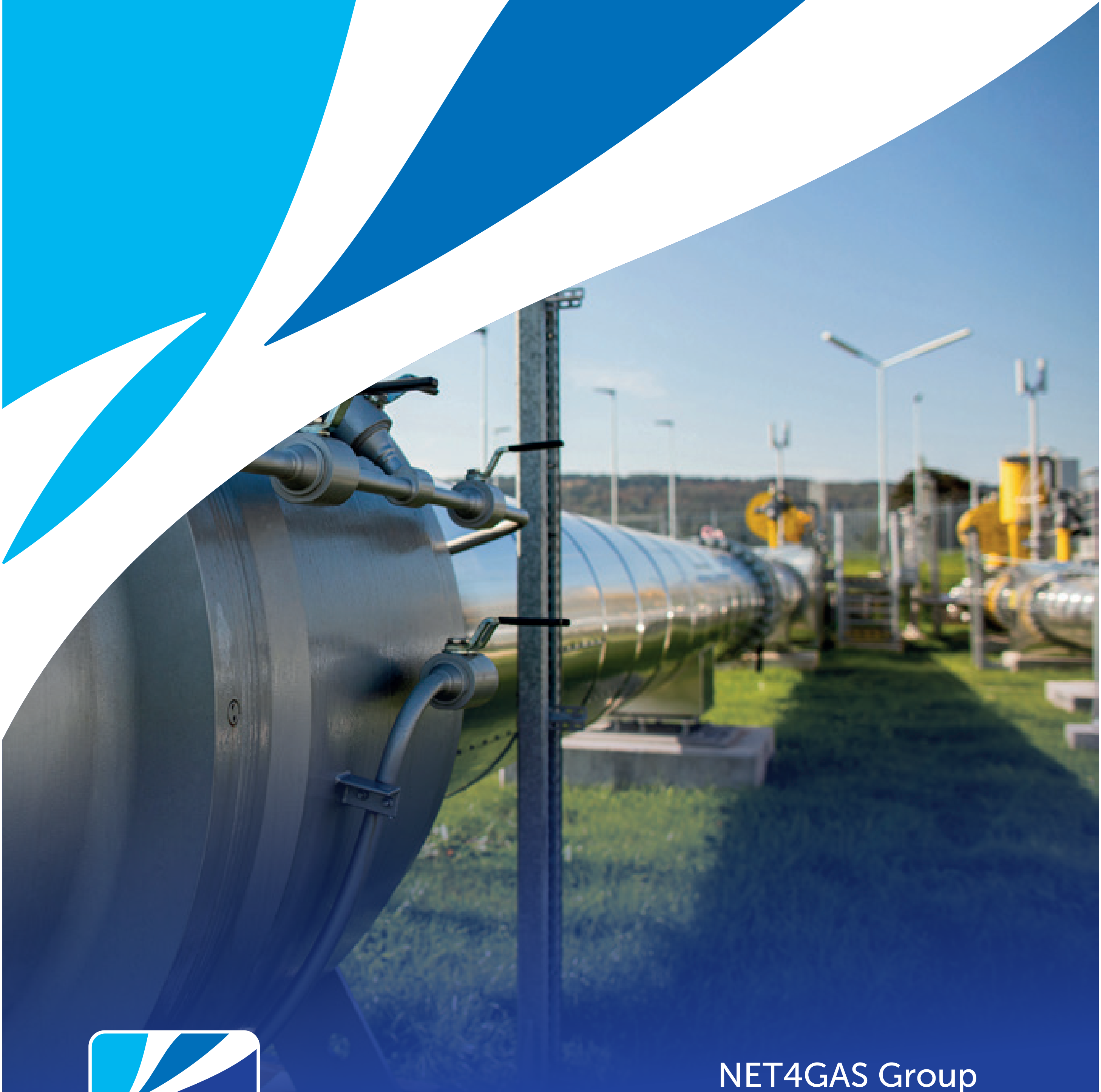


NET4GAS Group Consolidated Annual Report 2023

Contents

Foreword by the CEO of NET4GAS

Ladies and gentlemen,

The year 2023 was the most difficult year so far in the history of NET4GAS. The reason for this is the unprecedented and dramatic change in European gas flows, resulting mainly from the war in Ukraine and the complete payment default by our major shipper. Thanks to our immediate cost-saving measures and the great commitment and support of all NET4GAS employees, we have been able to mitigate the negative impact, at least to some extent.

Although the decision of the Czech regulator regarding gas transmission prices for 2024 at the end of November 2023 was a step in the right direction, it responded to the new reality of gas transport in Europe only partially. Therefore, the establishment of more general principles of regulation is currently expected in 2024 and 2025.

Another particular occurrence in the year 2023 was the sale of NET4GAS Holdings by our previous shareholders, Allianz and OMERS, to the state-owned company ČEPS. The transaction was completed on 11 December 2023. After more than a decade of productive and successful cooperation with the previous shareholders, we are now looking forward to cooperating with the new shareholder, under which we will of course continue to pursue high performance and reliability.

I am also glad that the European and Czech gas industry once again demonstrated its ability to adapt to the difficult market conditions and ensured sufficient supplies of natural gas to all customers. This strengthens our belief that natural gas, and increasingly also renewable gases such as hydrogen, will play an important role in the European energy mix in the years to come. For NET4GAS, this means new business opportunities, whether for domestic energy supplies or international gas transit, and also additional investment needs.

Total natural gas transport reached approximately 10 bcm in 2023, of which approximately 6.8 bcm was for the Czech Republic's domestic needs, transit to foreign countries amounted to 1 bcm, and the remainder was transported to gas storage facilities. Compared to 2022, total transport decreased by 20.8 bcm. The decrease was mainly caused by the absence of physical transmission of Russian gas through the Czech Republic and other changes in gas flows in Europe, which have arisen as a geopolitical consequence of the Russian invasion of Ukraine. Domestic gas transport decreased by approximately 0.7 bcm in 2023 compared to 2022, mainly due to higher average ambient temperatures and continued savings in consumption by Czech customers.

NET4GAS again fulfilled its contractual obligations under a total of 10,278 gas transportation contracts in 2023. The year-on-year decrease in concluded contracts was mainly caused by the general trend towards less gas transit activities. Our consolidated operating loss in the 2023 fiscal year amounted to almost CZK (571) million. For more information related to financials, including rating reports, please see the section "NET4GAS Main Financial Operations" and "Post Balance Sheet Events".

Apart from other achievements last year, we would like to highlight the successful completion of the Moravia Capacity Extension project with the issuance of the final operation permit taking legal effect as of 27 October 2023. Many thanks to all colleagues who participated in the project and made it possible to complete the project on time and within budget.

In addition to our day-to-day business, we also continue to intensively prepare for the transportation of renewable and decarbonised gases, especially hydrogen. We are involved in various European hydrogen projects, such as the European Hydrogen Backbone initiative, the Central European Hydrogen Corridor (CEHC), and the Czech-German Hydrogen Interconnector (CGHI). In November 2023, the European Commission included CEHC and CGHI in the sixth EU-wide list of Projects of Common Interest (PCI) and Projects of Mutual Interest (PMI). In our internal H2 Readiness Project, we continue to focus on how to repurpose the existing gas infrastructure for the transportation of hydrogen, both in its pure form and in different admixtures with natural gas.

My final thanks especially go to our employees for their great commitment and perseverance during these difficult times and for ensuring safe and reliable gas transmission services in the Czech Republic.

With best wishes,

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

Consolidated Group Data

Consolidated Group Data

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

Consolidating company

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

Consolidated company

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

NET4GAS Company Profile

NET4GAS, s.r.o. is the gas transmission system operator in the Czech Republic, ensuring economically efficient, safe and reliable transmission services for its customers 24 hours a day, 7 days a week. Through its network of 4,058 km of pipelines, NET4GAS transports huge quantities of gas. As a Central European transmission system operator, NET4GAS plays an active role in connecting and integrating European energy markets to the benefit of Czech and other European customers. At the same time, the company participates in shaping the European energy market in the context of the transition to a low carbon economy and is a member of several initiatives aimed at the development of the use of hydrogen. For instance, we are a founding member of the European Hydrogen Backbone initiative. Furthermore, NET4GAS is a member of the Czech Gas Association, the international organisations ENTSOG, GIE, EASEE-gas, and the IGU and Marcogaz working groups. The company has more than 500 employees and is committed to corporate social responsibility.

Ownership of NET4GAS

as of 31 December 2023

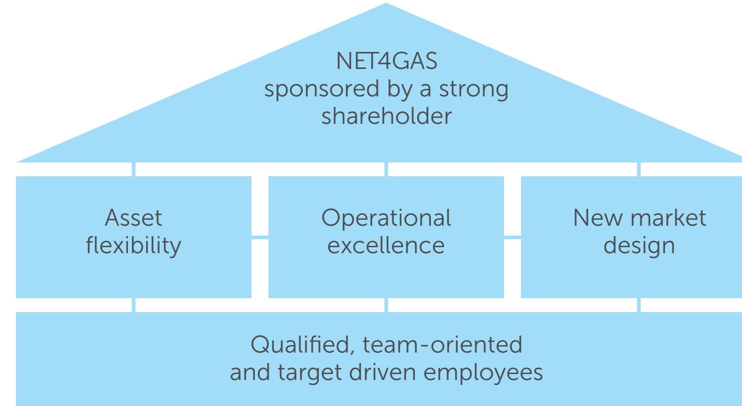
For the entire year 2023, NET4GAS was wholly owned by NET4GAS Holdings, s.r.o., which in turn was owned by a consortium formed by Allianz Infrastructure Luxembourg I S.à r.l. (50%) and Borealis Novus Parent B.V. (50%) until 11 December 2023.

On 11 December 2023, a share transfer agreement was entered into between Allianz Infrastructure Luxembourg I S.à r.l., a company with registered office at Rue Albert Borschette 2A, 1246 Luxembourg, Grand Duchy of Luxembourg, Registration No. B 157276, and ČEPS, a.s., a company with registered office at Elektrárenská 774/2, 101 52 Prague 10, Czech Republic, Identification No. 25702556, registered under Reg. No. B 5597 in the Commercial Register maintained by the Prague Municipal Court, based on which Allianz Infrastructure Luxembourg I S.à r.l., the seller, transferred its 50% share in NET4GAS Holdings, s.r.o. to ČEPS, a.s., the buyer. Furthermore, on 11 December 2023, a share transfer agreement was entered into between Borealis Novus Parent B.V., a company with registered office at Muiderstraat 9U, 1011PZ Amsterdam, Netherlands, Registration No. 57412243, and ČEPS, a.s., based on which Borealis Novus Parent B.V., the seller, transferred its 50% share in NET4GAS Holdings, s.r.o. to ČEPS, a.s., the buyer, whereupon ČEPS, a.s. became the sole shareholder of NET4GAS Holdings, s.r.o. effective as of 11 December 2023.

Transmission system

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

NET4GAS Strategy



NET4GAS mission

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

NET4GAS vision

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

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

Along with the range of attractive capacity products we offer our customers, enhancing and optimising our asset flexibility allows us to swiftly respond to changing gas flow patterns in Europe.

We strive for operational excellence to meet our customers' expectations and to manage the financial and operational demands resulting from increasing fluctuations in grid utilisation, regulation and growing competition in energy markets.

We will continue to help shape the European energy market in the context of the transition to a low-carbon and, ultimately, carbon-free economy, and by doing so will contribute to the preservation and enhancement of functioning gas markets, especially in Central and Eastern Europe where we operate. As part of these efforts, we will strive to assume a strong regional position in the hydrogen transport segment.

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

NET4GAS Supervisory Board

as of 31 December 2023

Petr Doškář
Chairman of the Supervisory Board
Position held since: 20 December 2023
Member since: 12 December 2023

Radek Lucký
Vice-Chairman of the Supervisory Board
Position held since: 20 December 2023
Member since: 12 December 2023

Martin Palkovský
Member of the Supervisory Board
Member since: 12 December 2023

Changes in the NET4GAS Supervisory Board

In the course of 2023, changes took place in the composition of the NET4GAS Supervisory Board. Under a decision of the sole shareholder exercising the powers of the Company's General Meeting dated 16 June 2023, Michael Raymond Mc Nicholas and Delphine Voeltzel were discharged as members of the Supervisory Board effective immediately. At the same time, under a decision of the sole shareholder exercising the powers of the General Meeting dated 16 June 2023, Lars Erik Clausen and Michael F. Keppel were appointed as new members of the Supervisory Board effective immediately. At a regular meeting of the Supervisory Board held on 23 June 2023, Lars Erik Clausen was elected as Chairman of the Supervisory Board effective immediately.

On 5 December 2023, the membership of George Nowack on the Supervisory Board ended upon the expiry of his five-year term of office.

On 11 December 2023, Lars Erik Clausen, Mario Fischer, Igor Emilievic Lukin, and Michael F. Keppel resigned as members of the Supervisory Board by delivering written resignation notices to the Supervisory Board. The Supervisory Board acknowledged the resignation of the members of the Supervisory Board based on their written notices and approved the termination of their offices as of 11 December 2023. The sole shareholder exercising the powers of the General Meeting acknowledged the resignation of the aforementioned members of the Supervisory Board based on their written notices and simultaneously decided 11 December 2023 to be the last day of their term of office as members of the Company's Supervisory Board.

Under a decision of the sole shareholder exercising the powers of the General Meeting adopted in the form of a notarial deed executed on 12 December 2023 by Martin Diviš, a notary with registered office in Prague, under Ref. No. NZ 1994/2023, N 2132/2023, an amendment to the Company's Memorandum of Association was approved effective as of 12 December 2023, changing the number of members of the Supervisory Board to three members.

Under a decision of the sole shareholder exercising the powers of the General Meeting adopted in the form of a notarial deed executed on 12 December 2023 by Martin Diviš, a notary with registered office in Prague, under Ref. No. NZ 1994/2023, N 2132/2023, Petr Doškář, Radek Lucký, and Martin Palkovský were elected as new members of the Supervisory Board effective as of 12 December 2023.

Based on a decision of the Supervisory Board adopted at its meeting held on 20 December 2023, Petr Doškář was elected as Chairman of the Supervisory Board effective as of 20 December 2023 and Radek Lucký as Vice-Chairman of the Supervisory Board effective as of 20 December 2023.

NET4GAS Statutory Directors

as of 31 December 2023

Andreas Rau
Statutory Director and CEO
Position held since: 1 December 2023
(NET4GAS Statutory Director continuously since 1 December 2013)

Radek Benčík
Statutory Director and COO
Position held since: 1 October 2021
(NET4GAS Statutory Director continuously since 1 October 2011)

Changes in the NET4GAS Statutory Directors

Václav Hrach resigned as a statutory director of the Company and thereby served notice of resignation dated 23 June 2023. In accordance with the Company's Memorandum of Association, the Supervisory Board acknowledged Václav Hrach's resignation as the Company's statutory director at its meeting held on 23 June 2023, and simultaneously decided 30 September 2023 to be the last day of his term of office as a statutory director.

At its regular meeting held on 22 September 2023, the Company's Supervisory Board re-elected Andreas Rau as the Company's statutory director effective as of 1 December 2023. Simultaneously, the Supervisory Board approved an extension of the executive service agreement between the Company and Andreas Rau.

Under a decision of the sole shareholder exercising the powers of the General Meeting adopted in the form of a notarial deed executed on 12 December 2023 by Martin Diviš, a notary with registered office in Prague, under Ref. No. NZ 1994/2023, N 2132/2023, an amendment to the Company's Memorandum of Association was approved effective as of 12 December 2023, changing the number of the Company's statutory directors to two statutory directors.

NET4GAS Audit Committee

as of 31 December 2023

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

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

Stanislav Staněk

Chairman of the Audit Committee
Position held since: 22 June 2023
Member since: 1 June 2016

Michal Petrman

Member of the Audit Committee
Member since: 1 June 2016

Pavel Závitkovský

Member of the Audit Committee
Member since: 1 June 2016

Changes in the NET4GAS Audit Committee

In accordance with the Audit Committee Statute, Michal Petrman, Stanislav Staněk, and Pavel Závitkovský were reappointed under a decision of 15 May 2023 of the sole shareholder of NET4GAS exercising the powers of the General Meeting as independent members of the Audit Committee following the end of their one-year terms of office, effective as of 1 June 2023. On 22 June 2023, Stanislav Staněk was elected as Chairman of the Audit Committee.

The following changes in the Audit Committee occurred in the course of 2023: On 11 December 2023, Mario Fischer and Alberto Rozza resigned as members of the Audit Committee by serving a written notice of resignation to the sole shareholder. The sole shareholder, exercising the powers of the General Meeting, acknowledged the resignation of the aforementioned members of the Audit Committee and simultaneously decided 11 December 2023 to be the last day of their term of office as members of the Company's Audit Committee.

Under a decision of the sole shareholder exercising the powers of the General Meeting adopted in the form of a notarial deed executed on 12 December 2023 by Martin Diviš, a notary with registered office in Prague, under Ref. No. NZ 1994/2023, N 2132/2023, an amendment to the Company's Memorandum of Association was approved effective as of 12 December 2023, changing the number of members of the Audit Committee to three members.

Fees for services provided to the NET4GAS Group

In 2023, Deloitte Audit s.r.o. provided to the NET4GAS Group statutory audit services in the total amount of CZK 2,415,000, of which statutory audit services provided to NET4GAS s.r.o. amounted to CZK 2,100,000. Deloitte Audit s.r.o. did not provide any non-audit services to the NET4GAS Group during 2023.

BRAWA Company Profile

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

BRAWA Shareholder

as of 31 December 2023

In 2023, BRAWA's sole shareholder was NET4GAS.

Supervisory Board of BRAWA

as of 31 December 2023

Martin Kolář

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

Radek Benčík

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

Andreas Rau

Member of the Supervisory Board
Membership since: 19 February 2022
(in the Supervisory Board continuously since 19 February 2014)

Changes in the BRAWA Supervisory Board

No changes occurred in the composition of the Supervisory Board of BRAWA in 2023.

BRAWA Board of Directors

as of 31 December 2023

Jan Martinec

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

Miroslav Holý

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

Changes in the BRAWA Board of Directors

No changes occurred in the composition of the Board of Directors of BRAWA in 2023.

Consolidated Report on Operations

Consolidated Report on Operations

NET4GAS Group Main Financial Indicators

Selected indicators*	2023 (CZK million)
Revenue	3,005
Operating loss	(571)
Loss before tax	(993)
Loss after tax	(1,706)
Investments – long-term projects finished in 2023	610
Capital expenditure to tangible and intangible assets in 2023	793

* according to IFRS as adopted by the European Union

Revenues, costs, profit

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

In 2023, the Group achieved loss before tax of CZK (993) million and loss after tax of CZK (1,706) million. Operating loss of the Group amounted to CZK (571) million.

The Group generated the loss from its core business operations – transit of natural gas and domestic transmission. Its total operating income amounted to CZK 3,005 million and total operating costs were CZK (3,576) million.

Asset structure

The total assets of the Group in 2023 amounted to CZK 61,877 million, of which non-current assets accounted for CZK 52,133 million, representing 84%. The main components of these assets were tangible fixed assets valued at CZK 51,568 million, long-term receivables from derivative financial instruments at CZK 389 million, intangible fixed assets valued at CZK 169 million and prepayments for acquisition of fixed assets.

As of December 31, 2023, current assets amounted to CZK 9,774 million, representing 16% of total assets. Current assets were mainly represented by other financial assets and cash.

Investments

Capital expenditures in 2023 amounted to CZK 793 million. In 2023, the Group finished long-term projects in the amount of CZK 610 million (additions to fixed assets at cost).

Structure of liabilities

As of December 31, 2023, the Group's equity amounted to CZK 18,232 million and accounted for approximately 29% of the Group's total liabilities.

Current and non-current liabilities amounted to CZK 43,645 million, of which non-current liabilities (bonds, bank loan, deferred tax, and derivatives) accounted for approximately 96% of total liabilities; current liabilities accounted for approximately 4% of total liabilities.

Investment instruments

To secure a return on its available cash during 2023, the Group made use of term deposits offered by leading banking institutions. No significant price, credit or liquidity risks were identified in connection with the instruments concluded, other than described in the consolidated financial statements, which are an integral part of this Consolidated Annual Report.

Research and development activities

The Group did not make any major expenditure into research and development in 2023.

Branches or other parts of business premises abroad

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

NET4GAS Main Financial Operations

On 4 January 2023, the Company announced that the last monthly payments due under key agreements with its main customer, had not been received. As announced on 6 April 2023, negotiations with the main customer about resolving the situation have not been successful. Consequently, N4G has decided to commence arbitration proceedings against the main customer in order to protect its legal rights and seek the due payment of the amounts owed to it by the main customer.

In response to the aforementioned and ongoing external geopolitical uncertainties, NET4GAS continued building financial reserves, implementing savings, and temporarily suspending the payment of dividends to shareholders during 2023. No changes in the financing of the Company took place in 2023. The Company continues to actively monitor the market conditions and the geopolitical situation in the territory where it conducts business, and is analysing options to improve its financial resilience as the owner and operator of critical infrastructure in the Czech Republic.

On 29 May 2023, Fitch Ratings downgraded the Company's credit rating from BB+ "Negative Outlook" to BB- "Evolving". On 4 October 2023, in consequence of a change of owner, Fitch Ratings upgraded NET4GAS's credit rating to "rating watch positive".

NET4GAS Main Business Operations

The total volume of gas transmitted in 2023 amounted to 10.15 billion cubic meters (bcm), or which 6.77 bcm went to consumers in the Czech Republic, transit to foreign countries amounted to 1.04 bcm, and the remainder was transported to gas storage facilities. Compared to 2022, total transport decreased by 20.77 bcm.

The decline was mainly caused by the absence of physical transmission of Russian gas via the Czech Republic and other changes in gas flow in Europe stemming especially from the geopolitical consequences of the Russian invasion of Ukraine.

Domestic transport decreased in 2023 by 0.74 bcm compared to 2022, mainly due to higher average temperatures and savings resulting in reduced consumption by Czech consumers.

In 2023, NET4GAS fulfilled its contractual commitments under 10,278 gas transmission agreements. The year-on-year decrease in concluded contracts was mainly caused by the general trend towards less gas transit activities.

In 2023, NET4GAS completed the implementation of the Moravia Capacity Extension (MCE) domestic project, the objective of which was to expand the output capacity of the gas transmission system for the Central and Northern Moravian region, thereby ensuring the continued security of supplies in the region. The project involved the construction of about 85 kilometres of a new DN 1000 PN 73.5 high-pressure pipeline between the existing Tvrdonice and Bezměrov distribution nodes (a high-pressure gas pipeline) and the related adjustments to the Břeclav compression station. Unfinished work tasks were completed, defects were repaired, and a fit-for-use certificate was issued on 25 October 2023 for the high-pressure pipeline. The certificate entered into legal force on 27 October 2023.

As part of a noncommittal assessment of demand for capacity on the Czech Republic's borders with neighboring trading zones carried out in accordance with national legislation during July and August 2023, NET4GAS received no indicative demand for incremental capacity for any of the cross-border points.

The Ministry of Industry and Trade renewed the Transmission System Operator's exemption from enabling bidirectional flow at the Cieszyn border point, valid until 31 December 2023. In connection with negotiations with the Polish transmission system operator GAZ-SYSTEM, three potential future solutions were identified here to allow bidirectional flow. Until a decision is made to implement and put into operation one of the solutions, NET4GAS has applied to the Ministry of Industry and Trade for an extension of the above-mentioned exemption by two additional years. The process is now pending. In 2023, preparatory work continued on five projects aimed at connecting customers to the transmission system and reinforcing the system's capacity. Three building permits in effect were successfully obtained for these projects. Construction and installation work was performed on an additional three connection projects in 2023. As regards the technical solution, the projects consist of building new pipelines sized DN 150 – DN 500 with a length from 0.1 to 8.3 kilometres, enlarging existing transfer stations, and increasing the capacity of commercial metering.

