

Czech Gas Networks Investments S.à r.l.

**International Financial Reporting Standards
Condensed Consolidated Financial Statements**

30 June 2020

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Condensed Consolidated Statement of Financial Position

<i>In millions of CZK</i>	Note	30 June 2020	31 December 2019
ASSETS			
Non-current assets			
Property, plant and equipment	6	105,778	108,421
Right-of-use assets		2,425	2,379
Intangible assets		456	417
Derivative financial assets	8	91	116
Other non-current assets		1	1
Total non-current assets		108,751	111,334
Current assets			
Inventories		5	6
Trade and other receivables		898	661
Income tax prepayment		-	38
Cash and cash equivalents		2,317	926
Total current assets		3,220	1,631
TOTAL ASSETS		111,971	112,965
EQUITY			
Share capital		1	1
Share premium		27,603	27,856
Accumulated deficit		(2,713)	(501)
Total equity		24,891	27,356
LIABILITIES			
Non-current liabilities			
Borrowings	7	65,042	64,132
Lease liabilities		1,372	1,357
Deferred income tax liabilities		15,880	16,288
Provisions		21	26
Other non-current liabilities		236	241
Derivative financial liabilities	8	1,649	589
Total non-current liabilities		84,200	82,633
Current liabilities			
Borrowings	7	356	271
Lease liabilities		195	194
Trade and other payables		1,439	1,528
Contract liabilities		391	756
Current income tax payable		247	24
Other taxes payable		167	190
Provisions		85	13
Total current liabilities		2,880	2,976
Total liabilities		87,080	85,609
TOTAL LIABILITIES AND EQUITY		111,971	112,965

Approved for issue and signed on behalf of Management Board on 24 September 2020.


 Florence Gerardy
 B Manager


 Rosa Villalobos
 A Manager

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

<i>In millions of CZK</i>	Note	6 month period ended 30 June 2020	period from 22 March 2019 to 30 June 2019*
Revenue	4	7,610	-
Other income		26	-
Capitalisation of internal costs		170	-
Net impairment reversals on financial assets		1	-
Raw materials and consumables used		(113)	-
Employee benefits expense		(825)	-
Depreciation and amortisation		(3,793)	-
Services		(1,492)	-
Other operating expenses		(498)	-
Operating profit		1,086	-
Finance income		716	-
Finance costs		(3,893)	-
Loss before income tax		(2,091)	-
Income tax expense		(121)	-
LOSS FOR THE PERIOD		(2,212)	-
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		-	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(2,212)	-

* Czech Gas Networks Investments S.à r.l. was incorporated on 22 March 2019

**Condensed Consolidated Statement of Changes in Equity
for the six months ended 30 June**

<i>In millions of CZK</i>	Note	Share capital	Share premium	Accumulated deficit	Total
Balance as at 22 March 2019		-	-	-	-
Balance as at 30 June 2019		-	-	-	-
Balance as at 1 January 2020		1	27,856	(501)	27,356
Loss for the period		-	-	(2,212)	(2,212)
Total comprehensive loss for the period		-	-	(2,212)	(2,212)
Transactions with owners in their capacity as owners:					
Capital distributions to the shareholder other than dividend		-	(253)	-	(253)
Balance as at 30 June 2020		1	27,603	(2,713)	24,891

Condensed Consolidated Statement of Cash Flow

<i>In millions of CZK</i>	Note	6 month period ended 30 June 2020	period from 22 March 2019 to 30 June 2019*
Cash flows from operating activities			
Cash generated from operations		4,116	-
Interest paid		(954)	-
Income taxes paid		(268)	-
Net cash inflow from operating activities		2,894	-
Cash flows from investing activities			
Purchases of property, plant and equipment		(1,095)	-
Proceeds from the sale of property, plant and equipment		3	-
Lease payments for subsurface rights		(68)	-
Net cash used in investing activities		(1,160)	-
Cash flows from financing activities			
Principal elements of lease payments		(90)	-
Share premium redemption		(253)	-
Net cash used in financing activities		(343)	-
Net increase in cash and cash equivalents		1,391	-
Cash and cash equivalents at the beginning of the period		926	-
Cash and cash equivalents at end of the period		2,317	-

* Czech Gas Networks Investments S.à r.l. was incorporated on 22 March 2019

1 Corporate information and significant changes in business in the current reporting period

Czech Gas Networks Investments S.à r.l. (the “Company” or “CGNI”) was incorporated on 22 March 2019 and is domiciled in the Grand Duchy of Luxembourg. The Company is organised under the laws of Luxembourg as a Société à Responsabilité Limitée for an unlimited period of time and was set up in accordance with regulations of Luxembourg. The Company’s registered office is the Grand Duchy of Luxembourg, 20, Boulevard Royal, L-2449 Luxembourg.

As at 30 June 2020 and 31 December 2019 the Company’s immediate parent company was Czech Gas Network S.à r.l. (“CGN”), registered office the Grand Duchy of Luxembourg, 20, Boulevard Royal, L-2449 Luxembourg with its share of 100%. The ultimate parent company of the Group was fund MEIF IV LP (Macquarie European Infrastructure Fund) registered in Grand Duchy of Luxembourg.

