

Moravia Gas Storage a.s.

ANNUAL REPORT

2020

I. Text part

1. Information about the Company

Moravia Gas Storage a.s. („the Company”) was established on 5 December 2008 and was incorporated in the Commercial Register on 19 December 2008 and is registered in the Commercial Register maintained by the Regional Court in Brno under file number B 5870.

2. Company activities

On 1 July 2016, the Company put into operation one of the largest and most modern underground gas storage facilities in the Czech Republic, built on a partially mined oil deposit in Dambořice.

In 2020, the Company operated an underground gas storage facility and provided gas storage services under an energy license.

In its activities, the Company complies with the principles of environmental protection and labour regulations.

The Company does not engage in research and development activities and has no organizational unit abroad.

3. Financial management of the Company in 2020

The Company reported a loss of CZK 32,031 thousand for the year ended 31 December 2020. As at 31 December 2020, the Company's equity amounted to CZK 702,797 thousand.

4. Operation of Dambořice's underground gas storage facility

Dambořice underground gas storage (UGS) was put into operation on 1 July 2016. Planned maximum storage capacity is 448 million m³.

The gas storage is equipped with state-of-the-art technology that enables its high flexibility in injection and recovery of gas.

The gas storage facility successfully completed the storage season 2019/2020, it was possible to use the gas storage capacity of 370 million m³.

5. Activities in the field of environmental protection and occupational safety

In 2017, the Company was certified to ISO 14 001 and OHSAS 18001 standards, completing the process of implementing the integrated management system for quality, safety and environmental protection, which the Company started in 2016.

The introduction of the certified management system ISO 14 001 and OHSAS 18001 has led to an increase in the overall awareness of employees regarding environmental protection, occupational safety and process safety.

In 2020, the Company fulfilled its obligation to perform its activities to the maximum satisfaction of its customers, while respecting the requirements of safety and health protection, the environment and the prevention of major accidents.

6. Human resources

The Company had 25 employees at the end of 2020.

The Company supports employee education and provides quality facilities for personal and professional development of each individual employee. As part of employee care, the Company focuses on creating a quality work environment with a wide range of employee benefits.

7. Acquisition of own shares, branches abroad

The company did not acquire any own shares in 2020. In 2020, the Company did not have a branch or other part of the business plant located abroad.

8. Overview of the development of the Company in the following period

The Company will continue its work within the start-up period of the Dambořice UGS facility with the aim of achieving the planned storage capacity of 448 million m³, a daily production capacity of 7.5 million m³ and a daily injection capacity of 4.5 million m³.

The Company will maintain and optimize its customers portfolio in the oncoming period and will offer commercial products through its website.

9. Subsequent events

No other events have occurred subsequent to the balance sheet date that would have a material impact on the financial statements as at 31 December 2020.

Hodonín, 30 March 2021



Sergey Tregub
Member of the Board of Directors category A



Mgr. Slavomír Halla, Ph.D.
Member of the Board of Directors category B

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II. Report on the Company's business activities and the state of its assets

Moravia Gas Storage a.s. („the Company”) was established as a project company for the purpose of realization of plans in the field of natural gas storage.

Following the commissioning of the Dambořice underground gas storage in 2016, the Company continued to provide gas storage services under an energy license in 2020.

1. Financial results and assets state

The Company's loss for the year ended 31 December 2020 amounted to CZK 32,031 thousand. As at 31 December 2020, the Company's total assets amounted to CZK 3,337,500 thousand and total equity amounted to CZK 702,797 thousand.

2. Outlook of the Company in the following period

The Company will operate the underground gas storage Dambořice and provide gas storage services under an energy license. Also in the subsequent period, work will continue within the start-up period of Dambořice UGS with the aim of achieving the planned operational characteristics (daily output and storage capacity) of Dambořice UGS.

Hodonín, 30 March 2021



Sergey Tregub
Member of the Board of Directors category A



Mgr. Slavomír Halla, Ph.D.
Member of the Board of Directors category B

III. Financial Statements as at 31 December 2020



Moravia Gas Storage a.s.