In the area of innovations and transitioning to a low-carbon economy, activities pursued by NET4GAS in 2023 mainly focused on preparations for the future transport of hydrogen. For example, NET4GAS is one of the sponsors of the European Hydrogen Backbone initiative. The project is aimed at building a European backbone hydrogen infrastructure, primarily based on repurposing existing gas networks, and effectively connecting major (potential) hydrogen production and consumption sites. In 2023, work concentrated on hydrogen import corridors and specific implementation projects, including those developed by NET4GAS.

As in previous years, in 2023 NET4GAS continued pursuing several international initiatives in the hydrogen transport segment. NET4GAS is one of the founders of the Central European Hydrogen Corridor initiative, aimed at examining the possibilities of transmitting hydrogen from Ukraine through Slovakia and the Czech Republic to Germany and a member of the SunsHyne initiative, which investigates the possibilities of transporting hydrogen from North Africa. In addition, in 2023 NET4GAS began another initiative that focuses on the South-East European region. Titled South-East Europe Hydrogen Corridor, this venture will examine the feasibility of transporting hydrogen from Greece and Romania via Bulgaria, Hungary, Slovakia, and the Czech Republic westward to Germany. NET4GAS continues to actively carry on a large-scale internal project with the aim of mapping the existing infrastructure and its preparedness for the transmission of hydrogen, both in its pure form and in the form of various blends with natural gas. Our results achieved in 2023 confirm, to an increasing degree, the assumptions that the existing gas infrastructure can be used to a significant extent for transporting hydrogen. From an accounting perspective, the above-mentioned detail is not a research and development expenditure for the fiscal year 2023.

In November 2023, the European Commission published the proposal of the sixth Union List of Projects of Common Interest (PCI) and Projects of Mutual Interest (PMI), including hydrogen corridors traversing the Czech Republic. NET4GAS has two hydrogen projects on the list, specifically the Central European Hydrogen Corridor (CEHC) and the Czech-German Hydrogen Interconnector (CGHI).

BRAWA Business Operations

The core activity of BRAWA in 2023 was managing its property, the GAZELLE pipeline, and its lease to the transmission system operator NET4GAS.

Human Resources

As of 31 December 2023, NET4GAS had 525 employees, 19.24% of whom were women. Women accounted for 12.93% of employees in management positions. The educational background of the company's workforce has remained stable. The standard of NET4GAS employees' working and social conditions is defined under a Collective Agreement valid from 2020 to 2024. As of 31 December 2023, BRAWA had no employees.

As part of its human resources and social policy, NET4GAS offers its employees programs and benefits that include retirement savings and life insurance contributions, lump-sum meal contributions, five days of vacation above the legal requirement, 3 sick days, flexible working time, premium healthcare, contributions for leisure activities, and assistance for families with young children. NET4GAS facilitates the return of employees to work after parental leave, particularly through maintaining contact, supporting their active participation in projects and allowing them to work from home. As in previous years, employees had an opportunity to obtain financial support for a pre-school that their children attend.

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

Health and Safety at Work

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

In 2023, neither NET4GAS employees nor employees of suppliers sustained a serious occupational injury resulting in incapacity for work. Maintaining a high standard of workplace safety to eliminate the risks of injuries will remain one of the main priorities in occupational health and safety.

Environmental Protection

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

In 2023, the NET4GAS Group discharged all requirements arising under environmental protection laws, and inspections carried out by government authorities in 2023 confirmed the full conformity of operations in the inspected localities to the applicable environmental legislation and conditions of issued licenses in effect. The Group's commitment to environmental protection goes beyond the scope of legal requirements.

An example is the consistent use of a mobile compressor that serves for the removal of gas from a pipeline section undergoing repairs and thanks to that the pumped gas is not released into the atmosphere. Recycling, energy savings, and other environmentally friendly activities were and remain an integral part of the operations. In 2023, the Group continued to support nature conservation and environmental protection projects under the NET4GAS Closer to Nature program (see NET4GAS Corporate Philanthropy).

Reducing Emissions

In 2023, the NET4GAS Group continued its efforts to reduce methane and carbon dioxide emissions. The NET4GAS Group's overall carbon footprint in 2023 was considerably reduced compared to previous years. As regards reducing methane emissions, an example of the above efforts was the acquisition of another mobile booster compressor, which – as early as in 2024 – will allow pumping a significantly higher quantity of methane from various parts of the gas pipeline network before it is depressurised for maintenance purposes.

Taxonomy Regulation Reporting

Based on the requirements set by the Taxonomy Regulation (EU) 2020/852,[1] as of 1 January 2023, NET4GAS discloses information on the proportion of the turnover, capital expenditure (CapEx) and operating expenditure (OpEx), which is associated with environmentally sustainable economic activities, within two environmental objectives: climate change mitigation and climate change adaptation.

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

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

Internal Control Principles

Internal Audit

The essence of the Internal Audit is objective assurance focused on adding value to improving processes and reducing risks. It is an integral component of the management and control system and an important tool for the continuous improvement of the NET4GAS Group. The Internal Audit activities are conducted in cooperation with highly qualified and experienced external service providers and are supervised by the Audit Committee.

Audit Committee

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

Risk Management Committee

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

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

Code of Conduct

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

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

The Code of Conduct forms the basis for the creation of further internal documentation and every employee is acquainted with it. Moreover, annual reporting on the implementation of the Code of Conduct is introduced. In 2023, the Compliance Officer did not receive any notification of a violation of the Code of Conduct.

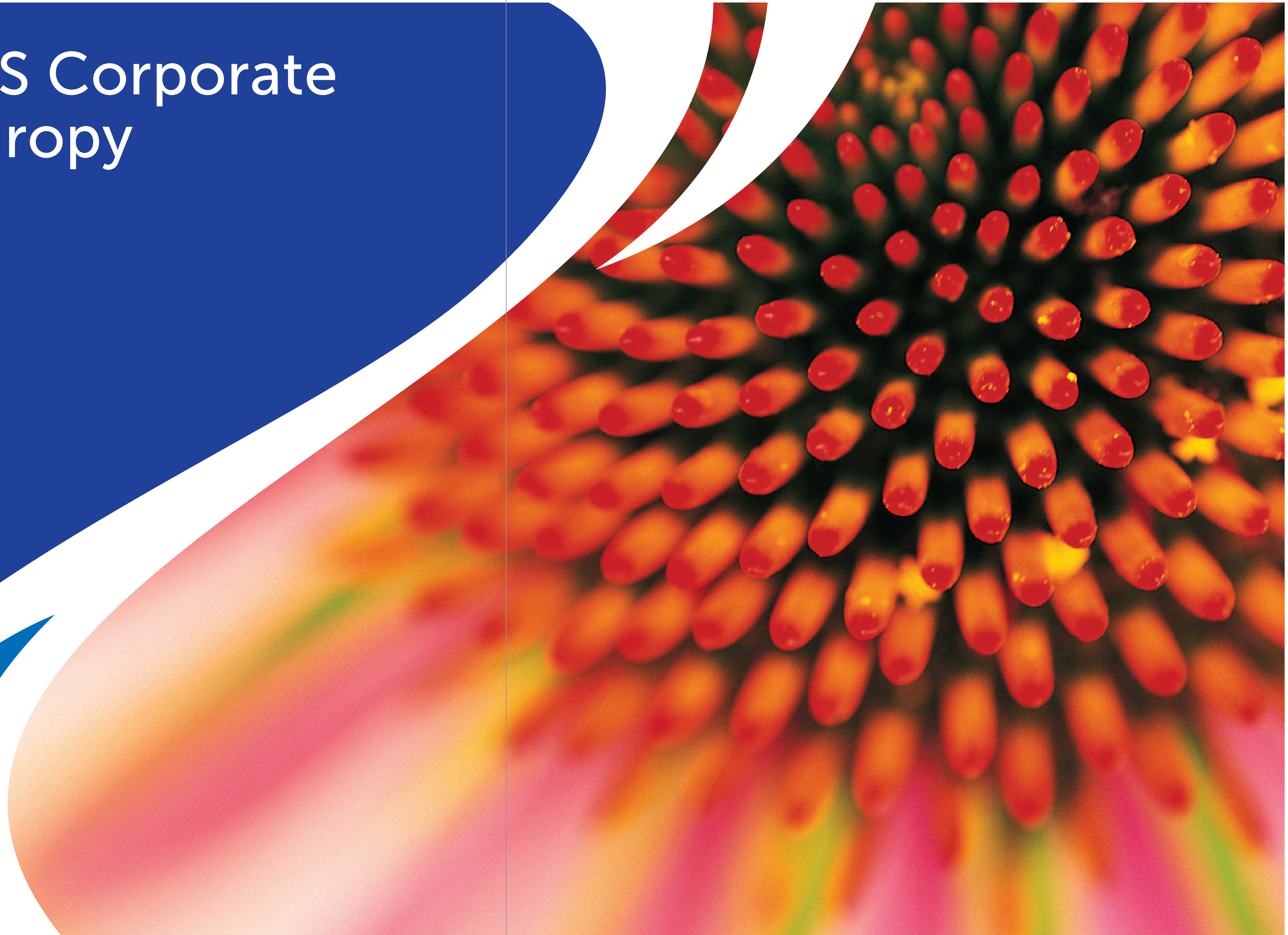
Ombudsman and Fraud Prevention

The Ombudsman is an independent position, which chiefly involves collecting complaints and information relating to potentially fraudulent activities or to activities, which are in conflict with the company's internal regulations and the law. The Ombudsman evaluates these submissions before convening an investigation committee, whose role is to make an independent assessment and evaluation and then propose corrective measures. The Ombudsman may also be contacted by parties outside the company. The position of Ombudsman is performed for the NET4GAS Group by an external law firm. In 2023, the Ombudsman did not receive any submission.

Whisteblower Protection

NET4GAS also fulfils its obligations arising from Act No. 171/2023 Coll., on the protection of whistleblowers, as amended, namely by adopting an internal regulation, or protection of whistleblowers and the notification procedure pursuant to the Act in question. Furthermore, NET4GAS has also set up an internal whistleblowing system and the management of the internal whistleblowing system has been entrusted to an independent person who is a member of an external law firm.

NET4GAS Corporate Philanthropy



NET4GAS Corporate Philanthropy

NET4GAS is aware of its corporate social responsibility and therefore, in 2023 it continued to engage in corporate philanthropy and sponsorship, aimed at improving the living conditions in the Czech Republic in the following areas:

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

NET4GAS Closer to Nature

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

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

NET4GAS has been the general partner of the Czech Union for Nature Conservation since 2007 and the goal of their cooperation is to present attractive and valuable natural sites to the public stressing the awareness about the reasons for their protection, in both an educational and entertaining way. In 2023, NET4GAS and the Union opened two more sites of natural value to the public, bringing the total over their partnership to 116. Moreover, the support focused on the renovation of existing sites, direct nature conservation projects and the nationwide science and nature competitions Zlatý list ("Golden Leaf") and Ekologická olympiáda ("Environmental Olympics").

NET4GAS Closer to Knowledge

This second pillar of philanthropy and sponsorship has its foundation in the focus on operational excellence delivered by a trained and qualified team. Sustainable development would be impossible without quality training, education, research and development. In 2022, in cooperation with the Czech Gas Association, the company launched educational programmes at vocational training centres. Like in the previous period, the company continued to support these areas under its NET4GAS Closer to Knowledge programme. In 2023, NET4GAS, also continued to develop its general partnership with the Department of Gaseous and Solid Fuels and Air Protection of the Faculty of Environmental Technology at the University of Chemistry and Technology Prague, and its partnership with the Czech Technical University in Prague. Their cooperation included mostly merit scholarships and awards for students.

NET4GAS Report on Relations

The Statutory Directors of NET4GAS, s.r.o. (hereinafter in this Report on Relations referred to as "Company") have drawn up, in accordance with the provision of Section 82 of Act No. 90/2012 Coll., the Business Corporations Act (hereinafter referred to as "BCA"), the following Report on Relations covering the relations among the Company and controlling entities and among the Company and other entities controlled by the same controlling entities (hereinafter referred to as "Related Parties") during 2023 in all cases where the Company is aware of the existence of such Related Parties. This Report on Relations forms an integral part of the NET4GAS Group Consolidated Annual Report 2023 and is provided to the Company's shareholder for review within the same period of time and under the same conditions as the Financial Statements.

1. Controlling entities

In the accounting period ended 31 December 2023, the Company was controlled:

I. In the period from 1 January 2023 to 11 December 2023

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

b) indirectly by
(i) Allianz Infrastructure Luxembourg I S.à r.l., with its registered office at 1246 Luxembourg, Rue Albert Borschette 2A, Grand Duchy of Luxembourg, registration number: B 157276, and (ii) Borealis Novus Parent B.V., with its registered office at 1011PZ Amsterdam, Muiderstraat 9U, Kingdom of the Netherlands, registration number: 57412243, each of which was a shareholder of NET4GAS Holdings, s.r.o. with an ownership interest of 50%, and which together had the status of joint controlling entities in relation to NET4GAS Holdings, s.r.o. by virtue of Section 75(3) of the BCA.

II. In the period from 11 December 2023 to 31 December 2023

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

b) indirectly by
- ČEPS, a.s., with its registered office at Elektrárenská 774/2, 101 52 Prague 10, ID No. 25702556, recorded under Reg. No. B 5597 in the Commercial Register maintained by the Municipal Court in Prague;
- The Czech Republic, the sole shareholder of ČEPS, a.s., where shareholder rights in ČEPS, a.s. are exercised on behalf of the state by the competent authority, specifically the Ministry of Industry and Trade of the Czech Republic, with its registered office at Na Františku 1039/32, 110 00 Prague 1, ID No. 47609109.

2. Other Related Parties

This Report on Relations has been produced by the Company's Statutory Directors based on available information.

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

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

In 2023, the Company carried out its activities in accordance with Act No. 458/2000 Coll., on conditions for undertaking the business and for the execution of state administration in the energy sector and on changes to certain decrees (hereinafter referred to as "Energy Act"), and as such operated independently of controlling entities and other Related Parties.

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

4. Agreements concluded between the Company and Related Parties

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

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

Apart from the agreements referred to in Article 4 of this Report on Relations, no other transactions were completed at the behest or in the interest of controlling or related parties during the last accounting period.

6. No damage

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

7. Advantages and disadvantages resulting from relations with Related Parties

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

8. Confidentiality

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

9. Conclusion

This Report on Relations was approved by the Company's Statutory Directors on 1 March 2024 and was submitted for review to the Company's Supervisory Board.

In Prague on 1 March 2024

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

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

I. In the period from 1 January 2023 to 11 December 2023

Allianz Infrastructure Luxembourg I S.à r.l. (50.00%) and Borealis Novus Parent B.V. (50.00%)
- **100.00 % NET4GAS Holdings, s.r.o.**
  - 100.00 % NET4GAS, s.r.o.
    - BRAWA, a.s.

II. In the period from 11 December 2023 to 31 December 2023

The Czech Republic (acting through the Ministry of Industry and Trade of the Czech Republic)
- **100.00% ČEPS, a.s.**
  - 100.00% NET4GAS Holdings, s.r.o.
    - 100.00% NET4GAS, s.r.o.
      - BRAWA, a.s.

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

SAP	Contracting party	Agreement	Date of conclusion	Details
1724000007	**NET4GAS Holdings, s.r.o., Allianz Infrastructure Luxembourg I S.à r.l. Borealis Novus Parent B.V., ČEPS, a.s.**	Deferral Agreement	29 September 2023	The subject matter of the Deferral Agreement is (among other things) the deferral of the maturity of the debt of NET4GAS Holdings, s.r.o. consisting in the return of an advance dividend.
1724000004	**Omers Administration Corporation**	Guarantee Agreement	29 September 2023	Payment of the debt in accordance with the Deferral Agreement was secured by guarantees under the Guarantee Agreements.
1724000005	**Allianz Infrastructure Luxembourg I S.à r.l.**	Guarantee Agreement	29 September 2023	
1724000006	**NET4GAS Holdings, s.r.o.**	Notarial Deed	2 October 2023	The subject matter of the Notarial Deed is an agreement on direct enforceability of the debt under the Deferral Agreement.
1712001351/011	**BRAWA, a.s.**	Amendment No. 10 to Service Level Agreement for Selected Services	2 January 2023	The subject matter of the amendment is a change in the price list and a change of the person in charge.
1712001350/006	**BRAWA, a.s.**	Amendment No. 5 to Lease Agreement	12 January 2023	The subject matter of the amendment is a change in the WACC profit margin.

Orders placed by NET4GAS, s.r.o. with BRAWA, a.s, in the most recent accounting period:
Pipeline lease in 2023, Order No. 4170080470 (on a contractual basis).

Orders placed by BRAWA, a.s. with NET4GAS, s.r.o. in the most recent accounting period:
SLA services for 2023, Order No. 4180000191 (based on SLA),
D&O excess insurance, Order No. 4180000192, 4180000193, 4180000194 – the service is not provided by N4G, the cost is re-invoiced.

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

SAP	Contracting party	Agreement	Date of conclusion	Details
1722000547 1900000140	**NET4GAS Holdings, s.r.o.**	Agreement on Settlement of Advance Dividend	23 September 2023	The subject matter of the agreement is a set-off of mutual claims for repayment and payment (distribution) of advance dividends.
1812000035 1712001351	**BRAWA, a.s.**	Service Level Agreement for Selected Services as amended by Amendment No. 1 of 20 December 2013, Amendment No. 2 of 27 January 2014, Amendment No. 3 of 6 February 2015, Amendment No. 4 of 30 November 2015, Amendment No. 5 of 30 December 2016, Amendment No. 6 of 30 December 2018, Amendment No. 7 of 30 December 2019, Amendment No. 8 of 4 January 2021, Amendment No. 9 of 31 December 2021	31 December 2012	The subject matter of this agreement is the provision of the following services by NET4GAS, s.r.o. to BRAWA, a.s.: GAZELLE project supervision, construction and assembly work within the construction, accounting, controlling, tax issues, payroll administration, cash-flow, risk management, insurance, facility management, purchasing and logistics, corporate affairs, network documentation, price and a list of the Provider's responsible persons. The subject matter of the amendment is the price and method of its determination, a specification of the provided services, and a list of the provider's responsible persons.
1812000034 1712001350	**BRAWA, a.s.**	Lease Agreement, as amended by Amendment No. 1 of 15 February 2017 and Amendment No. 2 of 14 September 2020, Amendment No. 3 of 4 January 2021	31 December 2012	Under the agreement, BRAWA, a.s. leases gas infrastructure to NET4GAS, s.r.o., consisting primarily of the "High-pressure DN 1400 gas pipeline – Brandov BTS – Rozvadov" interconnector of approximately 160 km in length. The subject matter of the amendment is the new Rent Amount Calculation Method.
1813000047 1713000060	**BRAWA, a.s.**	Agreement on the Provision of Loans, as amended by Amendment No. 1 of 16 July 2015 and Amendment No. 2 of 12 December 2019	2 July 2013	The agreements lay down a framework for cash pooling in Czech crowns between NET4GAS, s.r.o., BRAWA, a.s., and NET4GAS Holdings, s.r.o, the purpose of which is to optimize the use of funds in the framework of related party transactions and to reduce transaction costs.
1817000005 1717000507	**BRAWA, a.s., NET4GAS Holdings, s.r.o.** (Multilateral agreement)	Agreement Ref. No. ZBA/2017/07 on the Provision of Real Unidirectional Cash Pooling as amended by Amendment No.1 of 27 September 2018	9 November 2017	

SAP	Contracting party	Agreement	Date of conclusion	Details
1818000007 1718001253	**BRAWA, a.s.**	Agreement on the Establishment of an Easement (No. 1)	3 August 2018	The subject matter of the agreement is the establishment of an easement – “High-pressure DN 1400 gas pipeline, Kateřinský potok Junction Point – Přimda Junction Point”, an underground high-pressure gas pipeline in excess of 40 bar.
1818000008 1718001206	**BRAWA, a.s.**	Agreement on the Establishment of an Easement (No. 2)	3 August 2018	The subject matter of the agreement is the establishment of an easement – “High-pressure DN 1400 gas pipeline, Kateřinský potok Junction Point – Přimda Junction Point”, an underground high-pressure gas pipeline in excess of 40 bar.
1818000009 1718000243	**BRAWA, a.s.**	Agreement on the Establishment of an Easement (No. 3)	3 August 2018	The subject matter of the agreement is the establishment of an easement – “High-pressure DN 1400 gas pipeline, Kateřinský potok Junction Point – Přimda Junction Point”, an underground high-pressure gas pipeline in excess of 40 bar.
1819000007 1719000620	**BRAWA, a.s.** natural person	Agreement on remuneration for the establishment of easement	10 September 2019	The subject of the contract is an agreement on the remuneration due to the Owner for the establishment of the easement under the Agreement on the Establishment of an Easement and for the impossibility to implement the Owner's project on the Plot.
1819000005 1719000618	**BRAWA, a.s.**	Agreement on personal data processing	2 January 2019	This agreement sets out the rights and obligations of the parties with respect to the processing of relevant personal data.
1716000006	**OTE, a.s.**	Agreement on collaboration, Amendment No. 001 of 23 December 2016, Amendment No. 002 of 7 December 2017, Amendment No. 003 of 4 December 2018, Amendment No. 004 of 27 November 2019, Amendment No. 005 of 24 November 2020	23 December 2019	OTE, a.s

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

No transactions were completed at the behest or in the interest of controlling or related parties during the most recent accounting period.

Subsequent events

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

Persons Responsible for the Consolidated Annual Report

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

In Prague on 1 March 2024

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

Annex no. 1: Consolidated Financial Statements

NET4GAS Group Consolidated Financial Statements

prepared in accordance with International Financial Reporting Standards as adopted by the European Union, 31 December 2023

Contents

NET4GAS Group
Consolidated Balance Sheet as at 31 December 2023

In millions of Czech crowns	Note	31 December 2023	31 December 2022
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	51,568	53,414
Intangible assets	9	169	77
Derivative financial instruments	30	389	904
Other non-current assets	10	7	310
Total non-current assets		**52,133**	**54,705**
CURRENT ASSETS			
Inventories	11	186	191
Trade and other receivables	13	103	248
Derivative financial instruments	30	355	483
Current income tax prepayments	28	–	21
Other non-financial assets	14	147	168
Other financial assets	15	4,500	5,863
Cash and cash equivalents	15	4,453	949
Total current assets		**9,744**	**7,923**
TOTAL ASSETS		**61,877**	**62,628**

EQUITY AND LIABILITIES			
EQUITY			
Registered capital	16	2,750	2,750
Capital contributions outside registered capital	16	6,617	6,617
Cash flow hedge reserve	16	547	1,688
Retained earnings		8,318	7,124
Total equity		**18,232**	**18,179**
NON-CURRENT LIABILITIES			
Other payables	22	5	13
Borrowings	17	33,240	33,096
Lease liability	18	209	234
Derivative financial instruments	30	1,060	1,210
Deferred income tax liability	28	7,475	7,048
Long-term employee benefits	23	124	128
Other non-financial liabilities	24	–	–
Total non-current liabilities		**42,113**	**41,729**

In millions of Czech crowns	Note	31 December 2023	31 December 2022
CURRENT LIABILITIES			
Borrowings	17	584	646
Lease liability	18	36	29
Trade and other payables	22	565	1,702
Derivative financial instruments	30	117	122
Current income tax payable	28	24	2
Other taxes payable	20	33	37
Provisions	21	16	–
Short-term employee benefits	23	127	149
Other non-financial liabilities	24	30	34
Total current liabilities		**1,532**	**2,721**
Total liabilities		**43,645**	**44,450**
EQUITY AND LIABILITIES		**61,877**	**62,628**

1 March 2024

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

The accompanying notes on pages 46 to 96 are an integral part of these consolidated financial statements.