The Company controls the operating entities GasNet, s.r.o. and GridServices, s.r.o. through intermediate holding entity Czech Grid Holding a.s. (together “the Group”).

The Group has reviewed business risks and has not identified any risks that could impact the financial performance or position of the Group as at 30 June 2020. The operating loss of for the half-year ended 30 June 2020 was affected by the following factors:

- Negative impact on revenues of CZK 180 million compared to planned amounts caused by weather, as temperatures of the first half of the year 2020 were higher than Czech Electricity and Gas market operator (OTE) long term normal (mainly January +1.6 degree Celsius, February +4.1 degree Celsius)
- Negative impact of COVID-19 on revenues from the sale of capacity of CZK 75 million.
- Negative impact on Services and Other operating expenses of CZK 41 million reflecting the separation of Czech Grid Holding a.s. and its subsidiaries from innogy group, based on Transitional Service Agreement concluded with innogy Česká republika a.s. and innogy Zákaznické služby s.r.o. in February 2020 and respective consultancy fees.
- Decrease of contract liabilities by CZK 365 million in comparison with 31 December 2019 was caused mainly by operating seasonality of gas distribution.

There were no other significant events and transactions affecting six months period ended 30 June 2020.

In measuring the assets and liabilities and assessing the Group's going concern assumption, management considered the effects of the COVID-19 pandemic.

2 Basis of preparation of half-year report

This condensed consolidated interim financial report for the half-year reporting period ended 30 June 2020 (“the interim report”) has been prepared in accordance with IAS 34 Interim Financial Reporting. The interim report does not include all the notes of the type normally included in annual financial statements. Accordingly, this report is to be read in conjunction with the annual financial statements for the year ended 31 December 2019 and any public announcements made by the Group during the interim reporting period.

On 30 September 2019, the Company acquired 100 % of the share capital (and voting rights) of Czech Grid Holding, a.s. and its 100 % owned subsidiaries – GasNet, s.r.o. and GridServices, s.r.o. The transaction was accounted for as a business combination where the Company was the acquirer. Due to the complexity of the measurement and the large number of individual items of the gas distribution network and related assets acquired in the business combination the fair values of property, plant and equipment and the goodwill resulting from the acquisition have been determined only provisionally and the provisional accounting has not been finalised yet.

2.1. New and amended standards adopted by the Group

There were no new and amended standards adopted by the Group which would affect the accounting policies or require retrospective adjustment.

2.2. Changes in accounting policies

The accounting policies adopted are consistent with those of the previous financial year.

3 Segment information

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

The Board of Directors (“Management”) of the Group is the “chief operating decision maker”. Management assesses financial performance based on the key performance indicators of the whole Group. Management of the Group regularly reviews operating results of the whole Group and makes decisions about resources to be allocated to business activities and assesses Group’s performance. Additionally, the means of controlling and assessing operating managers is carried out at the Group level. Their remuneration depends on fulfilment of the Group’s key performance indicators.

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

4 Disaggregation of revenue

Analysis of revenue by category is presented as follows:

<i>In millions of CZK</i>	6 month period ended 30 June 2020	22 March 2019 to 30 June 2019
Revenue from gas distribution	7,555	-
Revenues from rendering of other services and sale of goods	55	-
Total revenue	7,610	-

The Group recognised 97% of total gas distribution revenue from wholesale traders of gas and 3% from end consumers in the six month period ended 30 June 2020.

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

<i>In millions of CZK</i>	6 month period ended 30 June 2020	22 March 2019 to 30 June 2019
Revenues from gas distribution		
Large and medium sized consumers category	2,619	-
Small sized customers category	1,164	-
Households category	3,772	-
Total revenue	7,555	-

The disaggregation of revenue was disclosed as such in order to present the structure of ultimate customers’ portfolio, since each customer category has its own pricing, risks and other specifics.

5 Profit and loss information and seasonality of operations

Gas distribution is directly affected by natural gas consumption and fairly copies its consumption trend. Use of natural gas has both a seasonal peak and a bottom, with consumption patterns predominantly driven by weather.

The peak occurs during winter period when cold weather increases the demand for natural gas and consequently gas distribution. The bottom is reached during summer period with inverse effect.

6 Property, plant and equipment

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

<i>In millions of CZK</i>	Freehold Land	Buildings	Gas Network	Equipment	Construction in progress	Total
Cost as at 1 January 2020	120	3,106	99,666	6,653	915	110,460
Accumulated depreciation	-	(109)	(1,668)	(262)	-	(2,039)
Carrying amount as at 1 January 2020	120	2,997	97,998	6,391	915	108,421
Additions	1	10	400	215	367	993
Transfers	1	4	84	20	(109)	-
Disposals	-	(1)	(44)	(12)	-	(57)
Depreciation charge	-	(210)	(2,869)	(500)	-	(3,579)
Carrying amount as at 30 June 2020	122	2,800	95,569	6,114	1,173	105,778
Cost as at 30 June 2020	122	3,120	99,873	6,875	1,173	111,163
Accumulated depreciation	-	(320)	(4,304)	(761)	-	(5,385)
Carrying amount as at 30 June 2020	122	2,800	95,569	6,114	1,173	105,778

There were no balances of property, plant and equipment as at 22 March 2019, 30 June 2019 and no movements between those dates.

