use assets	(397)	(59)	(456)
Lease liabilities	403	10	413
Net deferred tax liability recognised	**(14,729)**	**596**	**(14,133)**
Total deferred tax asset	485	(2)	483
Total deferred tax liability	(15,214)	598	(14,616)
Net deferred tax liability recognised	**(14,729)**	**596**	**(14,133)**

The corporate income tax rate of 21 % was applied when calculating the deferred tax as at 31 December 2023, which is the rate enacted for the accounting period beginning on or after 1 January 2024 in the Czech Republic (as at 31 December 2022: 19%). The change in the tax rate increased the deferred tax liability by CZK 1 428 million.

The current portion of net deferred tax liability which related to different tax depreciation of property, plant and equipment amounted to CZK 512 million as at 31 December 2023 (CZK 520 million as at 31 December 2022).

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

5 Risk Management

5.1 Offsetting Financial Assets and Financial Liabilities

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

There was no offsetting of financial assets and financial liabilities as at 31 December 2023 and 31 December 2022.

Agreements with derivative counterparties are based on an ISDA (International Swaps and Derivatives Association) Master Agreement. Under the terms of these arrangements, only where certain credit events occur (such as default), will the net position owing/receivable to a single counterparty in the same currency be taken as owing and all the relevant arrangements terminated. As the Group does not presently have a legally enforceable right of set-off with respect to derivative assets and liabilities, these amounts have not been offset in the statement of financial position. The amounts subject to the netting provisions under the ISDA Master Agreements are presented in the table below.

In millions of CZK	**Note**	**Amounts recognised in the statements of financial position**	**Potential impacts of offsetting contracts that do not meet the conditions for offsetting in the statement of financial position (amounts subject to master netting arrangements)**	**Net amount after potential set-off**
31 December 2023				
Derivative financial assets	3.12	4,133	(3,378)	754
Derivative financial liabilities	3.12	(6,878)	3,378	(3,499)
31 December 2022				
Derivative financial assets	3.12	7,850	(6,056)	1,793
Derivative financial liabilities	3.12	(9,894)	6,056	(3,838)

5.2 Financial Risk Management

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

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

Exposure to credit risk arises as a result of the Group's lending and other transactions with counterparties, giving rise to financial assets. The maximum credit risk exposure of financial assets (consisting of trade and other receivables, cash and cash equivalents and derivatives) amounted to CZK 5,892 million as at 31 December 2023 (as at 31 December 2022: CZK 12,380 million).

100% of Cash and the cash equivalents balance is placed within 6 banks as at 31 December 2023 and 3 as at 31 December 2022. Credit risk concentration in respect of trade and other receivables is not significant.

Credit risk management. Credit risk is one of the most significant risks for the Group´s core distribution business. However, a major part of the Group´s risk related to gas distribution services provided mostly to traders, gas suppliers and local distributors is managed by means of credit rules called "Conditions of Financial Eligibility" implemented in the Group´s Network Code (that is a part of legal framework approved by ERO based on non-discriminatory rules). Moreover, the credit loss related to the P&L impact from bad debts is recognised by ERO and is fully reimbursed with a time lag as an eligible cost.

The Conditions of Financial Eligibility of the Group define individual counterparty Credit Limits for its counterparties differentiated based on the counterparty's ratings from external international rating agencies such as Standard & Poor's, Fitch and Moody's, or scorings from agencies like Crefoport or Creditreform. There are threshold ratings for minimum acceptable creditworthiness.

The evaluation of the Group's Credit Exposure (settlement exposure) from the distribution business is generally defined in the Conditions of Financial Eligibility. It is modelled and takes into account specific payment terms (such as prepayments) related to customer categories based on type of metering their consumption and legal terms and conditions for switching and early contract termination. The Credit Exposure is calculated automatically on a daily basis in monthly granularity for the period of the following 12 months based on the current status of the counterparty's customer portfolio and distribution capacity booking requests. The counterparty receives automated notifications from the Group's system in the event that the Credit Exposure exceeds the set Credit Limit.