NET4GAS Group
Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2023

In millions of Czech crowns	Note	2023	2022
Revenue	6	3,005	12,950
Raw materials consumed	25	(113)	(572)
Services purchased and lease charges	25	(385)	(456)
Employee benefits	25	(523)	(595)
Depreciation and amortisation	8, 9, 25	(2,543)	(2,497)
Loss (-) / Profit (+) – impairment on receivables	13	(108)	–
Gains less losses on disposal of property, plant and equipment		3	(1)
Changes in fair value of derivatives, net		127	64
Foreign exchange differences, net	25	(20)	(1)
Other operating income		44	22
Other operating expenses	25	(58)	(44)
Operating profit (+) / Loss (-)		**(571)**	**8,870**
Finance income	26	1,913	657
Finance costs	27	(2,335)	(1,842)
Finance result (net)		(422)	(1,185)
Profit(+)/Loss(-) before income tax		**(993)**	**7,685**
Income tax expense	28	(713)	(1,444)
PROFIT (+) / LOSS (-) FOR THE YEAR		**(1,706)**	**6,241**

Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge	16	(1,391)	402
Income tax recognised directly in other comprehensive income – cash flow hedge	28	250	(76)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(1,141)**	**326**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(2,847)**	**6,567**

The accompanying notes on pages 46 to 96 are an integral part of these consolidated financial statements.

NET4GAS Group
Consolidated Statement of Changes in Equity for the year ended 31 December 2023

In millions of Czech crowns	Registered capital	Capital contributions outside registered capital	Cash flow hedge reserve	Retained earnings	Total
Balance as at 1 January 2022	**2,750**	**6,617**	**1,362**	**883**	**11,612**
Total comprehensive income					
Profit for 2022	–	–	–	6,241	6,241
Cash flow hedge – including related tax effect	–	–	326	–	326
Total comprehensive income for the year	–	–	326	6,241	6,567
Transactions with owners					
Contribution outside registered capital (Note 16)	–	–	–	–	–
Decrease of contribution outside registered capital (Note 16)	–	–	–	–	–
Dividends paid	–	–	–	–	–
Advance dividends paid	–	–	–	–	–
Balance as at 31 December 2022	**2,750**	**6,617**	**1,688**	**7,124**	**18,179**
Total comprehensive income					
Loss for 2023	–	–	–	(1,706)	(1,706)
Cash flow hedge – including related tax effect	–	–	(1,141)	–	(1,141)
Total comprehensive income for the year	–	–	(1,141)	(1,706)	(2,847)
Transactions with owners					
Contribution outside registered capital (Note 16)	–	–	–	–	–
Decrease of contribution outside registered capital (Note 16)	–	–	–	–	–
Dividends paid	–	–	–	–	–
Advance dividends refunded	–	–	–	2,900	2,900
Balance as at 31 December 2023	**2,750**	**6,617**	**547**	**8,318**	**18,232**

The accompanying notes on pages 46 to 96 are an integral part of these consolidated financial statements.

NET4GAS Group
Consolidated Statement of Cash Flows
for the year ended 31 December 2023

In millions of Czech crowns	Note	2023	2022
Cash flows from operating activities			
Profit/loss before tax		**(993)**	**7,685**
Adjustments for:			
Depreciation and amortisation	8, 9	2,543	2,497
Finance income	26	(1,913)	(657)
Finance costs	27	2,335	1,842
Loss (-) / Profit (+) – impairment on receivables	13	108	–
Gains less losses on disposals of property, plant and equipment	8	(3)	1
Proceeds from intangible assets		(22)	–
Other non-cash operating expenses / (gains)		(717)	(3)
thereof: – employee benefit provision		*36*	*(17)*
– creation and release of provisions		*–*	*(10)*
– other		*(753)*	*24*
Operating cash flows before working capital changes		**1,338**	**11,365**
Decrease / (Increase) in trade and other receivables	13, 14	1,755	(274)
Increase / (Decrease) in trade and other payables	22	(1,620)	582
Decrease / (Increase) in inventories	11	4	(36)
Operating cash flows after changes in working capital		**1,476**	**11,637**
Interest paid	27	(2,013)	(1,450)
Interest received	26	859	430
Income tax paid	28	8	(1,454)
Net cash flows from operating activities		**328**	**9,163**
Cash flows from investing activities:			
Purchase of property, plant and equipment	8	(934)	(3,773)
Purchase of intangible assets	9	(96)	(27)
Proceeds from sale of property, plant and equipment	8	3	–
Proceeds from intangible assets	9	22	–
Purchase of other financial assets	15	1,363	(4,810)
Net cash flows used in investing activities		**358**	**(8,610)**

The accompanying notes on pages 46 to 96 are an integral part of these consolidated financial statements.

In millions of Czech crowns	Note	2023	2022
Cash flows from financing activities:			
Payments of decreased contributions outside registered capital to the Company's shareholder	16	–	–
Payments of increased contributions outside registered capital from Company's shareholder	16	–	–
Dividends paid	16	–	–
Advance dividends refunded	16	2,900	–
Repayments of borrowings	17	(85)	(389)
Proceeds from borrowings	17	–	486
Net cash flows from financing activities		**2,815**	**97**
Net decrease (-) / increase (+) in cash and cash equivalents		**3,504**	**650**
Cash and cash equivalents at the beginning of the period	15	949	299
Cash and cash equivalents at the end of the period	15	**4,453**	**949**

The accompanying notes on pages 46 to 96 are an integral part of these consolidated financial statements.

NET4GAS GROUP NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended 31 December 2023

1. NET4GAS Group and Its Operations – General Information

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2023 for NET4GAS, s.r.o. (the "Company" or "NET4GAS") and its subsidiary BRAWA, a.s. (the "Subsidiary" or "BRAWA") (jointly the "Group" or "NET4GAS Group").

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

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

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

Since 2 August 2013, the Company had been fully owned by NET4GAS Holdings, s.r.o. ("NET4GAS Holdings"), incorporated in the Czech Republic, which was the Group's parent company. NET4GAS Holdings was, until 11 December 2023, a joint venture of two entities: Allianz Infrastructure Luxembourg I S.à r.l. (50%), with its registered office in Luxembourg and Borealis Novus Parent B.V. (50%), with its registered office in the Netherlands.

On 11 December 2023, the state-owned company, ČEPS, a.s., acquired a 100% stake in NET4GAS Holdings, s.r.o. As a result of this transaction, ČEPS became the sole shareholder of NET4GAS Holdings.

The Statutory Directors of the Company:

As at 31 December 2023	As at 31 December 2022
Andreas Rau	Andreas Rau
Radek Benčík	Radek Benčík
	Václav Hrach

Václav Hrach ceased to be a member of the Statutory Directors on 30 September 2023. The change was entered in the Commercial Register on 25 October 2023.

The members of the Supervisory Board of the Company were at 31 December 2023 and at 31 December 2022 as follows:

As at 31 December 2023	Funkce	As at 31 December 2022	Funkce
Petr Doškář	Chairman	Michael Raymond Mc Nicholas	Chairman
Radek Lucký	Vice-Chairman	Mario Fischer	Member
Martin Palkovský	Member	Delphine Voeltzel	Member
		Igor Emilievic Lukin	Member
		Georg Nowack	Member

On 20 December 2023, as part of the meeting of the company's Supervisory board, the election of Petr Doškář as chairman of the Supervisory board and Radek Lucký as vice-chairman of the Supervisory Board took place. As of 31 December 2023, these changes were not reflected in the declaratory entry in the Commercial Register.

About the Group. The Group is the exclusive gas transmission system operator in the Czech Republic, operating almost 4,000 km of gas pipelines. NET4GAS is currently operating five compressor stations. The flow rate of the gas transmitted is measured at seven border transfer stations (the Lanžhot, Brandov and Hora Svaté Kateřiny stations in the Czech Republic, the Waidhaus, Olbernhau and Deutschneudorf stations in the Federal Republic of Germany and Cieszyn in the Polish Republic) and at almost a hundred national transfer stations. The NET4GAS transmission system has been enhanced in the past few years by a number of significant projects delivering additional transmission capacity and greater diversification of transmission routes.

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

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

Structure of the Group as at 31 December 2023 and 2022:

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

With effect from 2015, the reporting period of BRAWA ends on 30 November. The reporting period for 2023 started on 1 December 2022 and ended on 30 November 2023. In preparing the Group's consolidated financial statements as at 31 December 2023, the actual transactions of BRAWA for January–December 2023 and balances as at 31 December 2023 were used.

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

2. Operating Environment of the Group

The regulatory environment in the Czech Republic:

(a) Legal framework pertaining to the transmission system operator
The transmission system operator holds an exclusive gas transmission license under the Energy Act and its operations are subject to regulation by the Energy Regulatory Office ("ERO"). The transmission system operator is obliged to comply with the obligations arising from both directly applicable European Union legislation and the Energy Act, which incorporates the relevant European Union regulations and regulates (following directly applicable European Union regulations) business conditions and the performance of state administration in energy sectors, as well as the rights and obligations of natural and legal persons, and other legislation.

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

Gas transmission prices for 2023 were set by ERO Price Decisions No. 3/2022 of 30 May 2022 and No. 12/2022 of 14 November 2022, on regulated prices related to the gas supply.

In 2023, in response to the adverse impact caused by the non-fulfillment of contractual obligations and interruption of payments for reserved capacity by the major shipper, the ERO made some parametric changes to the regulation methodology, which will affect the transmission system operator's revenues and transmission prices in 2024 and beyond.

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

(d) Domestic transmission regulation methodology applicable in the fifth regulatory period
The transmission system operator regulation methodology for domestic gas transmission is based on setting a ceiling for allowed revenues for each regulated year during the regulatory period, the so-called revenue cap regime. Prices for reserved transmission capacities are then derived from the allowed revenues. The variable price component covering the actual costs of energy consumption of mainly compression work is determined for each regulated year in accordance with the applicable regulatory methodology and a model approved by the ERO decision meeting the requirements of Commission Regulation (EU) 2017/460 and published in the Energy Regulatory Bulletin, No. 3/2019 of 27 May 2019.

(e) Transit transmission regulation methodology applicable in the fifth regulatory period
In accordance with Commission Regulation (EU) 2017/460, the Energy Regulatory Office changed the method of regulating the revenues of the transmission system operator for gas transit. From 2020 on, the historical method of pricing based on benchmarking of comparable transport routes has shifted to a cost-oriented methodology and determination of the rate of return. The price cap regime valid for the whole regulatory period is maintained for setting the price for capacities in transit gas transmission. Pricing, including its variable component, is governed by the applicable regulatory methodology and the ERO decision meeting the requirements of Commission Regulation (EU) 2017/460, published in the Energy Regulatory Bulletin,

No. 3/2019 of 27 May 2019. The variable component (i.e. a financial compensation for the energy required for gas transmission) should be, according to the methodology, subject to further regulatory corrections as there are naturally occurring differences between the actual energy demand and a variable standard set by the Energy Regulatory Office for the relevant period (the Company records a balance, which will be subject to a later decision by the ERO).

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

3. Summary of Material Accounting Policies

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

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

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

b) Consolidation
Subsidiaries are investees, including structured entities, over which the Group exercises control. In assessing whether the Group controls an investee, the decisive factor is whether the Group has exposure, or rights, to variable returns from its involvement in the investee and may use its power over the investee to affect the returns.

Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

Intercompany transactions, balances and unrealised gains on transactions between Group entities are eliminated from consolidation; unrealised losses are also eliminated except where the transaction indicates an impairment of the transferred asset. The Company and all of its subsidiaries use uniform accounting policies consistent with the Group's policies.

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

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

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

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

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

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

Fair value measurements are analysed in the fair value level hierarchy as follows (Note 33):

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

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

d) Classification of financial assets

Financial assets are classified in the following categories:

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

Financial assets measured at amortised cost (AC):

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

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

Financial assets measured at fair value through profit or loss:

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 33. Movements on the hedging reserve in other comprehensive income are shown in Note 16. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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

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

e) Classification of financial liabilities
Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives, and (b) other financial liabilities.

Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost.

The Group designates certain financial liabilities as hedges of a particular risk associated with highly probable forecast transactions (cash flow hedge – Note 31, section 'Hedging of currency risk').

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

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

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

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

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

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

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

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

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

At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use.

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

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

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

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

	Useful lives
Buildings and constructions	30 – 70 years
Plant, machinery and equipment	4 – 40 years
Furniture and fittings	4 – 8 years
Motor vehicles	5 – 8 years
Rights of use	6 – 70 years

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

j) Capitalisation of borrowing costs
General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for the intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

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

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

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised. The amounts of borrowing costs capitalised during the current and previous year are disclosed in Note 8.

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

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

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

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

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

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

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

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

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

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

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

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

n) Emission allowances
The Group receives free emission allowances as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to return allowances equal to its actual emissions. Therefore, a provision is only recognised when actual emissions exceed the emission allowances received free of charge. The emission allowances which were granted free of charge are carried at cost, i.e. at zero. When emission allowances are purchased from third parties, they are measured at cost and treated as a reimbursement right. When emission allowances are acquired by exchange and such an exchange is deemed to have an economic substance, they are measured at fair value as at the date when they become available for use and the difference between the fair value of rights received and cost of assets given up is recognised through profit or loss. The Group did not recognise any provision resulting from gas emissions as at 31 December 2023 and 31 December 2022.

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

in tons	31 December 2023	31 December 2022
Emission allowances	2,070	5,805

o) Impairment of non-financial assets
Intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the

asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets are reviewed for possible reversal at each reporting date.

p) Non-current assets held for sale

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

q) Taxes

Income tax

Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity (for example the effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges).

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates (and tax legislation) enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are only offset among the Group's individual entities. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

r) Uncertain tax positions

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

s) Inventories

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

t) Trade receivables

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

u) Impairment of financial assets carried at amortised cost

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

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

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

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

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

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

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

w) Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with maturities of three months or less from initial recognition. Cash and cash equivalents are carried at amortised cost using the effective interest method.

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

x) Dividends
Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

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

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

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

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

The Group designates certain borrowings as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge – Note 31, section 'Hedging of currency risk').

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

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

cc) Provisions for liabilities and charges
Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

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

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

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

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

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

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

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

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

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

hh) Employee benefits
Wages, salaries, contributions to the Czech state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and other services) are accrued in the year in which the associated services are rendered by the employees of the Group.

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

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

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

benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

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

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

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

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

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

The functional currency of BRAWA is affected by the functional currency of NET4GAS, the reason being that BRAWA does not perform its activities in a fully autonomous manner. In fact, it is more of an extension of the Group's activities.

Classification of pipeline capacity contract

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

Capacity of the Capacity4Gas system

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

Monthly payments of the major customer

On 4 January 2023, the Company announced that the last monthly payments due under key agreements with its major customer had not been received. As announced on 6 April 2023, negotiations with the major customer about resolving the situation have not been successful. Consequently, the Company has decided to commence arbitration proceedings against the major customer in order to protect its legal rights and seek the due payment of the amounts owed to it by the major customer. Since the major customer continues to be in arrears with its monthly payments and it is unlikely (also given the overall geopolitical situation and changes in international gas transportation) that the situation will change in the short term, the Company has decided, in accordance with the applicable IFRS 15 rules and in line with the tax administrator's rulings on tax prepayments, to account for proceeds from key contracts only on the off-balance sheet.

Depreciation

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

Transmission System Operator licence and gas pipelines

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

Segments

Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources to the operating segments of

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

Assessment of non-current asset impairment

The Company's management has prepared a plan for possible future development with respect to the use of the transmission system and gas supply through the transmission system and has analysed the impact on its future operations, results of operations and possible impairment of the Company's fixed assets. The plan was based on market assumptions at the time of preparation and takes into account, among other things, the assumption of a positive change in price regulation in response to the current geopolitical situation and unprecedented changes in gas flows through the Czech transmission system. This assumption has already been supported by the ERO's pricing decision for 2024, which represents (compared to 2023) a substantial increase in the Company's allowed revenues.

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

Based on the assessment of the above plan, the Company has not identified any impairment of property, plant and equipment as of 31 December 2023 that would require an adjustment to the financial statements in accordance with applicable accounting policies. However, future developments cannot be reliably estimated; therefore, the need for future adjustments to the sections of property, plant and equipment cannot be excluded.

Going concern assumption

Despite the reported accounting loss for 2023, the Company expects its financial position to improve in the future, primarily due to the ongoing changes in price regulation (see also the ERO's pricing decision for 2024 above). In addition, NET4GAS manages the funds and cash of all Group companies in the form of a common cash pool. The Company has cash and other financial assets in the amount of CZK 8,953 million at the end of 2023, which covers the expenses of all Group companies for 2024 with a large margin. Management believes that these facts are sufficient to ensure the Group's ability to continue as a going concern in 2024.

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

a) Application of new standards and interpretations effective on or after 1 January 2023

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for an accounting period that begins on 1 January 2023:

Document	Major change	Effective from	Impact on the Group's financial statements
IFRS 17 *Insurance Contracts* including amendments to IFRS 17	New standard and its amendments	1. 1. 2023	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Amendments to IFRS 17 *Insurance Contracts*	Initial Application of IFRS 17 and IFRS 9 – Comparative Information	1. 1. 2023	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Amendments to IAS 1 *Presentation of Financial Statements*	Disclosure of Accounting Policies	1. 1. 2023	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	Definition of Accounting Estimates	1. 1. 2023	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Amendments to IAS 12 *Income Taxes*	Deferred Tax related to Assets and Liabilities arising from a Single transaction	1. 1. 2023	Applied. The adoption has an impact on the disclosures but not on the amounts disclosed in these financial statements.
Amendments to IAS 12 *Income Taxes*	International Tax Reform – Pillar Two Model Rules	1. 1. 2023	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.

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

At the date of authorisation of these financial statements, the Group has not applied the following new IFRS and amendments to the existing standards that were not effective in the EU before 31 December 2023:

Document	Major change	Effective from	Adopted by the EU?
Amendments to IAS 1 *Presentation of Financial Statements*	Classification of Liabilities as Current or Non-Current, Current Liabilities with Covenants and Deferral of Effective Date	1. 1. 2024	Yes
Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*	Supplier Finance Arrangements	1. 1. 2024	No
Amendments to IFRS 16 *Leases*	Lease Liability in a Sale and Leaseback	1. 1. 2024	No
Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*	Lack of Exchangeability	1. 1. 2025	No

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

6. Segment Information

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

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

Revenues from core activities comprise revenues from international transit, domestic transmission and other. In 2023, revenues from international transit represented 23%, revenues from domestic transmission amounted to 75% and other revenues represented 2% of the Group's total revenues from core activities (In 2022, revenues from international transit represented 82%, revenues from domestic transmission amounted to 17% and other revenues represented 1% of the Group's revenues from core activities).

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

Refer to the information in Note 4.

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

The whole Group is considered as one reportable segment. Segment information for the reportable segment for the years ended 31 December 2023 and 31 December 2022 is set out below:

In millions of Czech crowns	Natural gas transmission 2023	Natural gas transmission 2022
Revenues	3,005	12,950
Other operating income	44	22
Other finance income	1,913	657
Total segment income	**4,962**	**13,629**
Materials consumed	113	572
Employee benefits	523	595
Depreciation and amortisation	2,543	2,497
Services purchased and lease charges	385	456
Changes in fair value of derivatives, net	(127)	(64)
Foreign exchange differences, net	20	1
Other operating expenses	58	44
Income tax expense	713	1,445
Finance costs	2,335	1,842
Impact of sales of land, buildings and equipment and adjustment items to receivables	105	1
Segment profit for the year	**(1,706)**	**6,241**
Segment other comprehensive income for the year	**(1,141)**	**325**
Segment total comprehensive income for the year	**(2,847)**	**6,566**
Capital expenditure – additions at cost (Note 8, 9)	**793**	**3,642**

In millions of Czech crowns	Natural gas transmission	Natural gas transmission
	31 December 2023	31 December 2022
Total reportable segment Assets	**61,877**	**62,628**
Total reportable segment Liabilities	**43,645**	**44,450**

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

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

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

In millions of Czech crowns	2023	2022
Czech Republic	2,078	2,087
Other EU countries	741	3,316
Non-EU countries	186	7,547
Total consolidated revenues from core activities	**3,005**	**12,950**

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

In millions of Czech crowns	2023	2022
Czech Republic	793	3,642
Total consolidated capital expenditure – additions at cost (Note 8, 9)	**793**	**3,642**

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

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

In millions of Czech crowns	2023	2022
Customer 1 * (major shipper)	12	7,176
Customer 2	1,580	1,425
Total revenues from major customers	**1,592**	**8,601**

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

Revenues comprise only revenues from core activities.

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

7. Balances and Transactions with Related Parties

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

The Group is fully owned by NET4GAS Holdings and NET4GAS Holdings is the ultimate parent company of the Group. The Group's balances and transactions with subsidiaries of the ultimate parent of ČEPS, a.s. are disclosed below within the category Subsidiaries of joint ventures' ultimate parents.

At 31 December 2023, the outstanding balances with related parties were as follows:

In millions of Czech crowns	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Gross value of trade and other receivables		
OTE, a.s.	31	–
NET4GAS Holdings, s.r.o. Borrowings (Note 17)	–	7

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

In millions of Czech crowns	Subsidiaries of joint venturers' ultimate parents	Immediate parent
Other revenues		
NET4GAS Holdings, s.r.o. – services + cash-pooling interest	–	4
NET4GAS Holdings, s.r.o. – other	–	55

At 31 December 2022, the outstanding balances with related parties were as follows:

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

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

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

At 31 December 2023 and 2022, the Group did not have any other rights and obligations connected to related parties.

Key management compensation is presented below:

	2023		2022	
In millions of Czech crowns	Expense	Accrued liability	Expense	Accrued liability
Short-term employee benefits:				
– Salaries	64	5	67	4
– Short-term bonuses	20	20	19	19
Other long-term employee benefits:				
– Long-term bonus scheme	12	33	21	34
– Defined contribution benefits	7	4	7	5
Total	**103**	**62**	**114**	**62**

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

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

8. Property, Plant and Equipment

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

In millions of Czech crowns	Freehold Land	Buildings and constructions	Buildings and constructions – right of use	Plant and equipment	Plant and equipment – rights of use	Construction in progress	Total
Cost at 1 January 2022	**308**	**75,082**	**198**	**9,304**	**83**	**1,512**	**86,485**
Accumulated depreciation	**–**	**(27,939)**	**(63)**	**(6,181)**	**(56)**	**–**	**(34,238)**
Carrying amount at 1 January 2022	**308**	**47,143**	**135**	**3,123**	**27**	**1,512**	**52,248**
Cost:							
Additions	–	–	78	–	62	3,503	3,642
Capitalised interest expense	–	44	–	–	–	(44)	–
Transfers	3	3,949	–	507	–	(4,459)	–
Disposals	(1)	–	–	(65)	(42)	–	(108)
Accumulated depreciation:							
On disposals	–	–	–	65	42	–	107
Depreciation charge	–	(1,867)	(19)	(566)	(23)	–	(2,475)
Cost at 31 December 2022	**310**	**49,269**	**194**	**3,064**	**65**	**512**	**53,414**
Cost at 31 December 2022	**310**	**79,075**	**276**	**9,746**	**103**	**512**	**90,022**
Accumulated depreciation	**–**	**(29,806)**	**(82)**	**(6,682)**	**(38)**	**–**	**(36,608)**
Carrying amount at 1 January 2023	**310**	**49,269**	**194**	**3,064**	**65**	**512**	**53,414**
Cost:							
Additions	–	–	–	–	10	668	678
Capitalised interest expense	–	5	–	–	–	(5)	–
Transfers	19	345	–	82	–	(446)	–
Others	–	–	(4)	–	–	–	(4)
Disposals	–	–	–	(38)	(15)	–	(53)
Accumulated depreciation:							
On disposals	–	–	–	38	15	–	53
Others	–	–	–	–	–	–	–
Depreciation charge	–	(1,945)	(18)	(536)	(21)	–	(2,520)
Carrying amount at 31 December 2023	**329**	**47,674**	**172**	**2,610**	**54**	**729**	**51,568**
Cost at 31 December 2023	**329**	**79,425**	**272**	**9,790**	**98**	**729**	**90,643**
Accumulated depreciation at 31 December 2023	**–**	**(31,751)**	**(100)**	**(7,180)**	**(44)**	**–**	**(39,075)**

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

The Company rents passenger cars, especially for the employees' business trips. The rental period is in the range of two to seven years, and during this period, the ownership of the vehicles belongs to the lessor. At the end of the lease period, the car is returned to the lessor, and a new lease is usually arranged for the new vehicle. Due to many rented cars, the Company chose to use the portfolio approach for their valuation, recognition, and derecognition.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted interest rate applicable to the entity's general borrowings during the year and was 4.84 % in 2023 (2022: 4.06%).