Financial statements

31 December 2020

Company name: Moravia Gas Storage a.s.
 Identification number: 285 06 065
 Legal form: akciová společnost
 Primary business: uskladňování plynu
 Balance sheet date: 31 December 2020
 Date of preparation of the financial statements: 30 March 2021

BALANCE SHEET

(in thousand Czech crowns)

Ref. a	ASSETS b	Row c	31.12.2020			31.12.2019
			Gross 1	Provision 2	Net 3	Net 4
	TOTAL ASSETS	001	3 944 767	(607 267)	3 337 500	3 115 179
B.	Fixed assets	003	3 712 917	(607 267)	3 105 650	2 983 737
B. I.	Intangible fixed assets	004	1 008	(412)	596	363
B. I. 2.	Royalties	006	453	(140)	313	363
B. I. 2. 1.	Software	007	75	(27)	48	73
B. I. 2. 2.	Other royalties	008	378	(113)	265	290
B. I. 4.	Other intangible fixed assets	010	555	(272)	283	-
B. II.	Tangible fixed assets	014	3 711 909	(606 855)	3 105 054	2 983 374
B. II. 1.	Land and constructions	015	1 717 249	(279 534)	1 437 715	1 446 069
B. II. 1. 1.	Land	016	172 517	-	172 517	172 517
B. II. 1. 2.	Constructions	017	1 544 732	(279 534)	1 265 198	1 273 552
B. II. 2.	Equipment	018	1 480 592	(327 131)	1 153 461	1 201 795
B. II. 4.	Other tangible fixed assets	020	3 538	(190)	3 348	3 389
B. II. 4. 3.	Tangible fixed assets - other	023	3 538	(190)	3 348	3 389
B. II. 5.	Advances paid and tangible fixed assets in the course of construction	024	510 530	-	510 530	332 121
B. II. 5. 1.	Advances paid for tangible fixed assets	025	197 224	-	197 224	164 036
B. II. 5. 2.	Tangible fixed assets in the course of construction	026	313 306	-	313 306	168 085
C.	Current assets	037	229 797	-	229 797	128 109
C. I.	Inventories	038	20 947	-	20 947	10 324
C. I. 1.	Raw materials	039	20 947	-	20 947	10 324
C. II.	Receivables	046	59 713	-	59 713	42 964
C. II. 1.	Long-term receivables	047	16 479	-	16 479	2 399
C. II. 1. 4.	Deferred tax asset	051	10 548	-	10 548	2 112
C. II. 1. 5.	Receivables - other	052	5 931	-	5 931	287
C. II. 1. 5. 2.	Long-term advances paid	054	5 931	-	5 931	287
C. II. 2.	Short-term receivables	057	43 234	-	43 234	40 565
C. II. 2. 1.	Trade receivables	058	41 844	-	41 844	31 720
C. II. 2. 4.	Receivables - other	061	1 390	-	1 390	8 845
C. II. 2. 4. 3.	Taxes - receivables from the state	064	-	-	-	6 123
C. II. 2. 4. 4.	Short-term advances paid	065	427	-	427	226
C. II. 2. 4. 5.	Estimated receivables	066	957	-	957	2 486
C. II. 2. 4. 6.	Other receivables	067	6	-	6	10
C. IV.	Cash	075	149 137	-	149 137	74 821
C. IV. 1.	Cash in hand	076	104	-	104	121
C. IV. 2.	Cash at bank	077	149 033	-	149 033	74 700
D.	Prepayments and accrued income	078	2 053	-	2 053	3 333
D. 1.	Prepaid expenses	079	2 053	-	2 053	3 333