A counterparty is entitled to arrange an unsecured Credit Limit only if it fulfils threshold ratings for minimum acceptable creditworthiness as well as all the defined financial covenants (Debt ≤ 0.8 x equity; EBIT/Interest costs ≥ 2.7; 3 x EBITDA ≥ Debt). These financial covenants are calculated from the latest audited annual reports that have to be provided to the Group. If the rating/scoring is not sufficient and/or if the financial covenants are broken, then the Group's credit exposure has to be collateralised by means of the one (or a combination) of the following risk mitigation tools: bank guarantee, cash deposit or parent company guarantee. There are also minimum rating requirements introduced for guarantee providers (for banks and parent companies). As at 31 December 2023 and 2022, there were no such significant guarantees or credit enhancements received by the Group. The Group applies the IFRS 9 simplified approach to measure expected credit losses for Trade receivables, the description of the method is disclosed in Note 3.5.

Significant increase in credit risk ("SICR"). In order to determine whether there has been a significant increase in credit risk, the Group compares the risk of a default occurring over the life of a financial instrument at the end of the reporting date with the risk of default at the date of initial recognition. There is a presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

- For the purposes of measuring PD, the Group defines *default* as a situation when the exposure meets one or more of the following criteria:
  - (a) The borrower is significantly past due on its contractual payments;
  - (b) International rating agencies have classified the borrower in the default rating class;
  - (c) The borrower meets the unlikeliness-to-pay criteria listed below:
    - It is becoming likely that the borrower will enter bankruptcy.
    - The borrower is insolvent (indication of being insolvent is when contractual payments are more than 90 days past due).

Quantitative credit risk disclosures for Trade and other receivables and Cash and cash equivalents are presented in Note 3.5 and Note 3.4, respectively.

Market risk. The Group's market risk is predominantly controlled by a central treasury department (Group 's treasury) under policies approved by the Board of Managers. The Group's treasury identifies, evaluates, and manages financial risks in close co-operation with the Group's operating units. The board provides written principles for overall risk management, as well as policies covering specific areas, such as foreign-exchange risk, interest-rate risk. Market risks arise from open positions in interest-bearing assets and liabilities and from assets and liabilities denominated in currencies other than CZK which are exposed to market movements.

Foreign exchange rate risk. The Group is exposed to the currency risk stemming from the cash and cash equivalents and bonds denominated in EUR.

Based on internal policies, for at least 85% of the notional amount of each facility, which is denominated in a currency other than CZK, cross-currency swaps are concluded for a term of at least 12 months. The Group does not operate internationally and only FX risk that the Group is exposed to is from financing facilities and negligible from operational matters.

The Group's exposure to foreign currency risk at the end of the reporting period, expressed in CZK, was as follows:

In millions of CZK	**31 December 2023 EUR**	**31 December 2022 EUR**
Assets		
- Cash and cash equivalents	160	137
Liabilities		
- Borrowings	(39,558)	(38,541)
- Cross-currency swap agreements (notional amount)	40,776	35,174

As shown in the table above, the Group is primarily exposed to changes in CZK/EUR exchange rates. The sensitivity of profit or loss to changes in the exchange rates arises mainly from EUR-denominated financial instruments.

In millions of CZK	**Impact on post tax profit and equity 2023**	**Impact on post tax profit and equity 2022**
EUR / CZK exchange rate - increase 10% (CZK depreciates)	-	(468)
EUR / CZK exchange rate - decrease 10% (CZK appreciates)	-	468

Interest-rate risk. The Group is exposed to interest-rate risk which relates primarily to the Group's loan facilities and bonds with a floating interest rate. To mitigate the interest-rate risk, the Group took internal measures and, for a minimum of 90% of the notional amount of all loan facilities and bonds, concluded interest-rate swaps in the past. The fair value of interest swap agreements (derivative asset) amounted to CZK 3,987 million as at 31 December 2023 (as at 31 December 2022: CZK 7,850 million).

All the Group's external long-term debt instruments have floating interest rates except for EUR interest rate bonds, while the shareholder loans have fixed interest rates and do not expose the Group to any interest-rate risk.