The Group invested a total of CZK 678 million in property, plant and equipment (additions of property, plant and equipment – at cost) in 2023 (2022: CZK 3,642 million).

The total commissioning was CZK 610 million (2022: CZK 4,503 million), of which CZK 227 million was invested in the Moravia Capacity Extension project and CZK 383 million in the other projects.

As at 31 December 2023, the total amount of construction in progress was CZK 729 million, which consisted mainly of development projects of CZK 240 million. Other items include low-value projects.

9. Intangible Assets

In millions of Czech crowns	Acquired software licences	Development costs	Other	Assets under construction	Total
Cost at 1 January 2022	**546**	**51**	**26**	**46**	**669**
Accumulated depreciation	**(519)**	**(51)**	**(26)**	**–**	**(596)**
Carrying amount at 1 January 2022	**27**	**–**	**1**	**46**	**73**
Additions at cost:					
Additions	–	–	–	26	26
Transfers	13	–	–	(13)	–
Disposals at cost	(4)	(1)	(4)	–	(9)
Amortisation:					
Accumulated amortisation on disposals	4	1	4	–	9
Amortisation charge	(22)	–	–	–	(22)
Carrying amount at 31 December 2022	**18**	**–**	**–**	**59**	**77**
Cost at 31 December 2022	**555**	**50**	**22**	**59**	**686**
Accumulated amortisation at 31 December 2022	**(537)**	**(50)**	**(22)**	**–**	**(609)**
Additions at cost:					
Additions	–	–	–	115	115
Transfers	164	–	–	(164)	–
Disposals at cost	(14)	(4)	–	–	(18)
Amortisation:					
Accumulated amortisation on disposals	14	4	–	–	18
Amortisation charge	(23)	–	–	–	(23)
Carrying amount at 31 December 2023	**159**	**–**	**–**	**10**	**169**
Cost at 31 December 2023	**705**	**46**	**22**	**10**	**783**
Accumulated amortisation at 31 December 2023	**(546)**	**(46)**	**(22)**	**–**	**(614)**

The Group invested (additions of intangible fixed assets – at cost) a total of CZK 115 million in intangible assets in 2023 (2022: CZK 26 million).

The total commissioning was CZK 164 million (2022: CZK 13 million), of which CZK 150 million was invested in the Capacity Management System (CaMS) project and CZK 14 million in the other projects.

10. Other Non-Current Assets

In millions of Czech crowns	31 December 2023	31 December 2022
Advances for acquisition of non-current assets	7	310
Total other non-current assets	**7**	**310**

11. Inventories

In millions of Czech crowns	31 December 2023	31 December 2022
Material	186	191
Total inventories	**186**	**191**

Material represents mainly spare parts for the gas transmission system.

There are no inventories valued at net realisable value as at 31 December 2023 and 2022.

12. Loans to Related Parties

No loans were provided to related parties in 2023 and 2022.

13. Trade and Other Receivables

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

In millions of Czech crowns	31 December 2023 Trade and estimated receivables	31 December 2022 Trade and estimated receivables
Neither past due nor impaired – exposure to		
– Between A- and BBB-*	68	9
– Not rated	34	65
Total neither past due nor impaired	102	74
Past due but without impairment		
– less than 30 days overdue	1	174
– between 30–60 days overdue	–	–
– 60 days or more overdue	–	–
Total past due	1	174
Individually determined to be impaired (gross)		
– 360 days or more overdue	108	–
Total individually impaired	108	–
Less impairment provision	(108)	–
**Total net trade and other receivables ** **	**103**	**248**

* Rating disclosed is based on the equivalent credit rating from the third-party rating agencies defined in the Network Code approved by the Energy Regulation Office (ERO) which is applicable for the Group.
** Impairment was recorded in accordance with the policy described in Note 3 t), u)

14. Other Non-Financial Assets

In millions of Czech crowns	31 December 2023	31 December 2022
Value-added tax prepaid	–	–
Prepayments for services	147	168
Total non-financial assets	**147**	**168**

15. Cash and Cash Equivalents, Other Financial Assets

In millions of Czech crowns	31 December 2023	31 December 2022
Other financial assets	4,500	5,863
Bank balances available on demand	4,453	949
Total cash and cash equivalents, other financial assets	**8,953**	**6,812**

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

In millions of Czech crowns	31 December 2023	31 December 2022
Neither past due nor impaired		
– A+ to A- rated	8,953	6,812
– BBB+ to BBB- rated	–	–
Total	**8,953**	**6,812**

16. Equity

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

On 23 September 2022, the Sole Shareholder of the Company decided on the transfer of the 2021 profit of CZK 3,757 million to retained earnings of previous years. As part of the decision, the Company was to be refunded an advance dividend of CZK 2,900 million paid in December 2021 (i.e. its receivable). The Company also decided on the payment of an advance dividend from retained earnings in the same amount of CZK 2,900 million (i.e. its payable). The receivable and the payable were offset without any transfer of funds.

The advance dividend of CZK 2,900 million was returned to the Company in December 2023.

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

In millions of Czech crowns	Capital contributions outside registered capital	Cash flow hedges	Total other reserves
Balance as at 1 January 2022	**6,617**	**1,362**	**7,979**
Revaluation gains or losses – hedge accounting	–	402	402
Revaluation gains or losses – revenues	–	(155)	(155)
Revaluation gains or losses – costs	–	2	2
Deferred tax effect	–	77	77
Balance as at 31 December 2022	**6,617**	**1,688**	**8,305**
Revaluation gains or losses – hedge accounting	–	(1,391)	(1,391)
Revaluation gains or losses – revenues	–	(2)	(2)
Revaluation gains or losses – costs	–	2	2
Deferred tax effect	–	250	250
Balance as at 31 December 2023	**6,617**	**547**	**7,164**

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

No additions or decreases were made in 2023 or 2022.

Cash flow hedges
Cash flow hedges are used to recognise gains or losses on hedging instruments that are designated and qualify as cash flow hedges in other comprehensive income (effective portion), as described in Note 31 – Hedging of currency risk, Hedging of interest rate risk. Amounts are reclassified to profit or loss (line 'Revenue' or 'Finance costs'/'Finance income') when the associated hedged transaction affects profit or loss.

17. Borrowings

In millions of Czech crowns	31 December 2023	31 December 2022
Short-term borrowings from related parties (cash pooling NET4GAS Holdings)	7	60
Current portion of bonds and bank borrowings		
– CZK denominated bank borrowings (repayable on 24 May 2025, 31 July 2025, 28 July 2028)	168	172
– CZK denominated bonds (repayable on 17 July 2025)*	30	30
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2014*	54	53
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2015*	14	14
– CZK denominated bonds (repayable on 28 January 2028)*	141	147
– CZK denominated bonds (repayable on 28 January 2031)*	170	170
Non-current bonds and bank borrowings		
– CZK denominated bank borrowings (repayable on 24 May 2025, 31 July 2025, 28 July 2028)	14,448	14,441
– CZK denominated bond (repayable on 17 July 2025)	2,641	2,638
– EUR denominated bond (repayable on 28 July 2026) – issued in 2014	3,949	3,848
– EUR denominated bond (repayable on 28 July 2026) – issued in 2015	1,235	1,204
– CZK denominated bond (repayable on 28 January 2028)	4,089	4,088
– CZK denominated bond (repayable on 28 January 2031)	6,878	6,877
Total borrowings – current	**584**	**646**
Total borrowings – non-current	**33,240**	**33,096**
Total borrowings	**33,824**	**33,742**

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

Bank borrowings and bonds
The borrowings as at 31 December 2021 included bank borrowings acquired in 2017, 2020 and bonds issued in 2014, 2015, 2018 and 2021.Six banks with different shares participated in the total bank borrowings as at 31 December 2023 (six banks as at 31 December 2022).

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

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

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

Bank borrowings and bonds denominated in foreign currencies represent a constituent of hedge accounting, which represents the hedging instrument for securing of foreign exchange risk associated with selected future cash flows resulting from natural gas transmission revenues (cash flow hedge – Note 31, Hedging of currency risk, Hedging of interest rate risk).

Bonds issued may be analysed as follows:

					In millions of Czech crowns
	Issue nominal value	**Due date**	**Annual coupon repayment due date**	**31 December 2023**	**31 December 2022**
Bond EUR, serial no. 2, ISIN XS1090449627**	EUR 160,000,000	28 Jul 2026	Each 28 Jul in arrears	4,003	3,901
Bond EUR, serial no. 4, ISIN XS1172113638**	EUR 50,000,000	28 Jul 2026	Each 28 Jul in arrears	1,249	1,218
Bond CZK, domestic, serial no. 5, ISIN CZ0003519472*	CZK 2,643,000,000	17 Jul 2025	Each 17 Jul in arrears	2,671	2,668
Bond CZK, domestic, serial no. 6, ISIN CZ0003529786*	CZK 4,098,000,000	28 Jan 2028	Each 28 Jan/Jul in arrears	4,230	4,235
Bond CZK domestic, serial no. 7, ISIN CZ0003529794*	CZK 6,900,000,000	28 Jan 2031	Each 28 Jan/Jul in arrears	7,048	7,047
Total bonds				**19,201**	**19,069**

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

Coupon rates of the above-mentioned bonds are in the range of 2.745% – 8.39% p.a. The weighted average interest rate of the Company's bonds in 2023 was 3.50% for CZK-denominated bonds and 3.43% for EUR-denominated bonds (3.53% for CZK-denominated bonds and 3.43% for EUR-denominated bonds in 2022). The terms of issue of all the above stated bonds have been approved by the decision of the Central Bank of Ireland (serial no. 2 and 4) or the Czech National Bank (domestic bond, serial no. 5–7).

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

The fair value of borrowings is disclosed in Note 33.

18. Finance Lease Liability

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

In millions of Czech crowns	**Due in 1 year**	**Due between 1 and 5 years**	**Due after 5 years**	**Total**
Minimum lease payments at 31 December 2023	44	129	108	281
Less future finance charges	8	20	8	36
Present value of minimum lease payments at 31 December 2023	**36**	**109**	**100**	**245**
Minimum lease payments at 31 December 2022	37	140	128	305
Less future finance charges	8	22	11	41
Present value of minimum lease payments at 31 December 2022	**29**	**118**	**117**	**264**

Total interest expense on lease liabilities amounted to CZK 9 million in the 2023 reporting period (CZK 8 million in 2022).

The cost of leases of low-value assets was CZK 1 million in the 2023 reporting period (CZK 1 million in 2022).

Costs related to variable lease payments amounted to CZK 0 million in the 2023 reporting period (CZK 1 million in 2022).

The Group's total expenditure on lease under in 2023 was CZK 37 million (CZK 39 million in 2022).

19. Government and Other Grants

In 2023 and 2022, the Group did not receive any subsidy.

20. Other Taxes Payable

In millions of Czech crowns	31 December 2023	31 December 2022
Other taxes payable within one year comprise:		
Employee income tax	5	6
Social and health insurance	15	21
Value added tax	13	10
Other taxes payable – current	**33**	**37**

21. Provisions for Liabilities

Movements in provisions are as follows:

	2023		2022	
In millions of Czech crowns	Current	Non-current	Current	Non-current
Carrying amount at 1 January	**–**	**–**	**10**	**–**
Additions charged to profit or loss	16	–	–	–
Unused amounts reversed	–	–	(10)	–
Amounts used during the year	–	–	–	–
Carrying amount at 31 December	**16**	**–**	**–**	**–**

22. Trade and Other Payables

In millions of Czech crowns	31 December 2023	31 December 2022
Trade payables for purchased property, plant and equipment	119	276
Trade payables – other	87	126
Estimated payables – purchased property, plant and equipment	178	573
Estimated payables – other	33	69
Received deposits from customers	148	658
Other financial liabilities	–	–
Total payables within trade and other payables – current	**565**	**1,702**
Other payables	5	13
Total payables within other payables – non-current	**5**	**13**

23. Accrued Employee Benefits

In millions of Czech crowns	31 December 2023	31 December 2022
Employee benefits		
– Salaries and bonuses*	106	120
– Defined contribution costs – retirement compensation	9	11
– Untaken holiday costs	12	16
– Unused leisure-time benefits	–	3
Total employee benefits – current	**127**	**149**

*Salaries and bonuses in 2023 include estimates for extraordinary bonuses in the amount of CZK 16 million (CZK 23 million in 2022)

In millions of Czech crowns	31 December 2023	31 December 2022
Employee benefits – other long-term benefits	124	128
Total employee benefits – non-current	**124**	**128**

24. Other Non-Financial Liabilities

In millions of Czech crowns	31 December 2023	31 December 2022
Received advances for ordered gas transit and gas transport services	30	34
Total other non-financial liabilities – current	**30**	**34**

25. Expenses

In millions of Czech crowns	2023	2022
Raw materials consumed*	113	572
Salaries	*342*	*398*
Statutory and private pension contribution	*181*	*197*
Employee benefits**	523	595
Depreciation and amortisation	2,543	2,497
Gains less losses on disposal of property, plant and equipment	(3)	–
Impairment loss on receivables	108	–
Repairs and maintenance services	*135*	*185*
IT & Telecommunications expenses	*92*	*98*
Consultancy and advisory services	*66*	*70*
Lease charges	*21*	*29*
Marketing	*11*	*20*
Other services	*60*	*54*
Services purchased and lease charges	385	456
Losses / (gains) on derivative financial instruments, net	(127)	(64)
Foreign exchange differences, net	20	1
Other expenses	58	44
Total operating expenses	**3,620**	**4,101**

* Represents mainly consumption of natural gas.
** Excluding costs capitalised as part of the acquisition of fixed assets (2023: CZK 161 million, 2022: CZK 147 million).

26. Finance Income

In millions of Czech crowns	2023	2022
Financial instruments measured at amortised cost:		
▪ Interest income on other financial assets	990	563
▪ Foreign Exchange Differences (see Note 30)	1,013	94
Total finance income recognised in profit and loss	**1,913**	**657**

27. Finance Costs

In millions of Czech crowns	2023	2022
Financial instruments measured at amortised cost:		
▪ Interest expense – lease	8	8
▪ Interest expense – other	1,987	1,664
Financial instruments measured at FVTPL:		
▪ Finance costs – release of hedge reserve reported in OCI*	197	2
▪ Finance costs – hedging activities	120	143
▪ Other finance costs	23	25
Total finance costs recognised in profit or loss	**2,335**	**1,842**

* In May 2017, a USD bank loan (a hedging instrument) was repaid, the hedge reserve reported in OCI remained in equity and it was gradually charged to finance costs (based on the effectiveness tests performed as at the date of initial repayment, until March 2030). On 31 December 2023 the hedge accounting for this transaction was discontinued as the USD revenue hedge is no longer effective as the company has no USD revenue (see Note 30).

28. Income Taxes

(a) Components of income tax expense

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

In millions of Czech crowns	2023	2022
Adjustment in respect of current income tax from prior year	5	(8)
Current income tax expense	31	1,433
Deferred income tax expense / income	677	19
Income tax expense for the year in statement of profit or loss	**713**	**1,444**

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

The income tax rate applicable to the majority of the Group's 2023 and 2022 income is 19%. The reconciliation between the expected and the actual tax charge is provided below.

In millions of Czech crowns	2023	2022
Profit before tax	**(993)**	**7,685**
Theoretical tax charge at statutory rate of 19%:	–	1,460
Tax effect of items which are not deductible or assessable for income tax purposes:		
– Non-deductible expenses	708	(8)
Difference from previous periods	5	(8)
Income tax expense for the year	**713**	**1,444**

(c) Deferred taxes analysed by type of temporary difference

Differences between IFRS and tax regulation in the Czech Republic give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

In millions of Czech crowns	1 January 2023	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2023
Tax effect of deductible/(taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment except right-of-use assets (different tax depreciation)	(6,708)	(707)	–	(7,415)
Other liabilities; tax deductible in different periods	56	29	–	85
Cash flow hedges	(396)	(534)	785	(145)
Net deferred tax asset/(liability)	**(7,048)**	**(1,212)**	**785**	**(7,475)**

Management estimates that net deferred tax liabilities of CZK 7,475 million (2022: CZK 7,048 million) are recoverable in more than twelve months after the end of the reporting period.

The tax effects of the movements in the temporary differences for the year ended 31 December 2022 were:

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

(d) Tax effects on other comprehensive income

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

	31 December 2023			31 December 2022		
In millions of Czech crowns	Before tax	Tax effects	After tax	Before tax	Tax effects	After tax
Cash flow hedge	692	(145)	547	2,084	(396)	1,688
Other comprehensive income for the period	**692**	**(145)**	**547**	**2,084**	**(396)**	**1,688**

29. Contingencies and Commitments

Capital expenditure commitments. As at 31 December 2023, the Group has contractual investment obligations in respect of tangible fixed assets totalling CZK 297 million (31 December 2022: CZK 848 million). The commitments relate predominantly to the Moravia Capacity Extension project and development projects.

Guarantees. The Group did not recognise any obligations from financial guarantees as at 31 December 2023 and 2022.

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

Compliance with covenants. The Group is subject to certain qualitative covenants related to its borrowings. Non-compliance with such covenants may result in immediate maturity of the debt. The Group was in compliance with covenants at 31 December 2023 and 31 December 2022.

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

Other contingent liabilities. The Group did not recognise any significant contingent liabilities as at 31 December 2023 and 2022.

30. Derivative Financial Instruments

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

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

Cash flow hedge (IFRS 7 requirements for disclosures)

- Value of the hedged item used as a basis for recognising hedge ineffectiveness amounts to CZK -967 million as at 31 December 2023 (31 December 2022: CZK 0 million)
- The balance of the cash flow hedge reserve amounts to CZK 692 million. (31 December 2022: CZK 1,687 million)
- The balance remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied amounts to CZK 0 million. (31 December 2022: CZK 756 million)
- Hedging loss of the reporting period that was recognised in other comprehensive income amounts to CZK 1,391 million (31 December 2022: hedging profits CZK 402 million)
- Hedge ineffectiveness recognised in profit or loss amounts to CZK 726 million (31 December 2022: CZK 0 million)

The Group did not have any other derivative financial instruments besides cross-currency interest rate swaps and interest rate swap as at 31 December 2023.

	31 December 2023			
	Current		Non-Current	
In millions of Czech crowns	Contracts with positive fair value	Contracts with negative fair value*	Contracts with positive fair value	Contracts with negative fair value*
Cross-currency interest rate swaps and interest rate swap at fair values for the reporting period:				
EUR/USD swap				
– USD payable on settlement (-)	–	(249)	–	(4,814)
– EUR receivable on settlement (+)	–	136	–	3,983
EUR/CZK swap				
– CZK payable on settlement (-)	–	(38)	–	(1,354)
– EUR receivable on settlement (+)	–	34	–	1,228
CZK interest rate swap				
– CZK payable on settlement (-)	–	–	–	–
– CZK receivable on settlement (+)	275	–	389	–
CZK/USD swap				
– USD payable on settlement (-)	(36)	–	–	(2,106)
– CZK receivable on settlement (+)	116	–	–	2,003
Total USD payable on settlement (-)	(36)	(249)	–	(6,920)
Total EUR receivable on settlement (+)	–	170	–	5,211
Total CZK payable on settlement (-)	391	(38)	389	649
Net fair value of cross-currency interest rate swaps and interest rate swap	**355**	**(117)**	**389**	**(1,060)**

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

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

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

The Group had no outstanding payable from foreign exchange swaps as at 31 December 2023.

	31 December 2023		31 December 2022	
In thousands of Czech crowns	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and swaps: fair values, as at the reporting period, of				
– USD receivable on settlement (+)	–	–	–	–
USD payable on settlement (-)	–	–	–	–
– EUR payable on settlement (-)	–	–	–	–
– CZK receivable on settlement (+)	–	–	–	–
Net fair value of foreign exchange forwards and swaps – current	**–**	**–**	**–**	**–**

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

Cross-currency interest rate swaps
The nominal principal amounts of the outstanding cross-currency interest rate swap contracts at 31 December 2023 were EUR 210 million / USD 315 million / CZK 3,477 million (2022: EUR 210 million / USD 315 million / CZK 3,477 million). All cross-currency interest rate swaps have fixed interest rates on both legs. At 31 December 2023, the fixed interest rates vary from 1.652% to 5.23% p.a. (as at 31 December 2022: 1.652% to 5.23% p.a.).

The Group designates certain cross-currency interest rate swaps, in combination with bonds denominated in EUR, as a hedging instrument of a foreign exchange risk associated with highly probable forecasted cash flows from an issued bond (cash flow hedge – Note 31, Hedging of currency risk).

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

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

All derivatives are measured at FVTPL.

31. Financial Risk Management

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

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

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

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

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

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

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

Currency risk. The Group's risk management policy is to hedge against foreign currency movements.

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

The offsetting of currency positions is applied where possible. The outstanding positions are managed by means of buying or selling the relevant currency in the short-term derivative forward or swap contract. The Group reports no outstanding foreign exchange swap and no foreign exchange forwards as at 31 December 2023. The Group reported outstanding foreign exchange swaps and no foreign exchange forwards as at 31 December 2022.

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

	At 31 December 2023					At 31 December 2022				
In millions of Czech crowns	Monetary financial assets	Monetary financial liabilities	Derivatives (assets)	Derivatives (liabilities)	Net position	Monetary financial assets	Monetary financial (liabilities)	Derivatives (assets)	Derivatives (liabilities)	Net position
US Dollars	2	–	–	7,049	(7,047)	8	–	–	7,125	(7,117)
Euros	45	5,252	5,192	–	(15)	784	5,119	5,064	–	729
Total exposed to currency risk	**47**	**5,252**	**5,192**	**7,049**	**(7,062)**	**792**	**5,119**	**5,064**	**7,125**	**(6,388)**
Czech crowns	9,008	29,183	2,080	1,397	(19,492)	6,267	29,501	2,080	1,397	(22,551)
Total	**9,055**	**34,435**	**7,272**	**8,446**	**(26,554)**	**7,059**	**34,620**	**7,144**	**8,522**	**(28,939)**

As at 31 December 2023 and 2022, the outstanding derivatives, i.e. in this case cross-currency interest rate swaps and foreign exchange forwards, were disclosed in their nominal amounts translated to Czech crowns using the foreign exchange rate as at 31 December 2023 and 2022. The fair values are disclosed in Note 33.

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

Hedging of currency risk. In 2014, the Group decided to introduce two cash-flow hedges to manage the foreign exchange currency risk in revenues in line with the Group risk management policy. The financial instruments designated as hedging instruments are represented by bonds maturing in 2026 denominated in EUR and cross-currency interest rate swaps EUR/USD (Note 17, Note 30). Due to present cessation of USD payments, the relevant part of hedge reserve was released to profit and loss in 2023 (note 30).

In 2015, the Group introduced an additional, third, cash-flow hedge. The financial instruments designated as hedging instruments are represented by cross-currency interest rate swap EUR/CZK (Note 17, Note 30). The hedged item is represented by cash flow related to the private placement EUR bond maturing in 2026. Gains and losses recognised in other comprehensive income will be continuously released to profit or loss within finance costs up until 2026 (Note 17, Note 30). There was no ineffectiveness to be recorded from cash flow hedges in 2023 and 2022.