Ref. a	LIABILITIES AND EQUITY b	Row c	31.12.2020	31.12.2019
			s	6
	TOTAL LIABILITIES AND EQUITY	082	3 337 500	3 115 179
A.	Equity	083	702 797	741 098
A. I.	Share capital	084	2 000	2 000
A. I. 1.	Share capital	085	2 000	2 000
A. II.	Share premium and capital contributions	088	339 769	346 039
A. II. 2.	Capital contributions	090	339 769	346 039
A. II. 2. 1.	Other capital contributions	091	409 843	409 843
A. II. 2. 2.	Assets and liabilities revaluation	092	(70 074)	(63 804)
A. III.	Other reserves	096	400	400
A. III. 1.	Other reserve funds	097	400	400
A. IV.	Retained earnings / Accumulated losses	099	392 659	396 095
A. IV. 1.	Retained earnings or accumulated losses (+/-)	100	392 659	285 031
A. IV. 2.	Restatements of retained earnings	101	-	111 064
A. V.	Profit / (loss) for the current period	102	(32 031)	(3 436)
B. + C.	Liabilities	104	2 634 663	2 374 081
B.	Provisions	105	20 288	15 669
B. 3.	Tax-deductible provisions	108	8 508	8 460
B. 4.	Other provisions	109	11 780	7 209
C.	Payables	110	2 614 375	2 358 412
C. I.	Long-term payables	111	2 413 108	2 288 717
C. I. 2.	Liabilities due to financial institutions	115	2 347 772	2 223 400
C. I. 4.	Trade payables	117	-	3 987
C. I. 9.	Liabilities - other	122	65 336	61 330
C. I. 9. 3.	Other liabilities	125	65 336	61 330
C. II.	Short-term payables	126	201 267	69 695
C. II. 2.	Liabilities due to financial institutions	130	124 533	-
C. II. 4.	Trade payables	132	48 256	45 245
C. II. 8.	Liabilities - other	136	28 478	24 450
C. II. 8. 3.	Liabilities to employees	139	2 297	2 165
C. II. 8. 4.	Liabilities for social security and health insurance	140	831	819
C. II. 8. 5.	Taxes and state subsidies payable	141	687	491
C. II. 8. 6.	Estimated payables	142	3 360	3 507
C. II. 8. 7.	Other liabilities	143	21 303	17 468
D.	Accruals and deferred income	147	40	-
D. 1.	Accrued expenses	148	40	-

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INCOME STATEMENT

(in thousand Czech crowns)

Ref. a	TEXT b	Row c	Accounting period	
			2020	2019
			1	2
I.	Sales of products and services	01	440 816	347 415
A.	Cost of sales	03	122 903	125 299
A. 2.	Raw materials and consumables used	05	10 075	15 846
A. 3.	Services	06	112 828	109 453
C.	Own work capitalised	08	(1 996)	(2 000)
D.	Staff costs	09	54 017	53 433
D. 1.	Wages and salaries	10	42 830	42 104
D. 2.	Social security, health insurance and other social costs	11	11 187	11 329
D. 2. 1.	Social security and health insurance costs	12	10 399	10 432
D. 2. 2.	Other social costs	13	788	897
E.	Value adjustments in operating activities	14	138 797	133 207
E. 1.	Value adjustments of fixed assets	15	138 797	133 207
E. 1. 1.	Depreciation, amortisation and write off of fixed assets	16	138 797	133 207
III.	Operating income - other	20	264	1 090
III. 1.	Sales of fixed assets	21	190	4
III. 2.	Sales of raw materials	22	76	-
III. 3.	Other operating income	23	(2)	1 086
F.	Operating expenses - other	24	12 511	3 285
F. 3.	Taxes and charges from operating activities	27	327	344
F. 4.	Operating provisions and complex prepaid expenses	28	4 619	(2 584)
F. 5.	Other operating expenses	29	7 565	5 525
*	Operating result	30	114 848	35 281
J.	Interest and similar expenses	43	81 819	78 198
J. 2.	Other interest and similar expenses	45	81 819	78 198
VII.	Other financial income	46	-	26 801
K.	Other financial expenses	47	72 025	8 315
*	Financial result	48	(153 844)	(59 712)
**	Net profit / (loss) before tax	49	(38 996)	(24 431)
L.	Tax on profit or loss	50	(6 965)	(20 995)
L. 2.	Tax on profit or loss - deferred	52	(6 965)	(20 995)
**	Net profit / (loss) after tax	53	(32 031)	(3 436)
***	Net profit / (loss) for the financial period	55	(32 031)	(3 436)
	Net turnover for the financial period	56	441 080	375 306

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STATEMENT OF CASH FLOWS

(in thousand Czech crowns)