The table below summarises the Group's exposure to interest-rate risks. The table presents the aggregated carrying amounts of the interest-sensitive assets and liabilities and aggregated notional of financial derivatives, both categorised by the earlier of contractual interest repricing or maturity dates:

In millions of CZK	**Note**	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**More than 5 years**	**Total**
31 December 2023							
Variable rate borrowings (carrying amount) – repricing dates	3.8	(6,744)	(8,897)	-	-	-	(15,641)
Fixed to variable rate cross-currency interest-rate swaps (notional amount) – repricing dates	3.12	-	(35,174)	-	-	-	(35,174)
Less: variable to fixed rate interest-rate swaps (notional amount) – repricing dates	3.12	6,750	41,752	-	-	-	48,502
Net interest sensitivity gap as at 31 December 2023		**6**	**(2,319)**	**-**	-	-	**(2,313)**

In millions of CZK	**Note**	**Demand and less than 1 month**	**From 1 to 6 months**	**From 6 to 12 months**	**From 12 months to 5 years**	**More than 5 years**	**Total**
31 December 2022							
Variable rate borrowings (carrying amount) – repricing dates	3.8	(6,742)	(9,391)	-			(16,133)
Fixed to variable rate cross-currency interest-rate swaps (notional amount) – repricing dates	3.12	-	(35,174)	-	-	-	(35,174)
Variable to fixed rate interest-rate swaps (notional amount) – repricing dates	3.12	6,750	41,752	-	-	-	48,502
Net interest sensitivity gap as at 31 December 2022		**8**	**(2,813)**	**-**	-	-	**(2,805)**

Swaps currently in place cover approximately 83% of the variable loan principal outstanding. The swap contracts require settlement of the net interest receivable or payable semi-annually. The settlement dates do not coincide exactly with the dates on which interest is payable on the underlying debt.

In general, the volatility of market interest rates can have a significant impact on profit, which can be positive or negative depending on the development. An increase in interest rates causes the Group's financing costs to rise. If the interest rates during 2023 were 50 basis points higher / lower for loans and bonds at floating interest with all other variables held constant, net profit for the year ended 31 December 2023 and equity as at 31 December 2023 would have been CZK 11 million lower / higher (2022: CZK 11 million lower / higher).

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

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

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

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

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

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

The table below shows liabilities as at 31 December 2023 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows and gross loan commitments.

When the amount payable is not fixed, the amount disclosed is determined by referencing the conditions existing at the end of the reporting period.

The maturity analysis of non-derivative financial liabilities based on undiscounted cash flows as at 31 December 2023 is as follows:

In millions of CZK	**Carrying amount**	**Future payments, including principal and interest**	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**
Liabilities							
Trade and other payables	**2,028**	**2,028**	2,022	-	6	-	-
Bank borrowings	**8,897**	**10,637**	-	-	555	10,082	-
Bonds	**46,546**	**49,210**	276	108	451	23,270	25,105
Loans from shareholder	**14,159**	**28,448**	173	113	518	2,755	24,889
Lease liability	**2,444**	**3,434**	8	16	202	1,079	2,129
Other non-current liabilities	**75**	**75**	-	-	-	7	68
Total	**74,149**	**93,832**	**2,479**	**237**	**1,732**	**37,193**	**52,191**

The maturity analysis of non-derivative financial liabilities based on undiscounted cash flows as at 31 December 2022 is as follows:

In millions of CZK	**Carrying amount**	**Future payments, including principal and interest**	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**
Liabilities							
Trade and other payables	**1,938**	**1,938**	1,513	381	44	-	-
Bank borrowings	**9,391**	**13,531**	-	-	748	3,054	9,729
Bonds	**45,541**	**49,656**	293	106	478	24,134	24,645
Loans from shareholder	**14,217**	**29,195**	232	111	518	2,755	25,579
Lease liability	**2,272**	**3,206**	9	17	202	703	2,275
Other non-current liabilities	**106**	**106**	-	-	-	26	80
Total	**73,465**	**97,632**	**2,047**	**615**	**1,990**	**30,672**	**62,308**

The tables below show the cash flow from derivatives as at 31 December 2023 and 2022. The inflow from gross settled cross-currency interest-rate swaps is expressed in CZK but settled in EUR. The cash flow from gross settled cross-currency interest-rate swaps is shown on a gross basis at fair market value and split into contractual maturities. The cash flow from net settled interest-rate swaps is shown on a net basis at fair market value and split into contractual maturities. As at 31 December 2023:

In millions of CZK	**Carrying amount**	**Total contractual cash flows**	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**
Derivatives							
Gross settled cross-currency interest-rate swaps							
inflow	146	41,171	-	-	312	15,845	25,014
outflow	(6,878)	(50,071)	-	-	(2,474)	(20,658)	(26,939)
Net settled interest-rate swaps							
Net inflow	3,987	4,262	212	-	1,839	1,832	379
Total	**(2,745)**	**(4,638)**	**212**		**(323)**	**(2,981)**	**(1,546)**

As at 31 December 2022:

In millions of CZK	**Carrying amount**	**Total contractual cash flows**	**Demand and less than 1 month**	**From 1 to 3 months**	**From 3 to 12 months**	**From 12 months to 5 years**	**Over 5 years**
Derivatives							
Gross settled cross-currency interest-rate swaps							
inflow	-	34,367	-	-	266	14,144	19,957
outflow	(9,894)	(53,834)	-	-	(2,981)	(25,367)	(25,486)
Net settled interest-rate swaps							
Net inflow	7,850	14,434	228	-	2,660	9,120	2,426
Total	**(2,044)**	**(5,033)**	**228**	**-**	**(55)**	**(2,103)**	**(3,103)**

The Group had access to the following undrawn bank borrowing facilities at the end of the reporting period:

In millions of CZK	**31 December 2023**	**31 December 2022**
Revolving credit facility line	500	500
CAPEX facility line	1,000	500

The banks' CAPEX facility line and revolving credit facility line are committed credit lines and might be drawn at any time until 18 May 2028 from the portfolio of banks. At the reporting date, the CAPEX facility was not drawn (CZK 500 million as of 31 December 2022 was drawn) by the Group and no revolving credit facility was drawn as at 31 December 2023 and 2022.

5.3 Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amounts of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Group managed as at 31 December 2023 was CZK 9,897 million (2022: CZK 16,792 million) which corresponds to total equity as recognised in the balance sheet.

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio reflects the requirements of the rating agencies Fitch and Standard and Poor, in order to comply with BBB+ rating objectives. More specifically, the Group's strategy was to maintain the most constraining rating metric called FFO net leverage, calculated as total borrowings less cash and cash equivalents divided altogether by FFO (Funds From Operations) below 6.7. As at 31 December 2023, the actual value of FFO net leverage was 7.90 (as at 31 December 2022: 6.20) as a result of lower allowed revenues set by ERO for 2023. The ratio is assessed by Fitch on a medium-term basis; the BBB+ senior unsecured rating has been affirmed by Fitch on 22 March 2024.

The covenants imposed by banks require that the Company be assigned the credit rating corresponding to the investment grade. If the rating were below the investment one and the amount of RAB (Regulated Asset Base - the amount of the total non-current assets defined by the regulator) were less than net debt, the banks may require the Group to repay its bank borrowings immediately. The Company was assigned a credit rating by S&P Global Ratings and Fitch Ratings corresponding to the investment grade as at 31 December 2023 and 31 December 2022.

5.4 Fair-Value Disclosures

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

Financial assets and liabilities measured at fair value

The Fair value of the interest-rate swaps was determined as the present value of future cash flows based on the observable yield curve from the Bloomberg terminal as at 31 December 2023 and 31 December 2022.The cross-currency interest-rate swap was determined as the present value of future cash flows based on the forward exchange rates as at the balance sheet date and future cash flows were discounted by the observable yield curves from the Bloomberg terminal as at 31 December 2023 and 31 December 2022.

Recurring fair value measurements in millions of CZK	**31 December 2023 Level 2 fair value**	**31 December 2022 Level 2 fair value**
ASSETS		
Derivatives		
- Interest-rate swaps	3,987	7,850
- Cross currency interest swap	146	-
TOTAL ASSETS	**4,133**	**7,850**
LIABILITIES		
Derivatives		
- Interest-rate swaps	-	-
- Cross currency interest swap	(6,878)	(9,894)
TOTAL LIABILITIES	**(6,878)**	**(9,894)**

Financial liabilities measured at amortised cost but for which fair value is disclosed

The fair value of EUR fixed interest rate bonds issued (Note 3.8) amounts to CZK 34,061 million as at 31 December 2023 (as at 31 December 2022: CZK 29,409 million). EUR fixed interest rate bonds issued belong to Level 1 of the fair value hierarchy, since they are quoted in an active market.