In 2021, the Group introduced additional cash-flow hedge. The financial instruments designated as hedging instruments are represented by committed term loan maturing 2025 and cross-currency interest rate swap USD/CZK (Note 17, Note 30). Due to present cessation of USD payments, the relevant part of hedge reserve was released to profit and loss in 2023 (note 30). The table below analyses the volume of hedged cash flows that were designated as hedged item:

In millions of Czech crowns	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
31 December 2023						
Currency risk exposure:						
Hedging of future cash flows – future receivables USD	–	–	–	–	–	**–**
Hedging of future cash flows – future receivables EUR	–	–	–	–	–	**–**
Hedging of future cash flows – future payables EUR	(35)	(1,305)	–	–	–	**(1,340)**
TOTAL	**(35)**	**(1,305)**	**–**	**–**	**–**	**(1,340)**

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

The amount of reclassified other comprehensive income to revenues during 2023 decreased revenues by CZK 40 million (2022: decreased revenues by CZK 103 million). The amount of reclassified other comprehensive income to finance income during 2023 increased finance income by CZK 817 million (2022: increased finance income by CZK 91 million).

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

	At 31 December 2023		At 31 December 2022	
In millions of Czech crowns	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10%	(721)	–	1	(727)
US Dollar weakening by 10%	721	–	(1)	727
Euro strengthening by 10%	416	126	78	520
Euro weakening by 10%	(416)	(126)	(78)	(520)

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

The Group's exposure to currency risk with impact on profit or loss as at 31 December 2023 is influenced by (i) cash balances held in foreign currency, (ii) by existing loans to related parties provided in EUR (Note 12) and (iii) outstanding payables and receivables.

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

In 2020, the Group introduced additional, fourth, cash-flow hedge. The financial instrument designated as hedging instrument is represented by interest rate swap in CZK currency. The hedged item is represented by cash flow related to the new committed term loan maturing in 2028. Gains and losses recognised in other comprehensive income will be continuously released to profit or loss within finance costs up until 2028 (Note 17, Note 30). There was no ineffectiveness to be recorded from cash flow hedges in 2023.

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

In millions of Czech crowns	On demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
31 December 2023					
Financial assets – floating rate	82	–	–	–	82
Financial assets – fixed rate with re-pricing risk	4,371	4,500	–	–	8,871
Financial liabilities– floating rate	(4,965)	(4,833)	–	–	(9,798)
Financial liabilities– fixed rate with re-pricing risk	(279)	-	(17,425)	(6,874)	(24,578)
Net interest sensitivity gap at 31 December 2023	**(791)**	**(333)**	**(17,425)**	**(6,874)**	**25,423**
31 December 2022					
Financial assets – floating rate	949	–	–	–	949
Financial assets – fixed rate with re-pricing risk	5,863	–	–	–	5,863
Financial liabilities– floating rate	(4,476)	(4,806)	–	–	(9,282)
Financial liabilities– fixed rate with re-pricing risk	(174)	(104)	(9,946)	(14,236)	(24,460)
Net interest sensitivity gap at 31 December 2022	**2,162**	**(4,910)**	**(9,946)**	**(14,236)**	**(26,930)**

* Note 30 – Derivative Financial instruments

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

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

	At 31 December 2023
In millions of Czech crowns	Impact on profit or loss
1M CZK PRIBOR increase of 25 bps	(2)
1M CZK PRIBOR decrease of 25 bps	2
1M EURIBOR increase of 25 bps	–
1M EURIBOR decrease of 25 bps	–
1M USD LIBOR increase of 25 bps	–
1M USD LIBOR decrease of 25 bps	–

	At 31 December 2022
In millions of Czech crowns	Impact on profit or loss
1M CZK PRIBOR increase of 25 bps	(8)
1M CZK PRIBOR decrease of 25 bps	8
1M EURIBOR increase of 25 bps	(2)
1M EURIBOR decrease of 25 bps	2
1M USD LIBOR increase of 25 bps	–
1M USD LIBOR decrease of 25 bps	–

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

The Group monitors interest rates for its financial instruments. The table below summarises effective interest rates at the respective end of the reporting period based on reports reviewed by key management personnel. Increase in effective interest rates in 2023 is caused by increased base rates.

	31 December 2023			31 December 2022		
In % p.a.	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and cash equivalents	1.25	5.18	3.68	0.01	0.00	0.79
Loans to related parties	n/a	n/a	n/a	n/a	n/a	n/a
Liabilities						
Borrowings	4.19	n/a	3.43	4.23	n/a	3.43

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

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

The Company does not plan to pay dividends. Management believes that the situation does not affect the going concern assumption in 2024.

The tables below show liabilities as at 31 December 2023 and 2022 by their remaining contractual maturity. The amounts disclosed in the table below are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows Financial derivatives are included in the contractual amounts to be paid or received unless the Group expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

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

The maturity analysis of financial liabilities at 31 December 2023 is as follows:

In millions of Czech crowns	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 17)	517	1,228	29,622	7,468	38,835
Trade and other payables (Note 22)	674	–	5	–	679
Gross settled cross-currency interest rate swaps (Note 30)					
– inflows	(132)	(566)	(8,494)	–	(9,192)
– outflows	31	426	9,521	–	9,978
Total future payments, including future principal and interest payments	**1,090**	**1,088**	**30,654**	**7,468**	**40,300**

The maturity analysis of financial liabilities at 31 December 2022 is as follows:

In millions of Czech crowns	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 17)	589	1,315	19,368	19,589	40,861
Trade and other payables (Note 22)	1,702	–	13	–	1,715
Gross settled cross-currency interest rate swaps (Note 30)					
– inflows	(136)	(692)	(9,201)	(239)	(10,268)
– outflows	31	428	9,968	94	10,521
Total future payments, including future principal and interest payments	**2,186**	**1,051**	**20,148**	**19,444**	**42,829**

The net current liquidity position calculated as difference between current assets and current liabilities at 31 December 2023 is a net current receivable of CZK 8,212 million (31 December 2022: a net current receivable of CZK 5,202 million).

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

32. Management of Capital

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

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

In millions of Czech crowns	At 31 December 2023	At 31 December 2022
Equity	18,232	18,179
Non-subordinated borrowings from banks and bonds	33,820	33,682
Non-subordinated short-term borrowings from related parties	7	60
Total	**52,059**	**51,921**

The Group has complied with all covenants arising from the borrowings as at 31 December 2023 and 31 December 2022.

33. Fair Value of Financial Instruments

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

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

(b) Financial instruments carried at fair value
Only derivatives are measured at fair value.

All recurring fair value measurements are categorised in the fair value hierarchy into level 2 as at 31 December 2023 and 2022.

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

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2023:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(1,097)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Interest rate swap contracts	664	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Currency forward contracts	–	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**(433)**		

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2022:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross currency interest rate swap contracts	(1,224)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Interest rate swap contracts	1,278	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Currency forward contracts	–	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
TOTAL RECURRING FAIR VALUE MEASUREMENTS AT LEVEL 2	**54**		

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

In millions of Czech crowns	2023	2022
Opening balance	**54**	**(191)**
Change in fair value of contracts concluded and realised during the period	–	–
Settlement of contracts held and performed during the period	–	12
Change in unrealised gains or losses for the period included in other comprehensive income for contracts held at the end of the reporting period	(487)	233
Closing balance	**(433)**	**54**

(c) Non-recurring fair value measurements

There are no non-current assets held for sale or other items held for sale with non-recurring fair value measurements as at 31 December 2023 and 31 December 2022.

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

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

	31 December 2023				31 December 2022			
In millions of Czech crowns	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
ASSETS								
Other financial assets								
– Loans to related parties	–	–	–	–	–	–	–	–
Total ASSETS	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
LIABILITIES								
Borrowings								
– Borrowings from related parties	–	–	7	7	–	–	60	60
– Bank borrowings	–	–	15,301	14,617	–	–	14,678	14,613
– Bonds	3,242	12,534	–	19,201	2,497	8,865	–	19,069
TOTAL LIABILITIES	**3,242**	**12,534**	**15,308**	**33,825**	**2,497**	**8,865**	**14,738**	**33,742**

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

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

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

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

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

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

34. Subsequent Events

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

Signatures of the members of the statutory body

1 March 2024

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

Annex no. 2: Separate Financial Statements

NET4GAS, s.r.o. Separate Financial Statements

prepared in accordance with International Financial Reporting Standards as adopted by the European Union, 31 December 2023

Contents

NET4GAS, s.r.o.
Separate Balance Sheet as at 31 December 2023

In millions of Czech crowns	Note	31 December 2023	31 December 2022
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	8	51,568	53,390
Intangible assets	9	169	77
Investment in subsidiary	10	5,835	5,835
Derivative financial instruments	32	389	904
Other non-current assets	11	7	311
Total non-current assets		**57,968**	**60,517**
CURRENT ASSETS			
Inventories	12	186	191
Trade and other receivables	14	103	258
Derivative financial instruments	32	355	483
Current income tax prepayments	30	–	21
Other non-financial assets	15	147	168
Other financial assets	16	4,500	5,863
Cash and cash equivalents	16	4,453	949
Total current assets		**9,744**	**7,933**
TOTAL ASSETS		**67,712**	**68,450**

EQUITY AND LIABILITIES			
EQUITY			
Registered capital	17	2,750	2,750
Capital contributions outside registered capital	17	6,617	6,617
Cash flow hedge reserve	17	547	1,688
Retained earnings		8,038	7,100
Total equity		**17,952**	**18,155**
NON-CURRENT LIABILITIES			
Other payables	23	5	13
Borrowings	18	33,240	33,096
Lease liability	19	6,553	6,688
Derivative financial instruments	32	1,060	1,210
Deferred income tax liability	30	6,508	6,224
Long-term employee benefits	24	124	127
Other non-financial liabilities	25	–	–
Total non-current liabilities		**47,490**	**47,358**

The accompanying notes on pages 108 to 162 are an integral part of these separate financial statements.

In millions of Czech crowns	Note	31 December 2023	31 December 2022
CURRENT LIABILITIES			
Borrowings	18	1,136	718
Lease liability	19	145	137
Trade and other payables	23	674	1,748
Derivative financial instruments	32	117	122
Current income tax payable	30	–	–
Other taxes payable	21	25	30
Provisions	22	16	–
Short-term employee benefits	24	127	148
Other non-financial liabilities	25	30	34
Total current liabilities		**2,270**	**2,937**
Total liabilities		**49,760**	**50,295**
EQUITY AND LIABILITIES		**67,712**	**68,450**

1 March 2024

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

The accompanying notes on pages 108 to 162 are an integral part of these separate financial statements.

NET4GAS, s.r.o.
Separate Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2023

In millions of Czech crowns	Note	2023	2022
Revenue	6	3,008	12,953
Raw materials consumed	26	(112)	(571)
Services purchased and lease charges	26	(389)	(460)
Employee benefits	26	(522)	(594)
Depreciation and amortisation	8, 9, 26	(2,543)	(2,497)
Profit (+) / Loss (-) – impairment on receivables	14, 26	(108)	–
Gains less losses on disposal of property, plant and equipment	8	3	(1)
Changes in fair value of derivatives, net		127	64
Foreign exchange differences, net	26	(20)	(1)
Other operating income	27	44	302
Other operating expenses	26	(58)	(44)
Operating profit (+) / loss (-)		**(570)**	**9,151**
Finance income	28	1,913	657
Finance costs	29	(2,766)	(2,185)
Finance result (net)		**(853)**	**(1,528)**
Profit/loss before income tax		**(1,423)**	**7,623**
Income tax expense	30	(539)	(1,380)
PROFIT (+) / LOSS (-) FOR THE YEAR		**(1,962)**	**6,243**

Other comprehensive income			
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge	17	(1,391)	402
Income tax recognised directly in other comprehensive income – cash flow hedge	30	250	(76)
TOTAL OTHER COMPREHENSIVE INCOME FOR THE YEAR		**(1,141)**	**326**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(3,103)**	**6,569**

The accompanying notes on pages 108 to 162 are an integral part of these separate financial statements.

NET4GAS, s.r.o.
Separate Statement of Changes in Equity for the year ended 31 December 2023

In millions of Czech crowns	Registered capital	Capital contributions outside registered capital	Cash flow hedge reserve	Retained earnings	Total
Balance as at 1 January 2022	**2,750**	**6,617**	**1,362**	**857**	**11,586**
Total comprehensive income					
Profit (+) / Loss (-) for the year 2022	–	–	–	6,243	6,243
Cash flow hedge – net of related tax effect	–	–	326	–	326
Total comprehensive income for the year	–	–	326	6,243	6,569
Transactions with owners					
Contribution outside registered capital (Note 17)	–	–	–	–	–
Decrease of contribution outside registered capital (Note 17)	–	–	–	–	–
Dividends paid	–	–	–	–	–
Advance dividends paid	–	–	–	–	–
Balance as at 31 December 2022	**2,750**	**6,617**	**1,688**	**7,100**	**18,155**
Total comprehensive income					
Profit (+) / Loss (-) for the year 2023	–	–	–	(1,962)	(1,962)
Cash flow hedge – net of related tax effect	–	–	(1,141)	–	(1,141)
Total comprehensive income for the year			(1,141)	(1,962)	(3,103)
Transactions with owners					
Contribution outside registered capital (Note 17)	–	–	–	–	–
Decrease of contribution outside registered capital (Note 17)	–	–	–	–	–
Dividends paid	–	–	–	–	–
Advance dividends refunded	–	–	–	2,900	2,900
Balance as at 31 December 2023	**2,750**	**6,617**	**547**	**8,038**	**17,952**

The accompanying notes on pages 108 to 162 are an integral part of these separate financial statements.

NET4GAS, s.r.o.
Separate Statement of Cash Flows
for the year ended 31 December 2023

In millions of Czech crowns	Note	2023	2022
Cash flows from operating activities			
Profit/loss before tax		**(1,423)**	**7,623**
Adjustments for:			
Depreciation and amortisation	8, 9	2,543	2,497
Finance income	28	(1,913)	(657)
Finance costs	29	2,766	2,185
Impairment loss on receivables		108	–
Gains less losses on disposals of property, plant and equipment	26	(3)	1
Proceeds from intangible assets		(22)	–
Dividend income from subsidiary		–	(280)
Other non-cash operating expenses / (gains)		(774)	(4)
thereof: – employee benefit provisions		*–*	*(17)*
– creation and release of provisions		*(25)*	*(10)*
– other		*(749)*	*23*
Operating cash flows before working capital changes		**1,282**	**11,365**
Decrease / (Increase) in trade and other receivables	14, 15	1,766	(282)
Increase / (Decrease) in trade and other payables	23, 25	(1,478)	539
Decrease in inventories	12	4	(36)
Operating cash flows after changes in working capital		**1,574**	**11,586**
Interest paid	29	(2,442)	(1,791)
Interest received	28	859	430
Income tax paid	30	17	(1,449)
Net cash flows from operating activities		**8**	**8,776**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(959)	(3,761)
Purchase of intangible fixed assets	9	(97)	(27)
Proceeds from sale of property, plant and equipment	8	3	–
Proceeds from intangible assets	9	22	–
Proceeds from decreased other capital funds of the subsidiary	10	–	137
Loans provided to related parties	13	–	–
Purchase of other financial assets	16	1,363	(4,810)
Dividends received from subsidiary	27	–	280
Net cash flows used in investing activities		**332**	**(8,181)**

The accompanying notes on pages 108 to 162 are an integral part of these separate financial statements.

In millions of Czech crowns	Note	2023	2022
Cash flows from financing activities			
Payments of decreased contributions outside registered capital to the Company's owner	17	–	–
Payments of increased contributions outside registered capital from the Company's owner	17	–	–
Dividends paid	17	–	–
Advance dividends refunded	17	2,900	–
Repayment of borrowings	18	(195)	(499)
Proceeds from borrowings	18	458	554
Net cash flows from financing activities		**3,163**	**55**
Net increase in cash and cash equivalents		**3,504**	**650**
Cash and cash equivalents at the beginning of the year	16	949	299
Cash and cash equivalents at the end of the year	16	**4,453**	**949**

The accompanying notes on pages 108 to 162 are an integral part of these separate financial statements.

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

for the year ended 31 December 2023

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

These separate financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2023 for NET4GAS, s.r.o. (the "Company" or "NET4GAS").

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

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

Since 2 August 2013, the Company is fully owned by NET4GAS Holdings, s.r.o. ("NET4GAS Holdings"), incorporated in the Czech Republic, which was the Group's parent company. NET4GAS Holdings was, until 11 December 2023, a joint venture of two entities: Allianz Infrastructure Luxembourg I S.à r.l. (50%), with its registered office in Luxembourg and Borealis Novus Parent B.V. (50%), with its registered office in the Netherlands.

On 11 December 2023, the state-owned company, ČEPS, a.s., acquired a 100% stake in NET4GAS Holdings, s.r.o. As a result of this transaction, ČEPS became the sole shareholder of NET4GAS Holdings.

The Statutory Directors of the Company:

As at 31 December 2023	As at 31 December 2022
Andreas Rau	Andreas Rau
Radek Benčík	Radek Benčík
	Václav Hrach

Václav Hrach ceased to be a member of the Statutory Directors on 30 September 2023. The change was entered in the Commercial Register on 25 October 2023.

The members of the Supervisory Board of the Company were at 31 December 2023 and at 31 December 2022 as follows:

As at 31 December 2023	Funkce	As at 31 December 2022	Funkce
Petr Doškář	Chairman	Michael Raymond Mc Nicholas	Chairman
Radek Lucký	Vice-Chairman	Mario Fischer	Member
Martin Palkovský	Member	Delphine Voeltzel	Member
		Igor Emilievic Lukin	Member
		Georg Nowack	Member

On 20 December 2023, as part of the meeting of the company's Supervisory board, the election of Petr Doškář as Chairman of the Supervisory board and Radek Lucký as Vice-Chairman of the Supervisory Board took place. As of 31 December 2023, these changes were not reflected in the declaratory entry in the Commercial Register.

About the Company. The Company is the exclusive gas transmission system operator in the Czech Republic, operating almost 4,000 km of gas pipelines. NET4GAS is currently operating five compressor stations. The flow rate of the gas transmitted is measured at seven border transfer stations (the Lanžhot, Brandov and Hora Svaté Kateřiny stations in the Czech Republic, the Waidhaus, Olbernhau and Deutschneudorf stations in the Federal Republic of Germany and Cieszyn in the Polish Republic) and at almost a hundred national transfer stations. The NET4GAS transmission system has been enhanced in the past few years by a number of significant projects delivering additional transmission capacity and greater diversification of transmission routes.

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

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

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

2. Operating Environment of the Company

The regulatory environment in the Czech Republic:

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

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

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

Gas transmission prices for 2023 were set by ERO Price Decisions No. 3/2022 of 30 May 2022 and No. 12/2022 of 14 November 2022, on regulated prices related to the gas supply.

In 2023, in response to the adverse impact caused by the non-fulfilment of contractual obligations and interruption of payments for reserved capacity by the major shipper, the ERO made some parametric changes to the regulation methodology, which will affect the transmission system operator's revenues and transmission prices in 2024 and beyond.

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

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

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

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

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

3. Summary of Material Accounting Policies

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

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

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

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

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

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

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

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

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

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

Fair value measurements are analysed in the fair value level hierarchy as follows (Note 35):

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

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

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

The effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

c) Classification of financial assets

Financial assets are classified in the following categories:

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

Financial assets measured at amortised cost (AC):

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

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

Financial assets measured at fair value through profit or loss:

Financial assets at fair value through profit or loss, including financial derivatives are carried at their fair value. All derivative instruments are carried as assets when fair value is positive and as liabilities when fair value is negative. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Company classifies certain derivative instruments as hedges against a particular risk associated with highly probable forecast transactions (cash flow hedge).

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 32. Movements on the hedging reserve in other comprehensive income are shown in Note 17. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current

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

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

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

d) Classification of financial liabilities

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

The Company designates certain financial liabilities as hedges of a particular risk associated with highly probable forecast transactions (cash flow hedge – Note 33, section 'Hedging of currency risk').

e) Initial recognition of financial instruments

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

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

f) Derecognition of financial assets and financial liabilities

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

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

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

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

g) Property, plant and equipment

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

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

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

At the end of each reporting period management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs to sell and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year. An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs to sell.

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

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

h) Depreciation

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

	Useful lives
Buildings and constructions	30 – 70 years
Plant, machinery and equipment	4 – 40 years
Furniture and fittings	4 – 8 years
Motor vehicles	5 – 8 years
Right of use	6 – 70 years

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

i) Capitalisation of borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that are not carried at fair value and that necessarily take a substantial time to get ready for the intended use or sale (qualifying assets) are capitalised as part of the costs of those assets.

The commencement date for capitalisation is when (a) the Company incurs expenditures for the qualifying asset; (b) it incurs borrowing costs; and (c) it undertakes activities that are necessary to prepare the asset for its intended use or sale. Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Company capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Company's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised. The amounts of borrowing costs capitalised during the current and previous year are disclosed in Note 8.

j) Leasing

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

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

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

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

Right-of-use assets and lease liabilities.

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

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

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

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

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

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

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

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

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

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

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

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

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

in tons	31 December 2023	31 December 2022
Emission allowances	2,070	5,805

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

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

q) Taxes

Income tax
Income taxes have been provided for in the financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge/credit comprises current tax and deferred tax and is recognised in profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity (for example the effective portion of changes in the fair value of financial derivatives that are designated and qualify as cash flow hedges).

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

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax balances are measured at tax rates (and tax legislation) enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are only offset among the Company's individual entities. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

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

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

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

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

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

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

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

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

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards

of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

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

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

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

w) Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less from initial recognition. Cash and cash equivalents are carried at amortised cost using the effective interest method.

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

x) Dividends
Dividends are recorded as a liability and deducted from equity in the period in which they are declared and approved.

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

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

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

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

The Company designates certain borrowings as hedges of a particular risk associated with a highly probable forecast transaction (cash flow hedge – Note 33, section 'Hedging of currency risk').

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

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

cc) Provisions for liabilities and charges
Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

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

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

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

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

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

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

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

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

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

hh) Employee benefits
Wages, salaries, contributions to the Czech state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and other services) are accrued in the year in which the associated services are rendered by the employees of the Company.

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

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

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

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

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

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

4. Critical Accounting Estimates and Judgements in Applying Accounting Policies

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

Functional currency
Management assessed the relevant primary and secondary factors during the consideration about the Company's functional currency. The functional currency is the currency of the primary economic environment, in which the Company operates. The regulated sales prices of the Company are determined by the ERO – the Czech regulatory authority – and are defined in CZK. The majority of the Company's revenue stems from regulated sales. The majority of the Company's operating expenses are incurred in CZK. Capital expenditures are twofold: regular capital expenditure safeguarding the existing system and its operational

safety; and large one-off projects. The regular capital expenditure is almost entirely incurred in CZK, while the cost of large one-off projects is incurred in a mixture of currencies (including CZK, EUR and other). Cash from financing activities is generated in a mixture of currencies (including CZK, EUR and USD). Although the Company's operations are influenced by a mixture of currencies, management concluded that the majority of the indicators support CZK as the functional currency of the Company.

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

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

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

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

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

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

Capacity of the Capacity4Gas system
Management considered whether the new contract for the provision of pipeline capacity to its major customer is a lease contract. Management's conclusion that the contract is not a lease of the pipeline is based on the fact that there is significant capacity of the pipeline which is available to other customers and this capacity can be used by the other customers. The pipeline is under the Company's full control and the major customer has no ability or right to control physical access to the pipeline. Therefore, the arrangement is not a lease contract under IFRS.

Monthly Payments from the Major Customer
On 4 January 2023, the Company announced that it had not received monthly payments due from its major customer under the key contracts. As announced on 6 April 2023, negotiations with the major customer to resolve the situation have not been successful to date. As a result, the Company has decided to commence arbitration proceedings against the major customer in order to protect its rights and seek proper payment of the amounts owed by the major customer. Since the major customer continues to be in arrears with its monthly payments and it is unlikely (also given the overall geopolitical situation and changes in international gas transportation) that the situation will change in the short term, the Company has decided, in accordance with the applicable IFRS 15 rules and in line with the tax administrator's rulings on tax prepayments, to account for proceeds from key contracts only on the off-balance sheet.