Ref. a	TEXT b	Accounting period	
		2020	2019
		1	2
	Cash flows from operating activities		
	Net profit / (loss) before tax	(38 996)	(24 431)
A. 1.	Adjustments for non-cash movements:	298 108	181 252
A. 1. 1.	Depreciation and amortisation of fixed assets	138 797	133 207
A. 1. 2.	Change in provisions	4 619	(2 583)
A. 1. 3.	(Profit)/loss from disposal of fixed assets	(190)	(4)
A. 1. 5.	Net interest expense/(income)	81 819	78 198
A. 1. 6.	Other non-cash movements	73 063	(27 566)
A *	Net cash flow from operating activities before tax and changes in working capital	259 112	156 821
A. 2.	Working capital changes:	16 568	(20 766)
A. 2. 1.	Change in receivables and prepayments	(7 033)	(7 780)
A. 2. 2.	Change in short-term payables and accruals	34 224	(9 078)
A. 2. 3.	Change in inventories	(10 623)	(3 908)
A **	Net cash flow from operating activities before tax	275 680	136 055
A. 3.	Interest paid	(81 819)	(78 198)
A ***	Net cash flow from operating activities	193 861	57 857
B. 1.	Acquisition of fixed assets	(291 590)	(281 865)
B. 2.	Proceeds from sale of fixed assets	190	4
B ***	Net cash flow from investing activities	(291 400)	(281 861)
C. 1.	Change in long- and short-term liabilities	171 855	3 987
C. 2.	Changes in equity:	-	83 387
C. 2. 1.	Cash inflow from the increase of share capital	-	83 387
C ***	Net cash flow from financing activities	171 855	87 374
	Net increase/(decrease) in cash and cash equivalents	74 316	(136 630)
	Cash and cash equivalents at the beginning of the year	74 821	211 451
	Cash and cash equivalents at the end of the year	149 137	74 821

Company name: Moravia Gas Storage a.s.

Identification number: 285 06 065

Legal form: akciová společnost

Primary business: uskladňování plynu

Balance sheet date: 31 December 2020

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STATEMENT OF CHANGES IN EQUITY

(in thousand Czech crowns)

	Share capital	Other capital funds	Property revaluation reserve (+/-)	Other reserve funds	Retained earnings	Restatement of retain earnings	Total
As at 1 January 2019	2 000	326 456	(39 650)	400	306 615	89 482	685 303
Fair value gains/(losses)							
- Financial derivatives	-	-	(24 154)	-	-	-	(24 154)
Allocation to funds	-	83 387	-	-	-	-	83 387
Net profit/(loss) for the current period	-	-	-	-	(3 436)	-	(3 436)
Úprava chyb minulých let	-	-	-	-	(21 584)	21 584	-
Zaokrouhlení	-	-	-	-	-	(2)	(2)
As at 31 December 2019	2 000	409 843	(63 804)	400	281 595	111 064	741 098
Fair value gains/(losses)							
- Financial derivatives	-	-	(6 270)	-	-	-	(6 270)
Net profit/(loss) for the current period	-	-	-	-	(32 031)	-	(32 031)
Restatement of retain earnings	-	-	-	-	111 064	(111 064)	-
As at 31 December 2020	2 000	409 843	(70 074)	400	360 628	-	702 797

1. General information

1.1. Introductory information about the Company

Moravia Gas Storage a.s. ("the Company") was incorporated on 19 December 2008 by the Municipal Court in Brno, Section B, Insert 5870 and has its registered office at Úprkova 807/6, Hodonín. The Company's primary business activities is provision of gas storage services based on energy license.

The Company is not a shareholder with unlimited liability in any undertaking.

The existence of the coronavirus causing the COVID-19 disease was confirmed in early 2020 and has spread globally. The pandemic and especially the restrictive measures taken in order to mitigate the health impacts have caused disruptions to businesses and economic activities. In connection with the above, the Company adopted a Directive which addresses the preparation of the workplace for infectious diseases and further assessed the risks in relation to office work. Employees were provided by the Company with the opportunity to work from home, the so-called home-office. The pandemic itself and the restrictive measures taken did not affect the scope and quality of the storage services provided by the Company.

2. Accounting policies

2.1. Basis of preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic relevant for medium sized companies and have been prepared under the historical cost convention except as disclosed below.

Management has considered the impact of the novel coronavirus causing the COVID-19 disease when assessing the valuation of assets and liabilities and going concern assumptions.

2.2. Tangible and intangible fixed assets

All intangible (and tangible) assets with a useful life longer than one year and a unit cost of more than CZK 60 thousand (CZK 40 thousand) are treated as intangible (and tangible) fixed assets.