The loans from the shareholder were provided at market terms on 30 September 2019. As at 31 December 2023 the fair value of the loans from shareholder amounts to CZK 13,620 million (CZK 11,157 million as at 31 December 2022). They belong to Level 2 of the fair-value hierarchy.

All other borrowings (bank borrowings, CZK floating interest rate bonds) belong to Level 2 of the fair value hierarchy. As at 31 December 2023 and 2022, their fair values were not materially different from their carrying amounts.

The fair value of floating-rate instruments that are not quoted in an active market were estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities. As inputs to the DCF model, the Group used intra-group credit margins and market interest rates for interest rate swaps (“IRS”) with the similar duration to that of financial instruments held at AC. The discount rate was determined as a sum of the intra-group margin and IRS rate.

Carrying values of Trade and other receivables and Trade and other payables approximate their fair values because of their short-term nature. The difference between fair value and carrying amount of Other non-current liabilities was insignificant.

Liabilities carried at amortised cost. The estimated fair value of fixed interest rate instruments with stated maturities were estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

5.5 Presentation of Financial Instruments by Measurement Category

As at 31 December 2023 and 2022, all the Group’s financial liabilities and financial assets presented in Note 5.4 were carried at amortised cost except for the derivatives, which were carried at fair value through profit or loss.

6 Other

6.1 Contingencies and Commitments

Tax contingencies. Czech tax legislation which was enacted or substantively enacted at the end of the reporting period is subject to varying interpretations when being applied to the transactions and activities of the Group. Consequently, tax positions taken by management and the formal documentation supporting the tax positions may be challenged by tax authorities. The Czech tax administration is gradually strengthening, including the fact that there is a higher risk of review of tax transactions without a clear business purpose or with tax noncompliant counterparties. Fiscal periods remain open for review by the authorities in respect of taxes for three calendar years preceding the year when decisions about the review were made. Under certain circumstances, reviews may cover longer periods.

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

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

The Group does not have any significant contingent liabilities as at 31 December 2023 and 2022.

Capital expenditure commitments. As at 31 December 2023, the Group had contractual capital expenditure commitments in respect of property, plant and equipment of CZK 2,989 million (2022: CZK 2,624 million).

Bank commitments. There were no-pledges as at 31 December 2023 and 2022.

6.2 Balances and Transactions with Related Parties

As at 31 December 2023 and 2022, the Group was owned by Czech Gas Networks S.à r.l. (CGN S.à r.l.). The ultimate controlling party was Macquarie European Infrastructure Fund IV as at 31 December 2023 and 2022.

The outstanding balances with related parties for the year ended 31 December 2023 and 2022 were as follows:

In millions of CZK	**Note**	**Immediate parent company CGN S.à r.l.**	**Immediate parent company CGN S.à r.l.**
		31 December 2023	**31 December 2022**
Borrowings	3.8	14,159	14,217
Trade and other receivables		3	2

Loans from the shareholder were provided at market terms.

The income and expense items with related parties for the year ended 31 December 2023 and 2022 were as follows:

In millions of CZK	**Note**	**Immediate parent company CGN S.à r.l.**	**Immediate parent company CGN S.à r.l.**
		31 December 2023	**31 December 2022**
Finance costs	3.8	688	688
Other income		1	-

Finance costs are related to borrowings that were provided at market terms at the date of the respective tranche.

Key management compensation. Key management represents three Senior Executives of the subsidiaries, seven Non-executive Managers of the Group's Board of Managers and seven Non-executive Directors of Czech Grid Holding, a.s. as at 31 December 2023 and 2022.

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

The information regarding remuneration of the three Senior Executives in the year ended 31 December 2023 and 2022 is set out below:

	2023			2022		
In millions of CZK	**Expense**	**Provisions**	**Trade and other payables**	**Expense**	**Provisions**	**Trade and other payables**
Short-term benefits:						
- Salaries	20	-	-	16	-	-
- Short-term motivation programme	15	-	12	11	-	10
- Social security costs	5	-	4	4	-	3
Other long-term employee benefits:						
- Long-term motivation programme	20	13	-	-	31	-
Total key management compensation	**60**	**13**	**16**	**31**	**31**	**13**

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

Besides the above-stated, the in-kind consideration in the form of using the cars leased by the Group amounted to CZK 1 million and presented as a depreciation of the right-of-use assets in the year ended 31 December 2023 (2022: CZK 1 million).