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

Transmission System Operator licence and gas pipelines
In relation to the applicability of IFRIC 12 to the Company, management believes that the criteria of government regulation have not been met, the assets will never be transferred to the government, the government cannot control the practical ability of the operator to sell or stop the infrastructure and the government has no ability to control the construction process. Therefore, the Company's transmission system is classified as land, buildings and equipment and is not considered infrastructure used in connection with a public-private service concession agreement.

Segments
Operating segments are components that engage in business activities that may earn revenues or incur expenses, whose operating results are regularly reviewed by the chief operating decision maker (CODM) and for which discrete financial information is available. The CODM is the person or group of persons who allocates resources to the operating segments of the Company and assesses its performance. Recurring revenues are generated from contracts with foreign as well as domestic customers. Information for the CODMs (the Company's Statutory Directors) who are responsible for allocating resources and assessing the Company's performance is prepared for the whole Company without any particular structuring. Management regularly obtains information with assessment of the split of revenue between the transit revenue and domestic transmission revenue. There is no profit measure which would be based on similar basis. All profit measures used by the CODMs are based on the results of the Company considered as one business unit. As a result, management considers the whole Company as one segment for the purpose of segment reporting.

Assessment of non-current asset impairment
The Company's management has prepared a plan for possible future development with respect to the use of the transmission system and gas supply through the transmission system and has analysed the impact on its future operations, results of operations and possible impairment of the Company's fixed assets. The plan was based on market assumptions at the time of preparation and takes into account, among other things, the assumption of a positive change in price regulation in response to the current geopolitical situation and unprecedented changes in gas flows through the Czech transmission system. This assumption has already been supported by the ERO's pricing decision for 2024, which represents (compared to 2023) a substantial increase in the Company's allowed revenues.

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

Based on the assessment of the above scenarios, the Company has not identified any impairment of property, plant and equipment as of 31 December 2023 that would require an adjustment to thefinancial statements in accordance with applicable accounting policies. However, future developments cannot be reliably estimated; therefore, the need for future adjustments to the amounts of property, plant and equipment cannot be excluded.

Going concern assumption
Despite the reported accounting loss for 2023, the Company expects its financial position to improve in the future, primarily due to the ongoing changes in price regulation (see also the ERO's pricing decision for 2024 above). In addition, NET4GAS manages the funds and cash of all Group companies in the form of a common cash pool. The Company has cash and other financial assets in the amount of CZK 8,953 million at the end of 2023, which covers the expenses of all Group companies for 2024 with a large margin. Management believes that these facts are sufficient to ensure the Group's ability to continue as a going concern in 2024.

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

a) Application of new standards and interpretations effective on or after 1 January 2023

The following amendments to the existing standards issued by the International Accounting Standards Board (IASB) and adopted by the EU are effective for an accounting period that begins on 1 January 2023:

Document	Major change	Effective from	Impact on the Group's financial statements
IFRS 17 *Insurance Contracts* including amendments to IFRS 17	New standard and its amendments	1. 1. 2023	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Amendments to IFRS 17 *Insurance Contracts*	Initial Application of IFRS 17 and IFRS 9 – Comparative Information	1. 1. 2023	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Amendments to IAS 1 *Presentation of Financial Statements*	Disclosure of Accounting Policies	1. 1. 2023	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Amendments to IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*	Definition of Accounting Estimates	1. 1. 2023	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.
Amendments to IAS 12 *Income Taxes*	Deferred Tax related to Assets and Liabilities arising from a Single transaction	1. 1. 2023	Applied. The adoption has an impact on the disclosures but not on the amounts disclosed in these financial statements.
Amendments to IAS 12 *Income Taxes*	International Tax Reform – Pillar Two Model Rules	1. 1. 2023	Applied. The adoption does not have a material impact on the disclosures or amounts disclosed in these financial statements.

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

At the date of authorisation of these financial statements, the Company has not applied the following new IFRS and amendments to the existing standards that were not effective in the EU before 31 December 2023:

Document	Major change	Effective from	Adopted by the EU?
Amendments to IAS 1 *Presentation of Financial Statements*	Classification of Liabilities as Current or Non-Current, Current Liabilities with Covenants and Deferral of Effective Date	1. 1. 2024	Yes
Amendments to IAS 7 *Statement of Cash Flows* and IFRS 7 *Financial Instruments: Disclosures*	Supplier Finance Arrangements	1. 1. 2024	No
Amendments to IFRS 16 *Leases*	Lease Liability in a Sale and Leaseback	1. 1. 2024	No
Amendments to IAS 21 *The Effects of Changes in Foreign Exchange Rates*	Lack of Exchangeability	1. 1. 2025	No

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

6. Segment Information

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

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

Revenues from core activities comprise revenues from international transit, domestic transmission and other. In 2023, revenues from international transit represented 23%, revenues from domestic transmission amounted to 75% and other revenues represented 2% of the Company's revenues from core activities (In 2022, revenues from international transit represented 82%, revenues from domestic transmission amounted to 17% and other revenues represented 1% of the Company's revenues from core activities).

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

Refer to the information in Note 4.

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

The Company is considered as one reportable segment. Segment information for the reportable segment for the years ended 31 December 2023 and 31 December 2022 is set out below:

In millions of Czech crowns	Natural gas transmission	Natural gas transmission
	2023	**2022**
Revenues from core activities	3,008	12,953
Other operating income	44	302
Other finance income	1,913	657
Total segment income	**4,965**	**13,912**
Raw materials consumed	112	571
Employee benefits	522	594
Depreciation and amortisation	2,543	2,497
Services purchased and lease charges	389	460
Changes in fair value of derivatives, net	(127)	(64)
Foreign exchange differences, net	20	1
Other operating expenses	58	44
Income tax expense	539	1,380
Finance costs	2,766	2,185
Impact of sales of land, buildings and equipment and adjustment items to receivables	105	1
Segment profit for the year	**(1,962)**	**6,243**
Segment other comprehensive income for the year	**(1,141)**	**325**
Segment total comprehensive income for the year	**(3,103)**	**6,568**
Capital expenditures – additions at cost (Note 8, 9)	**816**	**3,657**

In millions of Czech crowns	Natural gas transmission	Natural gas transmission
	31 December 2023	**31 December 2022**
Total reportable segment Assets	**67,712**	**68,450**
Total reportable segment Liabilities	**49,760**	**50,295**

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

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

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

In millions of Czech crowns	2023	2022
Czech Republic	2,081	2,090
Other EU countries	741	3,316
Non-EU countries	186	7,547
Total revenues from core activities	**3,008**	**12,953**

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

In millions of Czech crowns	2023	2022
Czech Republic	816	3,657
Total capital expenditure – additions at cost (Note 8, 9)	**816**	**3,657**

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

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

In millions of Czech crowns	2023	2022
Customer 1 * (major shipper)	12	7,176
Customer 2	1,580	1,425
Total revenues from major customers	**1,592**	**8,601**

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

Revenues comprise only revenues from core activities.

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

7. Balances and Transactions with Related Parties

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

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

The Company's balances and transactions with subsidiaries of ultimate parent of ČEPS, a. s. are disclosed below within the category Subsidiaries of joint ventures' ultimate parents.

At 31 December 2023, the outstanding balances with related parties are as follows:

(mil. Kč)	Subsidiary	Subsidiaries of joint ventures' ultimate parents	Immediate parent
Gross value of trade and other receivables			
BRAWA, a.s.	–	–	–
OTE, a.s. – services	–	31	–
Loans to related parties (Note 13)			
NET4GAS Holdings, s.r.o.	–	–	–
BRAWA, a.s.	–	–	–
Lease liability (Note 19)			
BRAWA, a.s. – non-current	6,344	–	–
– current	109	–	–
Borrowings (Note 18)			
NET4GAS Holdings, s.r.o.	–	–	7
BRAWA, a.s. – cash-pooling	552	–	–
Gross value of trade and other payables			
BRAWA, a.s. – pipeline rent 11/2023, 12/2023	105	–	–
BRAWA, a.s. – interest on borrowings	4	–	–

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

In millions of Czech crowns	Subsidiary	Immediate parent
Purchases / expenses		
BRAWA, a.s. – interest expense from lease	407	–
BRAWA, a.s. – interest expense from cash-pooling	24	–
BRAWA, a.s. – services	109	–
Other revenues / gains / received payments		
NET4GAS Holdings, s.r.o. – services + cash-pooling interest	–	4
NET4GAS Holdings, s.r.o. – other	–	55
BRAWA, a.s. – services	3	–
BRAWA, a.s. – dividends	–	–
BRAWA, a.s. – payment received from decreased capital contributions outside share capital	–	–

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

At 31 December 2022, the outstanding balances with related parties are as follows:

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

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

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

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

At 31 December 2023 and 2022 the Company did not have any other rights and obligations connected to related parties.

Key management compensation is presented below:

	2023		2022	
In millions of Czech crowns	Expense	Accrued liability	Expense	Accrued liability
Short-term employee benefits:				
– Salaries	64	5	67	4
– Short-term bonuses	20	20	19	19
Other long-term employee benefits:				
- Long-term bonus scheme	12	33	21	34
- Defined contribution benefits	7	4	7	5
Total	**103**	**62**	**114**	**62**

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

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

8. Property, Plant and Equipment

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

In millions of Czech crowns	Land	Buildings and constructions	Buildings and constructions – right of use	Plant and equipment	Plant and equipment – rights of use	Construction in progress	Total
Cost at 1 January 2022	**306**	**67,303**	**7,975**	**9,303**	**83**	**1,501**	**86,471**
Accumulated depreciation	**–**	**(26,831)**	**(1,171)**	**(6,180)**	**(55)**	**–**	**(34,237)**
Carrying amount at 1 January 2022	**306**	**40,472**	**6,804**	**3,123**	**28**	**1,501**	**52,234**
Cost:							
Additions	–	–	78	–	62	3,492	3,632
Capitalised interest expense	–	44	–	–	–	(44)	–
Transfers	3	3,949	–	507	–	(4,459)	–
Others	–	–	–	–	–	–	–
Disposals	(1)	–	–	(65)	(42)	–	(108)
Accumulated depreciation:							
On disposals	–	–	–	65	42	–	107
Others	–	–	–	–	–	–	–
Depreciation charge	–	(1,758)	(128)	(566)	(23)	–	(2,475)
Carrying amount at 31 December 2022	**308**	**42,707**	**6,754**	**3,064**	**67**	**490**	**53,390**
Cost at 31 December 2022	**308**	**71,252**	**8,053**	**9,745**	**103**	**534**	**89,995**
Accumulated depreciation	**–**	**(28,589)**	**(1,299)**	**(6,681)**	**(36)**	**–**	**(36,605)**
Carrying amount at 1 January 2023	**308**	**42,707**	**6,754**	**3,064**	**67**	**490**	**53,390**
Cost:							
Additions	–	–	–	–	11	690	701
Capitalised interest expense	–	5	–	–	–	(5)	–
Transfers	19	345	–	82	–	(446)	–
Others	–	–	(4)	–	–	–	(4)
Disposals	–	–	–	(38)	(15)	–	(53)
Accumulated depreciation:							
On disposals	–	–	–	38	15	–	53
Others	–	–	–	–	–	–	–
Depreciation charge	–	(1,836)	(127)	(536)	(21)	–	(2,520)
Carrying amount at 31 December 2023	**327**	**41,221**	**6,623**	**2,610**	**57**	**729**	**51,567**
Cost at 31 December 2023	**327**	**71,648**	**8,049**	**9,789**	**99**	**729**	**90,642**
Accumulated depreciation	**–**	**(30,427)**	**(1,426)**	**(7,179)**	**(42)**	**–**	**(39,074)**

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

The Company rents passenger cars, especially for the employees' business trips. The rental period is in the range of two to seven years, and during this period, the ownership of the vehicles belongs to the lessor. At the end of the lease period, the car is returned to the lessor, and a new lease is usually arranged for the new vehicle. Due to many rented cars, the Company chose to use the portfolio approach for their valuation, recognition, and derecognition.

The Company rents the GAZELLE pipeline. The lease is recorded in the books as a right of use and is amortised on a straight-line basis.

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted interest rate applicable to the entity´s general borrowings during the year and was 4,84 % in 2023 (2022: 4.06 %).

The Company invested a total of CZK 701 million in property, plant and equipment (additions of property, plant and equipment – at cost) in 2023 (2022: CZK 3,631 million). The total commissioning was CZK 610 million (2022: CZK 4,503 million), of which CZK 227 million was invested in the Moravia Capacity Extension project and CZK 383 million to the other projects.

As at 31 December 2023, the total amount of construction in progress was CZK 729 million, which consisted mainly of development projects of CZK 240 million. Other items include low-value projects.

9. Intangible Assets

In millions of Czech crowns	Acquired software licences	Development costs	Other	Assets under construction	Total
Cost at 1 January 2022	**546**	**51**	**26**	**46**	**669**
Accumulated depreciation	**(519)**	**(51)**	**(26)**	**–**	**(596)**
Carrying amount at 1 January 2022	**27**	**–**	**–**	**46**	**73**
Additions at cost:					
Additions	–	–	–	26	26
Transfers	13	–	–	(13)	–
Disposals at cost	(4)	(1)	(4)	–	(9)
Amortisation:					
Accumulated amortisation on disposals	4	1	4	–	9
Amortisation charge	(22)	–	–	–	(22)
Carrying amount at 31 December 2022	**18**	**–**	**–**	**59**	**77**
Cost at 31 December 2022	**555**	**50**	**22**	**59**	**686**
Accumulated amortisation at 31 December 2022	**(537)**	**(50)**	**(22)**	**–**	**(609)**
Additions at cost:					
Additions	–	–	–	115	115
Transfers	164	–	–	(164)	–
Disposals at cost	(14)	(4)	–	–	(18)
Amortisation:					
Accumulated amortisation on disposals	14	4	–	–	18
Amortisation charge	(23)	–	–	–	(23)
Carrying amount at 31 December 2023	**159**	**–**	**1**	**10**	**169**
Cost at 31 December 2023	**705**	**46**	**22**	**10**	**783**
Accumulated amortisation	**(546)**	**(46)**	**(22)**	**–**	**(614)**

The Company invested a total of CZK 115 million in intangible assets (additions of intangible fixed assets – at cost) in 2023 (2022: CZK 26 million). The total commissioning was CZK 164 million (2022: CZK 13 million), of which CZK 150 million was invested in the Capacity Management System (CaMS) project and CZK 14 million to the other projects.

10. Investment in Subsidiary

The Company's interest in its subsidiary as at 31 December 2023 was as follows:

Name	Activity	Carrying amount of the investment (CZK million)	% of voting rights (if different)	Principal place of business	% ownership interest held	% of voting rights (if different from % ownership interest held)
Subsidiary:						
BRAWA, a.s.	Owner of the GAZELLE natural gas pipeline which is rented to the Company	5,835	100 %	Czech Republic	100 %	100 %
Total		**5,835**				

The Company's interest in its subsidiary as at 31 December 2022 was as follows:

Name	Activity	Carrying amount of the investment (CZK million)	% of voting rights (if different)	Principal place of business	% ownership interest held	% of voting rights (if different from % ownership interest held)
Subsidiary:						
BRAWA, a.s.	Owner of the GAZELLE natural gas pipeline which is rented to the Company	5,835	100 %	Czech Republic	100 %	100 %
Total		**5,835**				

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

11. Other Non-Current Assets

In millions of Czech crowns	31 December 2023	31 December 2022
Advances for acquisition of non-current assets	7	311
Total other non-current assets	**7**	**311**

12. Inventories

In millions of Czech crowns	31 December 2023	31 December 2022
Raw materials	186	191
Total inventories	**186**	**191**

Raw materials are mainly spare parts for the gas transmission system. There are no inventories valued at net realisable value as at 31 December 2023 and 2022.

13. Loans to Related Parties

No loans to related parties were provided in 2023 and 2022.

14. Trade and Other Receivables

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

In millions of Czech crowns	31 December 2023 Trade and estimated receivables	31 December 2022 Trade and estimated receivables
Neither past due nor impaired – exposure to		
– Between A- and BBB-*	68	9
– Not rated	34	75
Total neither past due nor impaired	102	84
Past due but without impairment		
– less than 30 days overdue	1	174
– between 30 – 60 days overdue	–	–
– 60 days or more overdue	–	–
Total past due	1	174
Individually determined to be impaired (gross)		
– 360 days or more overdue	108	–
Total individually impaired	108	–
Less impairment provision	**(108)**	–
Total net trade and other receivables **	**103**	**258**

* Rating disclosed is based on the equivalent credit rating from the third party rating agencies defined in the Network Code approved by ERO (Energy Regulatory Office) which is applicable for the Company.
** Impairment was recorded in accordance with the policy described in Note 3 t) u)

15. Other Non-Financial Assets

Other Non-Financial Assets are the following:

In millions of Czech crowns	31 December 2023	31 December 2022
Value-added tax prepaid	–	–
Prepayments for services	147	168
Total non-financial assets	**147**	**168**

16. Cash and Cash Equivalents, Other Financial Assets

In millions of Czech crowns	31 December 2023	31 December 2022
Other financial assets	4,500	5,863
Bank balances available on demand	4,453	949
Total cash and cash equivalents, other financial assets	**8,953**	**6,812**

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

In millions of Czech crowns	31 December 2023	31 December 2022
Neither past due nor impaired		
– A+ to A- rated	8,953	6,812
– BBB+ to BBB- rated	–	–
Total	**8,953**	**6,812**

17. Equity

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

On 23 September 2022, the Sole Shareholder of the Company decided on the transfer of the 2021 profit of CZK 3,757 million to retained earnings of previous years. As part of the decision, the Company was to be refunded an advance dividend of CZK 2,900 million paid in December 2021 (i.e. its receivable). The Company also decided on the payment of an advance dividend from retained earnings in the same amount of CZK 2,900 million (i.e. its payable). The receivable and the payable were offset without any transfer of funds.

The advance dividend of CZK 2,900 million was returned to the Company in December 2023.

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

In millions of Czech crowns	Capital contributions outside registered capital	Cash flow hedges	Total other reserves
Balance as at 1 January 2022	**6,617**	**1,362**	**7,979**
Revaluation gains or losses – hedge accounting	–	402	402
Revaluation gains or losses – revenues	–	(155)	(155)
Revaluation gains or losses – costs	–	2	2
Deferred tax effect	–	77	77
Balance as at 31 December 2022	**6,617**	**1,688**	**8,305**
Revaluation gains or losses – hedge accounting	–	(1,391)	(1,391)
Revaluation gains or losses – revenues	–	(2)	(2)
Revaluation gains or losses – costs	–	2	2
Deferred tax effect	–	250	250
Balance as at 31 December 2023	**6,617**	**547**	**7,164**

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

Increase / decrease in Capital contributions outside registered capital
In 2023 and 2022, no contributions were received or reductions paid.

Cash flow hedges
Cash flow hedges are used to recognise gains or losses on hedging instruments that are designated and qualify as cash flow hedges in other comprehensive income (effective portion), as described in Note 33 – Hedging of currency risk, Hedging of interest rate risk. Amounts are reclassified to profit or loss (line Revenue or Finance costs/Finance income) when the associated hedged transaction affects profit or loss.

18. Borrowings

In millions of Czech crowns	31 December 2023	31 December 2022
Short-term borrowings from related parties (cash pooling BRAWA)	552	72
Short-term borrowings from related parties (cash pooling NET4GAS Holdings)	7	60
Current portion of bonds and bank borrowings		
– CZK denominated bank borrowings (repayable on 24 May 2025, 31 July 2025, 28 July 2028)	168	172
– CZK denominated bonds (repayable on 17 July 2025)*	30	30
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2014*	54	53
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2015*	14	14
– CZK denominated bonds (repayable on 28 January 2028)*	141	147
– CZK denominated bonds (repayable on 28 January 2031)*	170	170
Non-current bonds and bank borrowings		
– CZK denominated bank borrowings (repayable on 24 May 2025, 31 July 2025, 28 July 2028)	14,448	14,441
– CZK denominated bonds (repayable on 17 July 2025)	2,641	2,638
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2014	3,949	3,848
– EUR denominated bonds (repayable on 28 July 2026) – issued in 2015	1,235	1,204
– CZK denominated bonds (repayable on 28 January 2028)	4,089	4,088
– CZK denominated bonds (repayable on 28 January 2031)	6,878	6,877
Total borrowings – current	**1,136**	**718**
Total borrowings – non-current	**33,240**	**33,096**
Total borrowings	**34,376**	**33,814**

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

Bank borrowings and bonds
The borrowings as at 31 December 2023 included bank borrowings acquired in 2017, 2020 and bonds issued in 2014, 2015, 2018 and 2021.

Six banks with different shares participated in the total bank borrowings as at 31 December 2023 (six banks as at 31 December 2022).

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

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

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

Bank borrowings denominated in foreign currency represent a constituent of hedge accounting, which represents the hedging instrument for securing foreign exchange risk associated with selected future cash flows resulting from natural gas transmission revenues (cash flow hedge) – Note 33 – Hedging of currency risk, Hedging of interest rate risk.

Bonds issued may be analysed as follows:

	Issue nominal value	Due date	Annual coupon repayment due date	31 December 2023	31 December 2022
					In millions of Czech crowns
Bond EUR, serial no. 2, ISIN XS1090449627**	EUR 160,000,000	28 Jul 2026	Each 28 Jul in arrears	4,003	3,901
Bond EUR, serial no. 4, ISIN XS1172113638**	EUR 50,000,000	28 Jul 2026	Each 28 Jul in arrears	1,249	1,218
Bond CZK, domestic, serial no. 5, ISIN CZ0003519472*	CZK 2,643,000,000	17 Jul 2025	Each 17 Jul in arrears	2,671	2,668
Bond CZK, domestic, serial no. 6, ISIN CZ0003529786*	CZK 4,098,000,000	28 Jan 2028	Each 28 Jan/Jul in arrears	4,230	4,235
Bond CZK domestic, serial no. 7, ISIN CZ0003529794*	CZK 6,900,000,000	28 Jan 2031	Each 28 Jan/Jul in arrears	7,048	7,047
Total bonds				**19,201**	**19,069**

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

Coupon rates of the above-mentioned bonds are in the range of 2.745% – 8.39% p.a. The weighted average interest rate of the Company's bonds in 2023 was 3.50 % for CZK-denominated bonds and 3.43 % for EUR-denominated bonds (3.53% for CZK-denominated bonds and 3.43% for EUR-denominated bonds in 2022). The terms of issue of all the above stated bonds have been approved by the decision of the Central Bank of Ireland (serial no. 2–4) or the Czech National Bank (domestic bond, serial no. 5–7).

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

The fair value of borrowings is disclosed in Note 35.

19. Lease Liability

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

In millions of Czech crowns	Due in 1 year	Due between 1 and 5 years	Due after 5 years	Total
Minimum lease payments at 31 December 2023	553	2,097	16,077	18,727
Less future finance charges	408	1,552	10,069	12,029
Present value of minimum lease payments at 31 December 2023	**145**	**545**	**6,008**	**6,698**
Minimum lease payments at 31 December 2022	469	1,814	14,428	16,711
Less future finance charges	332	1,259	8,295	9,886
Present value of minimum lease payments at 31 December 2022	**137**	**555**	**6,133**	**6,825**

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

Total interest expense on lease liabilities amounted to CZK 416 million in the 2023 reporting period (CZK 336 million in 2022).

The cost of leases of low-value assets was CZK 1 million in the 2023 reporting period (CZK 1 million in 2022).

Costs related to variable lease payments amounted to CZK 0 million in the 2023 reporting period (CZK 1million in 2022).

The Company's total expenditure on leases in 2023 was CZK 553 million (CZK 477 million in 2022).

20. Government and Other Subsidies (Grants)

In 2023 and 2022, the Company did not receive any subsidy.