Purchased intangible and tangible fixed assets are initially recorded at cost, which includes all costs related to their acquisition.

Intangible and tangible fixed assets are amortised/depreciated applying the straight-line method over their estimated useful lives. The amortisation / depreciation plan is updated during the useful life of the intangible and tangible fixed assets in the case of change of expected useful life.

A provision for impairment is created when the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by this asset.

Repairs and maintenance expenditures for tangible fixed assets are expensed as incurred. Technical improvements of intangible and tangible fixed assets are capitalised.

The fixed assets also include a special construction - an underground gas storage facility. It is an underground space used for the storage of natural gas, but it does not need to be reproduced, therefore it is not depreciated. The gas storage facility is recognised as part of the land.

2.3. Inventories

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 first-in-first-out method is applied for all disposals except for losses of process gas stocks where the Company uses weighted average methods.

2.4. Receivables

Receivables are stated at nominal value less a provision for doubtful amounts. A provision for doubtful amounts is created on the basis of an ageing analysis and an individual evaluation of the credit worthiness of the customers. Receivables from related parties have not been provided for.

2.5. Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the fixed exchange rate determined by the Company for the first working day of month.

Cash, receivables and liabilities balances denominated in foreign currencies have been translated at the exchange rate published by the Czech National Bank as at the balance sheet date. All exchange gains and losses on cash, receivables and liabilities balances are recorded in the income statement and presented net.

The Company treats advances paid for the acquisition of fixed assets or inventories as part of these assets and therefore these assets are not translated as at the balance sheet date because related future cash flows are not subject to foreign exchange rate risk.

2.6. Changes in accounting policies and corrections of prior-period errors

Changes to accounting policies (inclusive of deferred tax impact) and corrections of errors arising from incorrect accounting or unrecorded expenses and income in prior periods, if material, are recorded in the financial statements on the line Restatements of retained earnings.

2.7. Derivative financial instruments

Derivative financial instruments including currency forwards, forward rate agreements, currency and interest rate swaps, currency and interest rate options and other derivative financial instruments are initially recognised on the balance sheet at cost and are subsequently re-measured at their fair value. All derivatives are presented in other receivables when the fair value is positive or in other payables when their fair value is negative. Derivatives embedded in other financial instruments are not recognised separately.

The Company designates certain derivatives prospectively as either a hedge of the fair value of a recognised asset or liability (fair value hedge), or a hedge of future cash flows attributable to a recognised asset or liability or a forecasted transaction (cash-flow hedge). Hedge accounting is used for derivatives designated in this way, provided that certain criteria, including defining the hedging strategy and hedging relationship before hedge accounting is applied and ongoing documentation of the actual and expected effectiveness of the hedge, are met.

Changes in the fair value of financial derivatives that qualify as effective fair-value hedges are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Changes in the fair value of financial derivatives that qualify as effective cash-flow hedges are recorded as revaluation reserve from assets and liabilities in equity and are transferred to the income statement and classified as an income or expense in the period during which the hedged item affects the income statement.

2.8. Provisions

Provisions are recognised when the Company has a present obligation, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

The Company recognises a provision for its income tax payable which is presented net of advances paid for the income tax. If advances paid are higher than the estimated income tax payable, the difference is recognised as a short-term receivable.

The Company creates provisions according to special legal regulations. These are provisions for reclamation and rehabilitation of land affected by mining pursuant to Act No. 44/1988 Coll., in accordance with Section 10 of Act No. 593/92 Coll. Creation and the use of the provision is subject to the approval of the District Mining Office.

2.9. Revenue recognition

Sales are recognised upon the delivery of services and are stated net of discounts and value added tax.

2.10. Related parties

The Company's related parties are considered to be the following:

- parties, which directly or indirectly control the Company, their subsidiaries and associates;
- parties, which have directly or indirectly significant influence on the Company;
- members of the Company's or parent company's statutory and supervisory boards and management and parties close to such members, including entities in which they have a controlling or significant influence.

Material transactions and outstanding balances with related parties are disclosed in Notes 12 and 13.

2.11. Leases

The costs of assets held under both finance and operating leases are not capitalised as fixed assets. Lease payments are expensed evenly over the life of the lease. Future lease payments not yet due are disclosed in the notes but not recognised in the balance sheet.