6.3 Principal Subsidiaries

The Group's principal subsidiaries as at 31 December 2023 and 31 December 2022 are set out below.

The country of registration is also their principal place of business.

Name	Nature of business	Percentage of voting rights	Percentage of ownership	Country of registration	Method of consolidation
Czech Grid Holding, a.s.	Holding of participations in directly owned subsidiaries	100%	100%	Czech Republic	Full
GasNet Služby, s.r.o.	Construction activities, repairs, revisions of designated gas and electrical equipment.	100%	100%	Czech Republic	Full
GasNet, s.r.o.	Gas distribution	100%	100%	Czech Republic	Full

6.4 Summary of other potentially material accounting policies

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

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

Impairment of property, plant and equipment. At the end of each reporting period, management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. For the purposes of assessing impairment, items of property, plant and equipment are grouped at the lowest levels for which there are largely independent cash inflows, the whole Group is considered as a cash-generating unit. The carrying amount is reduced to the recoverable amount, and the impairment loss is recognised in profit or loss for the year. Prior impairments of property, plant and equipment are reviewed for possible reversal at each reporting date as well.

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

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

Financial assets – classification and subsequent measurement – business model. The business model reflects how the Group manages its assets in order to generate cash flows – whether the Group's objective is (i) solely to collect the contractual cash flows from the assets ("hold to collect contractual cash flows") or (ii) to collect both the contractual cash flows and the cash flows arising from the sale of assets ("hold to collect contractual cash flows and sell") or, if neither (i) nor (ii) is applicable, the financial assets are classified as part of "other" business model and measured at FVTPL.

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

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

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

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC. The Group measures ECL and recognises Net impairment losses on financial assets at each reporting date.

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

Expected credit loss ("ECL") measurement. Measurement of ECLs is an accounting estimate that involves the determination methodology, models, and data inputs. The following components have a major impact on credit loss allowance: definition of default, significant increase in credit risk ("SICR"), probability of default ("PD"), exposure at default ("EAD"), and loss given default ("LGD"). The Group regularly reviews and validates the models and inputs to the models to reduce any differences between ECL estimates and actual credit loss experience. In general, ECL is the sum of the multiplications of the following credit risk parameters: EAD, PD and LGD, that are defined and explained below, and discounted to present value using the instrument's effective interest rate.

Probability of default ("PD"). Two types of PDs are used to calculate ECLs: 12-month and lifetime PD. An assessment of a 12-month PD is based on the latest available historic default data and adjusted for supportable forward-looking information when appropriate. Lifetime PDs represent the estimated PD occurring over the remaining life of the financial instrument and it is a sum of the 12-month PDs over the life of the instrument.

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

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

Cash and cash equivalents. Cash and cash equivalents include cash in hand, deposits held at call with banks. Cash and cash equivalents are carried at amortised cost using the effective-interest method.

Other receivables. Other receivables are recognised initially at fair value and are subsequently carried at amortised cost using the effective-interest method.

Capitalisation of borrowing costs. General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the costs of those assets. A qualifying asset is the one that needs more than 12 months to construct. The Group finances the acquisition of qualifying assets mainly from specific borrowings.

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

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.

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

Financial assets impairment – credit loss allowance for ECL. The Group assesses, on a forward-looking basis, the ECL for debt instruments measured at AC. The Group measures ECL and recognises Net impairment losses on financial assets at each reporting date.

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

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

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

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

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

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

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

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

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

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

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

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

7 Events after the Reporting Period

In 2023, the Macquarie Group initiated steps leading to the divestment of its majority stake in the Group and invited prospective buyers to submit their proposals. The divestment process continued in 2024. On 20 March 2024, the Macquarie Group, on behalf of managed funds, reached an agreement to sell its 55.21% stake in the Group and in the shareholder loans to ČEZ Group for EUR 846.5 million in total (equivalent of CZK 21.4 billion). The transaction value indicates an enterprise value of the whole business of approximately EUR 4.5 billion (equivalent of CZK 112 billion) and, therefore, there is no indication of impairment as a result of this transaction. The transaction is subject to further regulatory approvals, including an approval from the European Commission, and is expected to reach a financial close in the third quarter of 2024.

No other events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2023.