21. Other Taxes Payable

In millions of Czech crowns	31 December 2023	31 December 2022
Other taxes payable within one year comprise:		
Employee income tax	5	6
Social and health insurance	15	22
Value added tax	5	2
Other taxes payable – current	**25**	**30**

22. Provisions

	2023		2022	
In millions of Czech crowns	Current	Non-current	Current	Non-current
Carrying amount at January 1	**–**	**–**	**10**	**–**
Additions charged to profit or loss	16	–	–	–
Unused amounts reversed	–	–	(10)	–
Amounts used during the year	–	–	–	–
Carrying amount at December 31	**16**	**–**	**–**	**–**

23. Trade and Other Payables

In millions of Czech crowns	31 December 2023	31 December 2022
Trade payables – purchased property, plant and equipment	119	276
Trade payables – other	192	170
Estimated payables – purchased property, plant and equipment	178	573
Estimated payables – other	33	69
Received deposits from customers	148	658
Other financial liabilities	4	2
Total payables within trade and other payables – current	**674**	**1,748**
Other payables	5	13
Total payables within other payables – non-current	**5**	**13**

24. Accrued Employee Benefits

In millions of Czech crowns	31 December 2023	31 December 2022
Employee benefits		
– Salaries and bonuses*	106	119
– Defined contribution costs – retirement compensation	9	11
– Untaken holiday costs	12	15
– Unused leisure-time benefits	–	3
Total employee benefits – current	**127**	**148**

*Salaries and bonuses in 2023 include estimates for extraordinary bonuses in the amount of CZK 16 million (CZK 23 million in 2022)

In millions of Czech crowns	31 December 2023	31 December 2022
Employee benefits – other long-term benefits	124	127
Total employee benefits – non-current	**124**	**127**

25. Other Non-Financial Liabilities

In millions of Czech crowns	31 December 2023	31 December 2022
Received advances for ordered gas transit and gas transport services	30	34
Total other non-financial liabilities – current	**30**	**34**

26. Expenses

In millions of Czech crowns	2023	2022
Raw materials consumed*	112	571
Salaries	*341*	*397*
Statutory and private pension contribution	*181*	*197*
Employee benefits**	522	594
Depreciation and amortisation	2,543	2,497
Gains less losses on disposal of property, plant and equipment	(3)	1
Impairment loss on receivables	108	–
Repairs and maintenance services	*135*	*186*
IT & Telecommunications expenses	*92*	*98*
Consultancy and advisory services	*66*	*69*
Lease charges	*29*	*29*
Marketing	*11*	*20*
Other services	*56*	*58*
Services purchased and lease charges	389	460
Losses / (gains) on derivative financial instruments, net	(127)	(64)
Foreign exchange differences, net	20	1
Other expenses	58	44
Total operating expenses	**3,622**	**4,103**

* Represents mainly consumption of natural gas.
** Excluding costs capitalised as part of the acquisition of fixed assets (2023: CZK 161 million, 2022: CZK 147 million).

27. Other Operating Income

In millions of Czech crowns	2023	2022
Dividend from subsidiary	–	280
Other operating income	44	22
Total other operating income	**44**	**302**

28. Finance Income

In millions of Czech crowns	2023	2022
Financial instruments measured at amortised cost:		
■ Interest income on other financial assets	900	562
■ Foreign Exchange Differences (see Note 32)	1,013	95
Total finance income recognised in profit and loss	**1,913**	**657**

29. Finance Costs

In millions of Czech crowns	2023	2022
Financial instruments measured at amortised cost:		
■ Interest expense – lease	415	336
■ Interest expense – other	2,011	1,679
Financial instruments measured at FVTPL:		
■ Finance costs – release of hedge reserve reported in OCI*	197	2
■ Finance costs – hedging activities	120	143
■ Other finance costs	23	25
Total finance costs recognised in profit or loss	**2,766**	**2,185**

* In May 2017, a USD bank loan (a hedging instrument) was repaid, the hedge reserve reported in OCI remained in equity and it was gradually charged to finance costs (based on the effectiveness tests performed as at the date of initial repayment, until March 2030). On 31 December 2023 the hedge accounting for this transaction was discontinued as the USD revenue hedge is no longer effective as the company has no USD revenue, see Note 32.

30. Income Taxes

(a) Components of income tax expense

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

In millions of Czech crowns	2023	2022
Adjustment in respect of current income tax from prior year	5	(8)
Current income tax payable	–	1,427
Deferred income tax	534	(39)
Income tax expense for the year in the statement of profit and loss	**539**	**1,380**

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

The income tax rate applicable to the majority of the Company's 2023 and 2022 income is 19%. The reconciliation between the expected and the actual tax charge is provided below.

In millions of Czech crowns	2023	2022
Profit before tax	**(1,423)**	**7,623**
Theoretical tax charge at statutory rate of 19%:	–	1,448
Tax effect of items which are not deductible or assessable for income tax purposes:		
– Non-taxable items – Dividend income from subsidiary	–	(53)
– Non-deductible items	534	(7)
Difference between current income tax provision and final current income tax return	5	(8)
Income tax expense for the year	**539**	**1,380**

(b) Deferred taxes analysed by type of temporary difference

Differences between IFRS and tax regulation in the Czech Republic give rise to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. The tax effect of the movements in these temporary differences is detailed below.

In millions of Czech crowns	1 January 2023	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2023
Tax effect of deductible / (taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment except right-of-use (different tax depreciation)	(5,884)	(564)	–	(6,448)
Other liabilities; tax deductible in different periods	56	29	–	85
Provisions for liabilities and charges	–	–	–	–
Cash flow hedges	(396)	(534)	785	(145)
Net deferred tax asset / (liability)	**(6,224)**	**(1,069)**	**785**	**(6,508)**

Management estimates that net deferred tax liabilities of CZK 6,508 million (2022: CZK 6,224 million) are recoverable after more than twelve months after the end of the reporting period.

The tax effects of the movements in the temporary differences for the year ended 31 December 2022 were:

In millions of Czech crowns	1 January 2022	(Charged) / credited to profit or loss	(Charged) / credited to other comprehensive income	31 December 2022
Tax effect of deductible / (taxable) temporary differences				
Difference between tax and accounting carrying amounts of property, plant and equipment (different tax depreciation)	(5,923)	39	–	(5,884)
Other liabilities; tax deductible in different periods	565	–	–	56
Provisions for liabilities and charges	–	–	–	–
Cash flow hedges	(320)	39	(115)	(396)
Net deferred tax asset / (liability)	**(6,187)**	**78**	**(115)**	**(6,224)**

(c) Tax effects on other comprehensive income

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

	31 December 2023			31 December 2022		
In millions of Czech crowns	Before tax	Tax effects	After tax	Before tax	Tax effects	After tax
Cash flow hedge	692	(145)	547	2,084	(396)	1,688
Other comprehensive income for the period	**692**	**(145)**	**547**	**2,084**	**(396)**	**1,688**

31. Contingencies and Commitments

Capital expenditure commitments. As at 31 December 2023, the Company has contractual investment obligations in respect of tangible fixed assets totalling CZK 297 million (31 December 2022: CZK 848 million). The commitments relate predominantly to the Moravia Capacity Extension project and development projects.

Guarantees. The Company did not recognise any obligations from financial guarantees as at 31 December 2023 and 31 December 2022.

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

Compliance with covenants. The Company is subject to certain qualitative covenants related to its borrowings. Non-compliance with such covenants may result in immediate maturity of the debt. The Company was in compliance with covenants at 31 December 2023 and 31 December 2022.

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

Other contingent liabilities. The Company did not recognise any other significant contingent liabilities as at 31 December 2023 and 31 December 2022.

32. Derivative Financial Instruments

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

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

Cash flow hedge (IFRS 7 requirements for disclosures)

- Value of the hedged item used as a basis for recognising hedge ineffectiveness amounts to CZK -967 million as at 31 December 2023 (31 December 2022: CZK 0 million).
- The balance of the cash flow hedge reserve amounts to CZK 692 million (31 December 2022: CZK 1,687 million).
- The balance remaining in the cash flow hedge reserve from hedging relationships for which hedge accounting is no longer applied amounts to CZK 0 million (31 December 2022: CZK 756 million).
- Hedging loss of the reporting period that were recognised in other comprehensive income amount to CZK 1 391 million (31 December 2022: hedging profits CZK 402 million).
- Hedge ineffectiveness recognised in profit or loss amounts to CZK 726 million (31 December 2022: CZK 0 million).

The Company did not have any other derivative financial instruments besides cross-currency interest rate swaps and interest rate swap as at 31 December 2023.

	31 December 2023			
	Current		Non-Current	
In millions of Czech crowns	Contracts with positive fair value	Contracts with negative fair value*	Contracts with positive fair value	Contracts with negative fair value*
Cross-currency interest rate swaps and interest rate swap at fair values for the reporting period:				
EUR/USD swap				
– USD payable on settlement (-)	–	(249)	–	(4,814)
– EUR receivable on settlement (+)	–	136	–	3,983
EUR/CZK swap				
– CZK payable on settlement (-)	–	(38)	–	(1,354)
– EUR receivable on settlement (+)	–	34	–	1,228
CZK interest rate swap				
– CZK payable on settlement (-)	–	–	–	–
– CZK receivable on settlement (+)	275	–	389	–
CZK/USD swap				
– USD payable on settlement (-)	(36)	–	–	(2,106)
– CZK receivable on settlement (+)	116	–	–	2,003
Total USD payable on settlement (-)	(36)	(249)	–	(6,920)
Total EUR receivable on settlement (+)	–	170	–	5,211
Total CZK payable on settlement (-)	391	(38)	389	649
Net fair value of cross-currency interest rate swaps and interest rate swap	**355**	**(117)**	**389**	**(1,060)**

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

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

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

The Company did not have outstanding receivable and payable from foreign exchange swaps as at 31 December 2022.

	31 December 2023		31 December 2022	
In thousands of Czech crowns	Contracts with positive fair value	Contracts with negative fair value	Contracts with positive fair value	Contracts with negative fair value
Foreign exchange forwards and swaps: fair values, as at the reporting period, of				
– USD receivable on settlement (+)	–	–	–	–
– USD payable on settlement (-)	–	–	–	–
– EUR payable on settlement (-)	–	–	–	–
– CZK receivable on settlement (+)	–	–	–	–
Net fair value of foreign exchange forwards and swaps – current	**–**	**–**	**–**	**–**

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

Cross-currency interest rate swaps
The nominal principal amounts of the outstanding cross-currency interest rate swap contracts at 31 December 2023 were EUR 210 million / USD 315 million / CZK 3,477 million (2022: EUR 210 million / USD 315 million / CZK 3,477 million). All cross-currency interest rate swaps have fixed interest rates on both legs. At 31 December 2023, the fixed interest rates vary from 1.652 % to 5.23 % p.a. (as at 31 December 2022: 1.652% to 5.23% p.a.).

The Company designates certain cross-currency interest rate swaps, in combination with bonds denominated in EUR, as a hedging instrument of a foreign exchange risk associated with highly probable forecasted cash flows from an issued bond (cash flow hedge – Note 33, Hedging of currency risk).

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

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

All derivatives are measured at FVTPL.

33. Financial Risk Management

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

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

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

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

The Company's management reviews the ageing analysis of outstanding trade and other receivables and follows up on past due balances. Other relevant information on ageing and other information about credit risk is disclosed in Note 14 and in Note 16.

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

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

Currency risk. The Company's risk management policy is to hedge against foreign currency movements.

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

The offsetting of currency positions is applied where possible. The outstanding positions are managed by means of buying or selling the relevant currency in the form of a short-term derivative forward or swap contract. The Company reports no outstanding foreign exchange swaps and no foreign exchange forwards as at 31 December 2023. The Company reported outstanding foreign exchange swaps and no foreign exchange forwards as at 31 December 2022.

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

In millions of Czech crowns	At 31 December 2023					At 31 December 2022				
	Monetary financial assets	Monetary financial liabilities	Derivatives (assets)	Derivatives (liabilities)	Net position	Monetary financial assets	Monetary financial liabilities	Derivatives (assets)	Derivatives (liabilities)	Net position
US Dollars	2	–	–	7,049	(7,047)	8	–	–	7,125	(7,117)
Euros	45	5,252	5,192	–	(15)	784	5,119	5,064	–	729
Total exposed to currency risk	**47**	**5,252**	**5,192**	**7,049**	**(7,062)**	**792**	**5,119**	**5,064**	**7,125**	**(6,388)**
Czech crowns	9,009	36,079	2,080	1,397	(26,387)	6,278	36,181	2,080	1,397	(29,220)
Total	**9,056**	**41,331**	**7,272**	**8,446**	**(33,449)**	**7,070**	**41,300**	**7,144**	**8,522**	**(35,608)**

As at 31 December 2023 and 2022 the derivatives, i.e. in this case cross-currency interest rate swaps and foreign exchange forwards and swaps, were disclosed in their fair value revaluated to Czech crowns using the foreign exchange rate as at 31 December 2023 and 2022. The fair values are disclosed in Note 35.

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

Hedging of currency risk. The Company decided to introduce two cash-flow hedges to manage the foreign exchange currency risk in revenues in line with the Company risk management policy. The financial instruments designated as hedging instruments are represented by bonds maturing in 2026 denominated in EUR and cross-currency interest rate swaps EUR/USD (Note 18, Note 32). Due to present cessation of USD payments, the relevant part of hedge reserve was released to profit and loss in 2023 (note 32).

In 2015, the Company introduced a third cash-flow hedge. The financial instruments designated as hedging instruments are represented by cross-currency interest rate swap EUR/CZK (Note 18, Note 32). The hedged item is represented by cash flow related to the private placement EUR bond maturing in 2026. Gains and losses recognised in other comprehensive income will be continuously released to profit or loss within finance costs up until 2026 (Note 18, Note 32). There was no ineffectiveness to be recorded from cash flow hedges in 2023 and 2022.

In 2021, the Company introduced a new cash-flow hedge. The financial instruments designated as hedging instruments are represented by committed term loan maturing in 2025 and a cross-currency interest rate swap USD/CZK (Note 18, Note 32). Due to present cessation of USD payments, the relevant part of the hedge reserve was released to profit and loss in 2023 (Note 32).

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

In millions of Czech crowns	Within 1 year	1–3 years	3–5 years	5–10 years	Over 10 years	Total
31 December 2023						
Currency risk exposure:						
Hedging of future cash flows – future receivables USD	–	–	–	–	–	**–**
Hedging of future cash flows – future receivables EUR	–	–	–	–	–	**–**
Hedging of future cash flows – future payables EUR	(35)	(1,305)	–	–	–	**(1,340)**
TOTAL	**(35)**	**(1,305)**	**–**	**–**	**–**	**(1,340)**

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

The amount of reclassified other comprehensive income to revenues during 2023 decreased revenues by CZK 40 million (2022: decreased revenues by CZK 103 million). The amount of reclassified other comprehensive income to finance income during 2023 increased finance income by CZK 817 million (2022: increased finance income by CZK 91 million).

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

	At 31 December 2023		At 31 December 2022	
In millions of Czech crowns	Impact on profit or loss	Impact on equity	Impact on profit or loss	Impact on equity
US Dollar strengthening by 10%	(721)	–	1	(727)
US Dollar weakening by 10%	721	–	(1)	727
Euro strengthening by 10%	416	126	71	520
Euro weakening by 10%	(416)	(126)	(71)	(520)

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

The Company's exposure to currency risk with impact on profit or loss as at 31 December 2023 is influenced by (i) cash balances held in foreign currency, (ii) by existing loans to related parties provided in EUR (Note 13) and (iii) outstanding payables and receivables.

Hedging of interest rate risk. The Company's bank borrowings are contracted at floating interest rates. Some instruments, such as bonds and fix-to-fix cross-currency interest rate swaps, are priced at fixed rates and are exposed to re-pricing risk at maturity. The fair value is (among other factors) also sensitive to interest rates through the discounted cash flow model which is used for the valuation (see Note 35b).

In 2021, the Company introduced additional, fourth, cash-flow hedge. The financial instrument designated as hedging instrument is represented by interest rate swap in CZK currency. The hedged item is represented by cash flow related to the new committed term loan maturing in 2028. Gains and losses recognised in other comprehensive income will be continuously released to profit or loss within finance costs up until 2028 (Note 18, Note 32). There was no ineffectiveness to be recorded from cash flow hedges in 2023.

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

In millions of Czech crowns	On demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
31 December 2023					
Financial assets – floating rate	82	–	–	–	82
Financial assets – fixed rate with re-pricing risk	4,371	4,500	–	–	8,871
Financial liabilities – floating rate	(4,965)	(4,833)	–	–	(9,798)
Financial liabilities – fixed rate with re-pricing risk	(279)	–	(17,425)	(6,874)	(24,578)
Financial liabilities – fixed rate with re-pricing risk– lease	(36)	(109)	(545)	(6,008)	(6,698)
Financial liabilities – interest rate pre-hedging*	–	–	–	–	–
Net interest sensitivity gap at 31 December 2023	**(827)**	**(442)**	**(17,970)**	**(12,882)**	**(32,121)**
31 December 2022					
Financial assets – floating rate	949	–	–	–	949
Financial assets – fixed rate with					
re-pricing risk	5,863	–	–	–	5,863
Financial liabilities – floating rate	(4,548)	(4,806)	–	–	(9,354)
Financial liabilities – fixed rate with re-pricing risk	(174)	(104)	(9,946)	(14,236)	(24,460)
Financial liabilities – fixed rate with re-pricing risk – lease	(35)	(104)	(555)	(6,131)	(6,825)
Financial liabilities – interest rate pre-hedging*	–	–	–	–	–
Net interest sensitivity gap at 31 December 2022	**2,055**	**(5,014)**	**(10,501)**	**(20,367)**	**(33,827)**

* Note 32 – Derivative Financial Instruments

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

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

	At 31 December 2023
In millions of Czech crowns	Impact on profit or loss
1M CZK PRIBOR increase by 25 bps	(2)
1M CZK PRIBOR decrease by 25 bps	2
1M EURIBOR increase by 25 bps	–
1M EURIBOR decrease by 25 bps	–
1M USD LIBOR increase by 25 bps	–
1M USD LIBOR decrease by 25 bps	–

	At 31 December 2022
In millions of Czech crowns	Impact on profit or loss
1M CZK PRIBOR increase by 25 bps	(7)
1M CZK PRIBOR decrease by 25 bps	7
1M EURIBOR increase by 25 bps	2
1M EURIBOR decrease by 25 bps	(2)
1M USD LIBOR increase by 25 bps	–
1M USD LIBOR decrease by 25 bps	–

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

The Company monitors interest rates for its financial instruments. The table below summarises effective interest rates at the respective end of the reporting period based on reports reviewed by key management personnel. Increase in effective interest rates in 2022 is caused by increased base rates:

	31 December 2023			31 December 2022		
In % p.a.	CZK	USD	EUR	CZK	USD	EUR
Assets						
Cash and cash equivalents	1.25	5.18	3.68	0.01	0.00	0.79
Loans to related parties	n/a	n/a	n/a	n/a	n/a	n/a
Liabilities						
Borrowings	4.19	n/a	3.43	4.23	n/a	3.43
Lease liability	6.36	n/a	n/a	7.71	n/a	n/a

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

The Company has such a liquidity position that is able to secure its operating funding needs through the cash collected from the business operations continuously throughout the year. The Company's liquidity portfolio comprises cash and cash equivalents (Note 16) and bank term deposits and deposit bills. Management estimates that the liquidity portfolio can be realised in cash within a few days in order to meet unforeseen liquidity requirements.

The Company does not plan to pay dividends. Management believes that there is no material uncertainty that could affect the going concern principles in 2024.

The tables below show liabilities at 31 December 2023 and 2022 by their remaining contractual maturity. The amounts disclosed in the table below are the contractual undiscounted cash flows and gross loan commitments. Such undiscounted cash flows differ from the amount included in the balance sheet because the balance sheet amount is based on discounted cash flows. Financial derivatives are included in the contractual amounts to be paid or received unless the Company expects to close the derivative position before its maturity date in which case the derivatives are included based on the expected cash flows.

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

The maturity analysis of financial liabilities at 31 December 2023 is as follows:

In millions of Czech crowns	Demand and to 3 months	From 3 months to 12 months	From 12 months to 5 years	Over 5 years	Total
Liabilities					
Bank borrowings, bonds and borrowings from related parties (Note 18)	1,075	1,228	29,622	7,468	39,393
Lease liability (Note 19)	36	109	545	6,008	6,698
Trade and other payables (Note 23)	674	–	5	–	679
Gross settled cross-currency interest rate swaps (Note 32)					
– inflows	(132)	(566)	(8,494)	–	(9,192)
– outflows	31	426	9,521	–	9,978
Total future payments, including future principal and interest payments	**1,684**	**1,197**	**31,199**	**13,476**	**47,556**

The maturity analysis of financial liabilities at 31 December 2022 is as follows:

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

The net current liquidity position calculated as the difference between current assets and current liabilities at 31 December 2023 is a net current receivable of CZK 7,474 million (31 December 2022: a net current receivable of CZK 4,995 million).

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

34. Management of Capital

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

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

In millions of Czech crowns	At 31 December 2023	At 31 December 2022
Equity	17,952	18,154
Non-subordinated borrowings from banks and bonds	33,817	33,682
Non-subordinated short-term borrowings from related parties	559	132
Total	**52,328**	**51,968**

The Company has complied with all covenants arising from the borrowings as at 31 December 2023 and 2022.

35. Fair Value of Financial Instruments

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

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

(b) Financial instruments carried at fair value
Only derivatives are measured at fair value.

All recurring fair value measurements are categorised in the fair value hierarchy into level 2 as at 31 December 2023 and 2022.

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

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2023:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross-currency interest rate swap contracts	(1,097)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Interest rate swap contracts	664	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Currency forward contracts	–	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Total recurring fair value measurements at level 2	**(433)**		

The description of valuation technique and description of inputs used in the fair value measurement for level 2 measurements at 31 December 2022:

In millions of Czech crowns	Fair value	Valuation technique	Inputs used
Derivative financial instruments			
Cross-currency interest rate swap contracts	(1,224)	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Interest rate swap contracts	1,278	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Currency forward contracts	–	Discounted cash flow method	Czech National Bank foreign exchange rates, inter-bank swap rates
Total recurring fair value measurements at level 2	**54**		

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

In millions of Czech crowns	2023	2022
Opening balance	**54**	**(191)**
Change in fair value of contracts concluded and realised during the period	–	–
Settlement of contracts held at the beginning of the period	–	12
Change in unrealised gains or losses for the period included in other comprehensive income for contracts held at the end of the reporting period	(487)	233
Closing balance	**(433)**	**54**

(c) Non-recurring fair value measurements

There are no non-current assets held for sale or other items held for sale with non-recurring fair value measurements as at 31 December 2023 and 31 December 2022.

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

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

	31 December 2023				31 December 2022			
In millions of Czech crowns	Level 1	Level 2	Level 3	Carrying value	Level 1	Level 2	Level 3	Carrying value
ASSETS								
Other financial assets								
– Loans to related parties	–	–	–	–	–	–	–	–
Total ASSETS	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
LIABILITIES								
Borrowings								
– Borrowings from related parties – current – BRAWA	–	–	552	552	–	–	72	72
– Borrowings from related parties – current – NET4GAS Holdings	–	–	7	7	–	–	60	60
– Bank borrowings	–	–	15,301	14,617	–	–	14,678	14,613
– Bonds	3,242	12,534	–	19,201	2,497	8,865	–	19,069
Lease liability								
– Finance lease from BRAWA	–	–	6,439	6,453	–	–	4,766	6,562
TOTAL LIABILITIES	**3,242**	**12,534**	**22,299**	**40,830**	**2,497**	**8,865**	**19,576**	**40,376**

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

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

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

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

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

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

36. Subsequent Events

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

1 March 2024

Andreas Rau
Statutory Director

Radek Benčík
Statutory Director

Deloitte.

INDEPENDENT AUDITOR'S REPORT
To the Partner of
NET4GAS, s.r.o.

Having its registered office at: Na Hřebenech II 1718/8, 140 21 Praha 4 – Nusle

Report on the Audit of the Separate and Consolidated Financial Statements

Opinion

We have audited the accompanying separate financial statements of NET4GAS, s.r.o. (hereinafter also the "Company") prepared on the basis of IFRS Accounting Standards as adopted by the European Union, which comprise the balance sheet as at 31 December 2023, and the statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the separate financial statements, including material accounting policy information.