2.12. Interest expense

Interest expense on borrowings to finance the acquisition of intangible and tangible fixed assets are capitalised during the period of completion and preparation of the asset for its intended use. Other borrowing costs are expensed.

2.13. Deferred tax

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax asset is recognised if it is probable that sufficient future taxable profit will be available against which the asset can be utilised.

2.14. Cash flow statement

The Company has prepared the Cash-flow statement using the indirect method. Cash equivalents represent short-term liquid investments, which are readily convertible for a known amount of cash.

2.15. Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as at the balance sheet date.

Moravia Gas Storage a.s.Notes to financial statements
for the year ended 31 December 2020

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are quantified and disclosed but are not themselves recognised in the financial statements.

3. Tangible fixed assets

(CZK'000)	1 January 2020	Additions / transfers	Disposals	31 December 2020
Cost				
Land	172,517	0	0	172,517
Buildings	1,488,383	56,349	0	1,544,732
Equipment	1,454,948	25,658	(14)	1,480,592
Other tangible fixed assets	3,538	0	0	3,538
Advances paid for tangible fixed assets and tangible fixed assets in the course of construction	332,121	178,409	0	510,530
Total	3,451,507	260,416	(14)	3,711,909
Accumulated depreciation				
Buildings	(214,831)	(64,703)	0	(279,534)
Equipment	(253,153)	(73,978)	0	(327,131)
Other tangible fixed assets	(149)	(41)	0	(190)
Total	(468,133)	(138,722)	0	(606,855)
Net book value	2,983,374			3,105,054

(CZK'000)	1 January 2019	Additions / transfers	Disposals	31 December 2019
Cost				
Land	172,517	0	0	172,517
Buildings	1,487,609	774	0	1,488,383
Equipment	1,454,486	738	(276)	1,454,948
Other tangible fixed assets	3,538	0	0	3,538
Advances paid for tangible fixed assets and tangible fixed assets in the course of construction	20,784	311,337	0	332,121
Total	3,138,934	312,849	(276)	3,451,507
Accumulated depreciation				
Buildings	(154,054)	(60,777)	0	(214,831)
Equipment	(181,066)	(72,179)	92	(253,153)
Other tangible fixed assets	(108)	(41)	0	(149)
Total	(335,228)	(132,997)	92	(468,133)
Net book value	2,803,706			2,983,374

Additions to tangible fixed assets consist mainly of refurbishment of gas wells and modification of gas drying technology.

The Company recognises different tax and accounting book values of land. Current management's intentions do not imply that this difference would result in a tax liability in the future and is therefore not included in the deferred tax calculation.

4. Inventories

The Company did not create a provision for inventories as at 31 December 2020 and 31 December 2019.

5. Receivables

Overdue receivables as at 31 December 2020 amounted to CZK 0 thousand (as at 31 December 2019: CZK 0 thousand).

The provision for doubtful receivables as at 31 December 2020 was CZK 0 thousand (as at 31 December 2019: CZK 0 thousand).

Unsettled receivables have not been covered by guarantees and none of them are due after more than 5 years.

The Company has no receivables nor provided any guarantees which are not included in the balance sheet.

6. Equity

The Company is fully owned by MND a.s., which is incorporated in the Czech Republic and GAZPROM EXPORT LLC, which is incorporated in the Russian Federation. Each of the above companies owns half of the Company's shares.

Due to its ownership structure, the Company as a joint venture, belongs to two different groups of entities.

The consolidated financial statements of the largest group of entities of which the Company is a part as joint venture reported under the equity method, are prepared by KKCG AG with its registered office at Kapellgasse 21, 6004 Lucerne, Swiss Confederation and PJSC GAZPROM with its registered office at Nametkina 16, 117997 Moscow, Russian Federation. These consolidated financial statements can be obtained at the registered office of the consolidating companies.

The consolidated financial statements of the smallest group of entities of which the Company is a part as a joint venture reported under the equity method are prepared by MND a.s. with its registered office at Úprkova 807/6, 695 01 Hodonín. These consolidated financial statements will be published in the Commercial Register within the statutory period.

The consolidated financial statements of the smallest group of entities, to which the Company is a part as a joint venture reported under the equity method are prepared by GAZPROM EXPORT LLC, with its registered office at Ostrovskogo nám. 2A, let. A, 191023 Saint Petersburg, Russia Federation. The consolidated financial statements can be obtained at the headquarters of this Company.