We have also audited the accompanying consolidated financial statements of NET4GAS, s.r.o. and its subsidiary (the "Group") prepared on the basis of IFRS Accounting Standards as adopted by the European Union., which comprise the consolidated balance sheet as at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion:

- The accompanying separate financial statements give a true and fair view of the financial position of NET4GAS, s.r.o. as at 31 December 2023, and of its financial performance and its cash flows for the year then ended in accordance with IFRS Accounting Standards as adopted by the European Union.
- The accompanying consolidated financial statements give a true and fair view of the consolidated financial position of 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.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application guidelines. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company and the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information in the Consolidated Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Consolidated Annual Report other than the separate or consolidated financial statements and auditor's report thereon. The Statutory Executives are responsible for the other information.

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

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

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate and consolidated financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How it was addressed
Valuation of long-term assets	
We refer to Note 4 of the separate financial statements and Note 4 of the consolidated financial statements. The Company's/Group's revenues come from the transportation of natural gas. In 2023, revenues are significantly impacted by the loss of a major customer, resulting in a significant reduction in transit revenues. Revenues are mainly generated from domestic natural gas transportation within the Czech Republic. NET4GAS Holdings, s.r.o. owns 100% of the Company. On 11 December 2023, ČEPS, a.s., whose sole shareholder is the state, acquired a 100% stake in NET4GAS Holdings s.r.o. The loss of a major customer and a reduction in transit revenues in 2023 indicate a potential impairment of assets, which we consider to be a key audit matter.	We performed the following audit procedures: • Interviews with management and those charged with governance, which focused on the Company's/Group's future plans, their assessment of the current and future gas supply market situation, expectations and alternatives, and the impact on future operations and results of operations; • Assessment of the design and implementation of control procedures in connection with the potential risk of impairment of long-term assets; • Using Deloitte's in-house specialists, we assessed the appropriateness of the methodology, including the key assumptions of the analysis presented by the Company's/Group's management and the analysis prepared by an external reputable firm for the purpose of assessing the value of fixed assets; • Mathematical recalculation of the above analyses; • Assessment of whether the separate and consolidated financial statements include the prescribed disclosures relating to the risk of impairment of the Company's/Group's non-current assets in accordance with IFRS accounting standards as adopted by the European Union.

Responsibilities of the Company's Statutory Executives, Supervisory Board and Audit Committee for the Financial Statements

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

In preparing the separate and consolidated financial statements, the Statutory Executives are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Executives either intend to liquidate the Company or the Group or to cease operations, or have no realistic alternative but to do so.

The Supervisory Board and Audit Committee are responsible for overseeing the Company's and Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

We communicate with the Statutory Executives, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Statutory Executives, the Supervisory Board and the Audit Committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

Appointment of the Auditor and the Period of Engagement

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 18 June 2021 and our uninterrupted engagement has lasted for six years.

Consistence with the Additional Report to the Audit Committee

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 1 March 2024 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

Provision of Non-audit Services

We declare that no prohibited non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertakings and which have not been disclosed in the annual report.

In Prague on 1 March 2024

Audit firm:

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

Statutory auditor:

Václav Loubek
registration no. 2037

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

Financial year 2023

NET4GAS, s.r.o. Consolidated disclosures pursuant to Article 8 Taxonomy Regulation

Financial year 2023

Contents

Article 8 Taxonomy Regulation

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

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

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

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

On 5 January 2023, the Corporate Sustainability Reporting Directive (CSRD) entered into force. This new directive modernises and strengthens the rules concerning the social and environmental information that companies have to report. The CSRD will be effective for the Group from the year 2024.

On 27 June 2023, the Commission adopted a Taxonomy Environmental Delegated Act which amend Regulation (EU) 2020/852 and Common Delegated Regulation (EU) 2021/2139, including a new set of EU Taxonomy criteria for economic activities making a substantial contribution to one or more of the non-climate environmental objectives.

On 18 October 2023, the Commission adopted Directive (EU) 2023/2413 introducing amendments to Directive (EU) 2018/2001, Regulation (EU) 2018/1999 and Directive 98/70/EC as regards the promotion of energy from renewable sources. Directive (EU) 2023/2413 amending Directive (EU) 2018/2001 has not changed the definition of the term "low-carbon gases".

Our activities

Details by economic activity

Eligible, aligned and non-eligible activities in mil. CZK and % of turnover, CapEx and OpEx

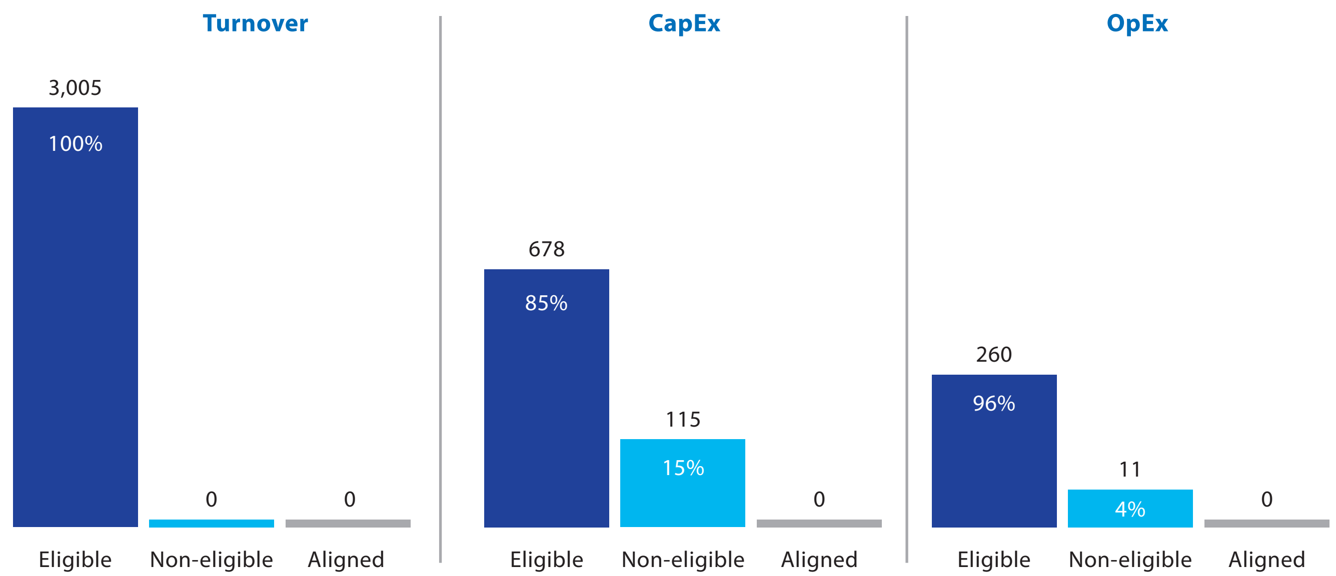


Table 1 – Proportion of Taxonomy-eligible, Taxonomy-aligned and Taxonomy-non-eligible economic activities in total turnover, CapEx and OpEx

	Total (mil. CZK)	Proportion of Taxonomy-eligible economic activities	Proportion of Taxonomy-aligned economic activities	Proportion of Taxonomy-non-eligible economic activities
Turnover	3,005	100%	0%	0%
Capital expenditure (CapEx)	793	85%	0%	15%
Operating expenditure (OpEx)	271	96%	0%	4%

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

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

Definitions

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

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

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

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

Taxonomy-eligible economic activities

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

Table 2 – Taxonomy-eligible economic activities

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

Allocation of turnover, CapEx and OpEx to one environmental objective

The NET4GAS Group is particularly concerned with the objective of climate change mitigation. One of the Group's main targets is to contribute to climate change mitigation in all of its economic activities as well as internal policies and processes. The Group's effort to contribute to climate change mitigation is intermingling with its corporate strategy. All constructions and reconstructions of the pipeline routes are planned to fully enable to transport low-carbon gases and increase the allowable portion of hydrogen in the transported gas mix. The company also increases the effort to purchase green electricity and invest in electric cars for its employees. All described activities have one common target – to mitigate the climate change.

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

Relevant judgement on the Taxonomy-eligibility of our activities

Core business activities and external turnover

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

Activity 4.14

The activity 4.14 in Annex I to the Climate Delegated Act was described as "conversion, repurposing or retrofit of gas networks for the transmission and distribution of renewable and low-carbon gases" and/or "construction or operation of transmission and distribution pipelines dedicated to the transport of hydrogen or other low-carbon gases".

As a transmission system operator for gas, the nature of the substance that we transport is decided by the market. Therefore, we assessed the eligibility of our core economic activity by the capacity of our infrastructure to carry hydrogen and other low-carbon gases, and the development in this area. Our systems are at this moment fully prepared to transport low-carbon gases (i.e. synthetic methane, biomethane, etc.) as per Section 2, Art. (b), Par. 9 of Act No. 458/2000.

As our Group is fully ready to transport low-carbon gases, we concluded that our core activity is eligible according to the Taxonomy. Our main point of view is that NET4GAS provides all the necessary potential for the market to enhance utilization of low-carbon gases. Most of our capital expenditures are aimed to enhance the potential to transmit low-carbon gases and hydrogen.

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

Taxonomy-aligned economic activities to be assessed

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

Table 3 – Taxonomy-aligned economic activities to be assessed

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

Relevant judgement on the Taxonomy-alignment of our activities

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

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

Technical screening criteria

For activity 4.14 the technical screening criteria were as follows:

1. The activity consists of one of the following:
   a) Construction or operation of new transmission and distribution networks dedicated to hydrogen or other low-carbon gases;
   b) Conversion/repurposing of existing natural gas networks to 100% hydrogen;
   c) Retrofit of gas transmission and distribution networks that enables the integration of hydrogen and other low-carbon gases in the network, including any gas transmission or distribution network activity that enables the increase of the blend of hydrogen or other low-carbon gases in in the gas system;

2. The activity includes leak detection and repair of existing gas pipelines and other network elements to reduce methane leakage.

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

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

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

Do no significant harm (‚DNSH') principle
We assessed compliance with the individual DNSH principles as follows:

1. Climate change adaptation
NET4GAS as a critical infrastructure operator carefully monitors physical risks related to actual climate hazards. Regular monitoring and evaluations ensure that any potential impact is proactively addressed, and potential risks are being diminished. The scenario based analysis however has not been implemented yet, considering the nature of our core assets with very low vulnerability to physical risks in general.

2. Sustainable use and protection of water and marine resources
The assessment of the sustainable use and protection of water resources is performed within the framework of new investment actions.

3. Transition to circular economy
This principle is not applicable to the Group within activity 4.14.

4. Pollution prevention and control
Due to the nature of the business and significant investments in the past, NET4GAS cannot provide evidence retrospectively, but NET4GAS reflects this in new investment actions.

5. Protection and restoration of biodiversity and ecosystems
The assessment of the protection of biodiversity is performed within the framework of new investment actions.

Minimum safeguards assessment
The Group is confident about compliance with the minimum safeguards as the Group is fully compliant with relevant European and Czech national legislation and very often goes beyond the legal requirements.

Human rights
The Group aims to respect human rights, as set out in the UN's Universal Declaration of Human Rights and the International Labor Organization's core conventions. Therefore, human and labor rights are thoroughly upheld, trade unions are established, and a collective agreement is in place that defines employees' working and social conditions, as well as benefits beyond the standards of the labor code.

The commitment to the UN Social Development Goals (SDGs) is proven by the overview of initiatives, which are inspired by the UN Social Development Goals:

SDG 5 Gender equality: Achieve gender equality and empower all women and girls.
– NET4GAS treats all genders equally, providing them with the same opportunities to develop to their potential.

SDG 4 Quality education: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
– Operational excellence, one of NET4GAS's strategic pillars, would not be possible without quality education, which is why NET4GAS pays special attention to the training of its employees. The training follows legal obligations in the spheres of the company's undertaking and goes beyond what is mandated by the law, including management, language, and soft skills. Peer-to-peer format trainings, in which employees offer expertise to each other, are also developed. The trainings greatly focus on safety.

Respecting human rights
The anti-discrimination principle is one of the NET4GAS core values embedded in both internal and external relations rules:
– Given the fact that the Group is operating the gas transmission system in the Czech Republic, most employees are of Czech nationality. However, the company also maintains an open-door policy for employees of foreign nationality, and currently employs several of these.
– Any vacancy within the company is assessed for suitability to individuals with disabilities and advertised accordingly.

Bribery / corruption
At NET4GAS, there is no room for bribery or corruption. Beyond full compliance with local and international anti-corruption law, the Company has integrated a concrete approach into its Ethical Code of Conduct and Fraud Prevention Policy. These are publicly available in order to provide transparency and gain relevant feedback on this matter. The ultimate fight against and prevention of corruption are predominantly ensured by straightforward procedures, as well as compliance with laws and regulations. Any violations of the Code of Conduct or Fraud Prevention Policy can be reported confidentially to the compliance officer for ethical affairs or ombudsman by the Company's employees or contractors, or any third parties. The position of the ombudsman is carefully selected and performed by a reputable law firm.

Fair competition
NET4GAS is of the opinion that businesses, institutions and communities should work together to identify sustainable solutions and drive positive change. NET4GAS takes an active part in collaboration with all stakeholder groups in order to define and achieve shared outcomes. In doing so, NET4GAS benefits from keeping high levels of professionalism and expertise, cooperation among its departments, continuous improvement of processes and the intermediate training of the employees.

Shareholders
NET4GAS communicates regularly with shareholders to understand their expectations of sustainability, which enables them to make informed decisions.

Customers
Feedback from customers drives the improvement of services and products. Such feedback is secured through direct dialogues, email correspondence and surveys. Active and transparent communication are critical to sustaining a modern and relevant portfolio of products and services.

Business partners
NET4GAS works alongside its business partners, neighbouring transmission system operators, domestic distribution and storage system operators to secure reliable and optimal operation of the gas transmission system.

Authorities
NET4GAS owns, operates and further develops critical energy infrastructure in the Czech Republic. And as its business is fully regulated, constructive dialogue and cooperation with all relevant national authorities, in particular the Energy Regulatory

Office and the Ministry of Industry and Trade, is of vital importance. In addition, as the sector regulation and climate policy are more and more governed by EU decisions, NET4GAS is actively engaged in the relevant discussions at the EU level, mainly through its representation at ENTSOG and GIE.

Suppliers
The company pays careful attention to the selection of its suppliers. It regularly communicates with key suppliers about business development and holds evaluation meetings on the implementation and compliance of ESG principles, focusing in particular on the issues of health, safety, security and environment.

Taxonomy-non-eligible economic activities

Aside from the operation and construction of transmission systems, NET4GAS Group offers only a few other services on a very limited scale and maintenance/repairs services to other TSOs. NET4GAS also invests in back-office improvement. Due to their nature, we consider none of these activities as Taxonomy-eligible.

Our KPIs and accounting policies

The key performance indicators ("KPIs") include the turnover KPI, the CapEx KPI and the OpEx KPI. For the reporting period 2023, the KPIs have to be disclosed in relation to both Taxonomy-eligible and Taxonomy-aligned economic activities as well as Taxonomy-non-eligible economic activities (Art. 10 (2) of the Art. 8 Delegated Act). On the basis that climate risk analysis has not been implemented, we do not assess the level of alignment.

Taxonomy-eligible and Taxonomy-aligned CapEx and OpEx

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

Process for data collection and validation

In order to report information on Taxonomy-eligible and Taxonomy-aligned economic activities in 2023, the NET4GAS Group has:
- reviewed the Group's business activities and pre-identified the activities that could be eligible;
- performed a detailed analysis of the individual Taxonomy-eligible and Taxonomy-aligned economic activities;
- carried out training sessions for the Taxonomy methodology;
- set up a multidisciplinary team in charge of supporting and answering questions; and
- consulted with external experts and peers to ensure a correct and consistent interpretation of the legal requirements.

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

Turnover KPI

Definition

ELIGIBLE

The proportion of Taxonomy-eligible economic activities in our total turnover has been calculated as the part of net turnover derived from products and services associated with Taxonomy-eligible economic activities (numerator) divided by the net turnover (denominator), in each case for the financial year from 1/1/2023 to 31/12/2023.

The denominator of the turnover KPI is based on our consolidated net turnover in accordance with IAS 1.82(a). For further details on our accounting policies regarding our consolidated net turnover, cf. the Annual Report 2023, Annex no.1 Consolidated Financial Statements.

The numerator of the turnover KPI is defined as the net turnover derived from products and services associated with Taxonomy-eligible economic activities, i.e.
- Activity 4.14 "Transmission and distribution networks for renewable and low-carbon gases generates net turnover from the sale of our gas transmission services.

Reconciliation
Our consolidated net turnover can be reconciled to our consolidated financial statements, in our Annual Report 2023 Annex no. 1 Consolidated Financial Statements, in the P&L Statement, Revenue.

Contribution to multiple objectives
The Group's strategy and all KPIs target on climate change mitigation goal.

Contextual information
Contextual information about turnover KPI for non-financial undertakings is published in our Annual report 2023, Annex no.1 Consolidated Financial Statements, Note 6 – Segment information.

A quantitative breakdown of the numerator in order to illustrate the key drivers of the turnover KPI consists of Gas Transit & Transmission in the amount of 3,005 mil. CZK.

CapEx KPI

Definition

ELIGIBLE

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

Total CapEx consists of additions to tangible and intangible fixed assets during the financial year, before depreciation, amortization and any re-measurements, including those resulting from revaluations and impairments, as well as excluding changes in fair value. It includes acquisitions of tangible fixed assets (IAS 16), intangible fixed assets (IAS 38), right-of-use assets (IFRS 16) and investment properties (IAS 40). Additions resulting from business combinations are also included. For further details on our accounting policies regarding our CapEx, cf. the Annual Report 2023, Annex no.1 Consolidated Financial Statements, Note 8 – Property, Plant and Equipment and Note 9 – Intangible assets.

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

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

Consequently, the CapEx invested into the 4.14 activity areas is considered in the numerator of the CapEx KPI in the amount of 678 mil. CZK.

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

Reconciliation

Our total CapEx can be reconciled to our consolidated financial statements, cf. the Annual Report 2023, Annex no.1 Consolidated Financial Statements, Note 8 – Property, Plant and Equipment and Note 9 – Intangible assets.

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

Contribution to multiple objectives

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

OpEx KPI

Definition

ELIGIBLE

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

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

- The volume of non-capitalised leases was determined in accordance with IFRS 16 and includes expenses for short-term leases and low-value leases (cf. Annual Report 2023, Annex no.1 Consolidated Financial Statements, Note 18 – Finance Lease Liability).
- Maintenance and repair and other direct expenditures relating to the day-to-day servicing of assets of property, plant and equipment were determined based on the maintenance and repair costs allocated to our internal cost centres. The related cost items can be found in various line items in our income statement, including Raw materials consumed, Services purchased and Employee benefits.
- In general, this includes staff costs, costs for services, and material costs for daily servicing as well as for regular and unplanned maintenance and repair measures. This does not include expenditures relating to the day-to-day operation of PP&E such as: raw materials, cost of employees operating the pipeline network, overheads employees, electricity or fluids that are necessary to operate the gas transmission.

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

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

Proportion of OpEx from services associated with Taxonomy-eligible economic activities is 260 mil. CZK for 2023.

Contribution to multiple objectives

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

Proportion of turnover from products or services associated with Taxonomy-aligned economic activities – disclosure covering 2023

Financial year 2023	Year			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activities (1)	Code(a) (2)	Turnover (3)	Proportion of Turnover, year 2023 (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water (7)	Pollution (8)	Circular economy (9)	Biodiversity (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water (13)	Pollution (14)	Circular economy (15)	Biodiversity (16)	Minimum safeguards (17)	Proportino of Taxonomy-aligned (A.1.) or eligible (A.2.) Turnover, year 2022 (18)	Category enabling activity (19)	Category transitional activity (20)
		mil. CZK	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
4.14 Transmission and distribution networks for renewable and low-carbon gases	CCM 4.14	0	0%														0%		
Turnover of environmentally sustainable activities (Taxonomy-aligned) (A.1)		**0**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**								**0%**		
Of which Enabling		0%	0%														0%		
Of which Transitional		0%	0%														0%		
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
4.14 Transmission and distribution networks for renewable and low-carbon gases	CCM 4.14	3 005	100%	EL													100%		
Turnover of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		3 005	100%	%	%	%	%	%	%								100%		
A. Turnover of Taxonomy eligible activities (A.1+A.2)		3 005	100%	%	%	%	%	%	%								100%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
Turnover of Taxonomy-non-eligible activities		0	0%																
Total		**3 005**	**100%**																

Proportion of CapEx from products or services associated with Taxonomy-aligned economic activities – disclosure covering 2023

Financial year 2023	Year			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activities (1)	Code(a) (2)	CapEx (3)	Proportion of CapEx, year 2023 (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water (7)	Pollution (8)	Circular economy (9)	Biodiversity (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water (13)	Pollution (14)	Circular economy (15)	Biodiversity (16)	Minimum safeguards (17)	Proportino of Taxonomy-aligned (A.1.) or eligible (A.2.) CapEx, year 2022 (18)	Category enabling activity (19)	Category transitional activity (20)
		mil. CZK	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
4.14 Transmission and distribution networks for renewable and low-carbon gases	CCM 4.14	0	0%														0%		
CapEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		**0**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**								**0%**		
Of which Enabling		0%	0%														0%		
Of which Transitional		0%	0%														0%		
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
4.14 Transmission and distribution networks for renewable and low-carbon gases	CCM 4.14	678	85%	EL													96%		
CapEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		678	85%	%	%	%	%	%	%								96%		
A. CapEx of Taxonomy eligible activities (A.1+A.2)		678	85%	%	%	%	%	%	%								96%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
CapEx of Taxonomy-non-eligible activities		115	15%																
Total		**793**	**100%**																

Proportion of OpEx from products or services associated with Taxonomy-aligned economic activities – disclosure covering 2023

Financial year 2023	Year			Substantial contribution criteria						DNSH criteria ('Does Not Significantly Harm')									
Economic activities (1)	Code(a) (2)	OpEx (3)	Proportion of OpEx, year 2023 (4)	Climate change mitigation (5)	Climate change adaptation (6)	Water (7)	Pollution (8)	Circular economy (9)	Biodiversity (10)	Climate change mitigation (11)	Climate change adaptation (12)	Water (13)	Pollution (14)	Circular economy (15)	Biodiversity (16)	Minimum safeguards (17)	Proportino of Taxonomy-aligned (A.1.) or eligible (A.2.) OpEx, year 2022 (18)	Category enabling activity (19)	Category transitional activity (20)
		mil. CZK	%	%	%	%	%	%	%	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Y/N	Percent	E	T
A. TAXONOMY-ELIGIBLE ACTIVITIES																			
A.1. Environmentally sustainable activities (Taxonomy-aligned)																			
4.14 Transmission and distribution networks for renewable and low-carbon gases	CCM 4.14	0	0%														0%		
OpEx of environmentally sustainable activities (Taxonomy-aligned) (A.1)		**0**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**	**0%**								**0%**		
Of which Enabling		0%	0%														0%		
Of which Transitional		0%	0%														0%		
A.2 Taxonomy-Eligible but not environmentally sustainable activities (not Taxonomy-aligned activities)																			
4.14 Transmission and distribution networks for renewable and low-carbon gases	CCM 4.14	260	96%	EL													93%		
OpEx of Taxonomy-eligible but not environmentally sustainable activities (not Taxonomy-aligned activities) (A.2)		260	96%	%	%	%	%	%	%								93%		
A. OpEx of Taxonomy eligible activities (A.1+A.2)		260	96%	%	%	%	%	%	%								93%		
B. TAXONOMY-NON-ELIGIBLE ACTIVITIES																			
OpEx of Taxonomy-non-eligible activities		11	4%																
Total		**271**	**100%**																

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