Due to the fact that the Company is not fully governed by the new Corporations Act, a reserve fund is created from the profit of the Company according to law and may not be distributed to shareholders but may be used to offset losses only.

On 24 June 2020, the general meeting of shareholders approved the financial statements for 2019 and decided about the allocation of the loss incurred in 2019 of CZK 3,436 thousand.

On 31 December 2020, the general meeting of shareholders decided to transfer Restatements of retained earnings in the amount of 111,064 thousand CZK to Retained earnings or accumulated losses.

Up to the date of preparation of these financial statements, the Company has not proposed distribution of the allocation of the loss incurred in 2020.

7. Provisions

In accordance with applicable legislation, the Company created provisions for remediation and reclamation, which amounted to CZK 8,508 thousand as at 31 December 2020 (as at 31 December 2019: CZK 8,460 thousand).

8. Payables, commitments and contingent liabilities

Trade and other payables have not been secured against any assets of the Company and are not due after more than 5 years.

Total future commitments in respect of operating leases (not recorded in the balance sheet) amounted to CZK 859,043 thousand as at 31 December 2020 (as at 31 December 2019: CZK 938,836 thousand). The Company does not have any other liabilities or commitments that are not recognised in the balance sheet.

The Company did not provide any guarantees which were not recorded in the balance sheet.

The management of the Company is not aware of any contingent liabilities as at 31 December 2020.

9. Bank loans

In March 2014, the Company concluded a contract with ING BANK (a branch of ING-DiBa AG), ČESKÁ SPOŘITELNA, a.s. and HYPO NOE GRUPPE BANK AG for the provision of a long-term syndicated investment loan for the construction of the Dambořice underground gas storage facility in the total amount of EUR 100,000 thousand. As at 31 December 2020, an amount of CZK 2,472,305 thousand was drawn (as at 31 December 2019: CZK 2,223,400 thousand).

This loan will be repaid semi-annually from 2021 in the amounts set out in the Agreement on loan increased by the Company's available funds. The final maturity of the loan is in 2025. The loan is subject to certain contractual terms and conditions. Violation of these terms and conditions may lead to immediate maturity of the loans. In 2020 and 2019, these terms and conditions were not breached.

This loan is secured by:

- a lien on all assets of the Company
- a lien on the Company's current and future receivables
- a lien on the business plant
- a lien on the Company's shares
- a lien on receivables from bank guarantees in the amount of CZK 53,975 thousand
- a commitment by shareholders to provide a surcharge outside the share capital, if necessary

10. Derivative financial instruments

The Company uses financial derivatives in the form of interest rate swaps. The fair value of these financial derivatives is mainly affected by interest rate developments.

**10.1. Financial derivatives that meet the criteria for hedge accounting
– Cash-flow hedging agreements**

(CZK'000)	31 December 2020			31 December 2019		
	Fair value		Notional amount	Fair value		Notional amount
	Positive	Negative		Positive	Negative	
Interest rate swap (short-term part)	-	(21,174)	107,425	0	(17,440)	46,701
Interest rate swap (long-term part)	-	(65,336)	1,545,349	0	(61,330)	1 600,190
Interest rate derivatives total	-	(86,510)	1,652,774	0	(78,770)	1,646,891
Hedging derivatives cash flows total	-	(86,510)	1,652,774	0	(78,770)	1,646,891

The change in the fair value of the above cash flow hedging derivatives is recognized in equity until the hedged item affects profit or loss or the hedged expected transaction results in an asset or liability.

Change in fair value of interest rate derivatives recorded in equity:

(CZK'000)	2020	2019
As at 1 January	(78,770)	(48,951)
Increase (+) / decrease (-) valuation for accounting period	(7,741)	(29,819)
As at 31 December	(86,511)	(78,770)

11. Revenue analysis

Revenue analysis:

(CZK'000)	2020	2019
Gas storage		
- domestic sales	70,715	24,794
- sales abroad	369,610	322,143
Revenues from other services	491	478
Total sales of own products and services	440,816	347,415
Other operating income	264	1,090
Total revenues from operating activities	441,080	348,505

12. Related-party transactions

All material transactions with related parties are disclosed in this note.

(CZK'000)	2020	2019
Revenues		
Sales of services	390,263	327,374
Total	390,262	327,374
Costs / purchases		
Purchase of material	639	12,562
Purchase of property	1,294	34,556
Purchase of services	99,350	88,337
Total	101,283	135,455

The Company reported the following balances with related parties:

(CZK'000)	31 December 2020	31 December 2019
Receivables		
Trade receivables	34,145	29,920
Total	34,145	29,920
Liabilities		
Liabilities to companies within the consolidation group	2,735	1,799
Out of which:		
Trade payables	2,735	1,799
Liabilities to associates	0	5,986
Out of which:		
Trade payables	0	5,986
Total	2,735	7,785

No loans, credits, deposits, advances were provided to the members of the Company's management, supervisory and administrative bodies except non-monetary benefits in the amount of CZK 1,336 thousand for the year 2020 (2019: CZK 1,403 thousand).

Company cars are made available for use by the Statutory Representatives.

13. Employees

	2020		2019	
	number	CZK'000	number	CZK'000
Emoluments to members of the Statutory Body	4	15,033	4	15,765
Emoluments to members of the Supervisory Board	6	13,538	6	13,129
Wages and salaries to other management	1	1,450	1	1,425
Wages and salaries to other employees	25	12,809	23	11,785
Social security costs		10,399		10,432
Other social costs		788		897
Wages and salaries total	36	54,017	34	53,433

The Company's management includes senior staff members directly reporting to the statutory body.

14. Income tax

The income tax expense analysis:

(CZK'000)	2020	2019
Deferred tax expense	(6,965)	(20,995)
Total income tax expense	(6,965)	(20,995)

The deferred tax was calculated at 19% (the rate enacted for 2019 and subsequent years).

The deferred tax asset (+) / (liability) (-) analysis:

(CZK'000)	31 December 2020	31 December 2019
Deferred tax asset (+) / (liability) (-) arising from:		
Difference between accounting and tax net book value of fixed assets	(23,775)	(45,911)
Provisions	627	1,370
Other temporary differences	18,049	14,966
Tax losses carried forward	15,647	31,687
Net deferred tax asset (+) / (liability) (-)	10,548	2,112

The Company has tax losses as at 31 December 2020 of CZK 83,184 thousand, which can be utilised in 2021.

15. Subsequent events

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

30 March 2021



Sergey Tregub
Member of the Board of Directors category A



Mgr. Slavomír Halla, Ph.D.
Member of the Board of Directors category B

IV. Independents Auditor' Report



English translation

Independent auditor's report

to the shareholders of Moravia Gas Storage a.s.

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of Moravia Gas Storage a.s., with its registered office at Úprkova 807/6, Hodonín (the "Company") as at 31 December 2020, of the Company's financial performance and cash flows for the year ended 31 December 2020 in accordance with Czech accounting legislation.

What we have audited

The Company's financial statements comprise:

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

Basis for opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic (together the "Audit regulations"). These standards consist of International Standards on Auditing as supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

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

Other information

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

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No. 021.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Company obtained in the audit or otherwise appears to be materially misstated. In addition, we assessed whether the other information has been prepared, in all material respects, in accordance with applicable legal requirements, i.e. whether the other information complies with the legal requirements both in terms of formal requisites and the procedure for preparing the other information in the context of materiality.

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

- the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with the applicable legal requirements.

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

Responsibilities of the board of directors and supervisory board of the Company for the financial statements

The board of directors is responsible for the preparation of the financial statements that give true and fair view in accordance with Czech accounting legislation and for such internal control as the board of directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the board of directors is 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 board of directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The supervisory board of the Company is responsible for overseeing the financial reporting process.

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 the Audit regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Audit regulations, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls.



- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the board of directors.
- conclude on the appropriateness of the board of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company'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 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 to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the board of directors and supervisory board 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.

30 March 2021

PricewaterhouseCoopers Audit, s.r.o.
represented by

Jan Musil

Tomáš Frýbort
Statutory Auditor, Licence No. 2292

This report is addressed to the shareholders of Moravia Gas Storage a.s.

Translation note

This version of our report is a translation from the original, which was prepared in the Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the Czech version of our report takes precedence over this translation.