7 Borrowings

Borrowings comprise the loan provided by the sole shareholder to the Group and borrowings from credit institutions, as follows:

<i>In millions of CZK</i>	30 June 2020	31 December 2019
Term loans		
- Non-current portion	65,042	64,132
- Current portion	356	271
Total borrowings	65,398	64,403
<i>In millions of CZK</i>	30 June 2020	31 December 2019
Non-current borrowings		
- Komerční banka, a.s.	43,298	42,388
- Czech Gas Network S.à r.l.	21,744	21,744
Total non-current borrowings	65,042	64,132

Czech Gas Networks Investments S.à r.l.
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Non-current bank borrowings consist of 4 tranches as at 30 June 2020 and 31 December 2019. The weighted average interest rate for period of 6 months ended 30 June 2020 was 2.23 % p.a..

Non-current bank borrowings as at 30 June 2020 have maturities ranging from 2024 to 2026.

Facility	Lender	Maturity date	Interest rate	Currency	Carrying amount as at 30 June 2020	Carrying amount as at 31 December 2019
A1	Komerční Banka, a.s.	30 September 2024	1.05% + EURIBOR 6m	CZK	17,074	16,197
A2	Komerční Banka, a.s.	30 September 2024	0.95% + PRIBOR 6m	CZK	6,680	6,671
B	Komerční Banka, a.s.	30 September 2024	1.1% + PRIBOR 6m	CZK	9,772	9,760
C	Komerční Banka, a.s.	30 September 2026	1.35% + PRIBOR 6m	CZK	9,772	9,760
Total					43,298	42,388

On 30 September 2019 the Group assumed the total bank loan payable in the amount of CZK 42,644 million (the original bank borrowing of CZK 43,173 million less CZK 529 million in transaction costs). That bank loan payable was transferred from CGN Holdings S.à r.l. as the original borrower to the Group as a part of the consideration payable for the acquisition of Czech Grid Holding, a.s. and its subsidiaries.

The respective transaction costs were allocated by facilities proportionally based on the carrying amount of a facility drawn.

The Company entered into hedging agreements with nine different banks, under which:

- a minimum of 75% of the notional amount of each facility is hedged by fixed rate and/or effectively bears a fixed rate, for different hedging periods depending on the facility;
- 85% of the notional amount of each facility, which is denominated in a currency other than CZK is hedged through a cross-currency swap for a term of at least 12 months.

Details of the loans from shareholder were as follows:

Tranche	Noteholder	Maturity date	Interest rate	30 June 2020	31 December 2019
Loan Notes A	CGN	30 September 2044	4.90%	7,700	7,700
Loan Notes B	CGN	30 September 2044	4.90%	14,044	14,044
Total				21,744	21,744

Loans from the shareholder will at all times be subordinated in right and priority of payment to all other existing and future liabilities and obligations of the Group.

Current borrowings as at 30 June 2020 amounted to CZK 356 million and consisted of accrued interest payable on the loan notes issued by the Group to its shareholder (31 December 2019: CZK 271 million).

The table below sets out an analysis of liabilities from financing activities except for lease liabilities and the movements in those liabilities. The items of these liabilities are those that are reported as financing in the statement of cash flows except for lease liabilities:

<i>In millions of CZK</i>	Liabilities from financing activities
Liabilities from financing activities as at 1 January 2020	64,403
Foreign exchange difference	858
Interest expenses	1,056
Interest capitalized	11
Interest paid (expensed and capitalised)	(930)
Liabilities from financing activities as at 30 June 2020	65,398

There were no balances of borrowings as at 22 March 2019, 30 June 2019 and no movements between those dates.

Fair values are disclosed in Note 12. Fair value measurement of financial instruments.

8 Derivative financial instruments

On 30 September 2019, the Group entered into a number of cross-currency swap agreements, all maturing on 31 December 2026, to hedge the notional amount of the facility A1 with Intesa Sanpaolo S.p.A., Commerzbank, Societe Generale and Komerční Banka, a.s for the total amount of EUR 548 million to cover the Group's position in EUR. The fair value of cross-currency swap agreements (derivative asset) amounted to CZK 91 million as at 30 June 2020 (as at 31 December 2019 - derivative liability - CZK 589 million).

On 30 September 2019, the Group also entered into a number of interest rate swap agreements to hedge the interest payments under the facility A1, A2, B and C, all maturing after the period end. In May 2020 the group executed a number of forward-starting interest rate swaps to adjust interest rate hedge ratio to 90% from January 2021 onwards. The fair value of interest rate swap agreements (derivative liability) amounted to CZK -1,649 million as at 30 June 2020 (as at 31 December 2019 - derivative asset CZK 116 million).

<i>In millions of CZK</i>	30 June 2020	31 December 2019
Non-current assets		
Cross currency swaps	91	-
Interest rate swaps		116
Non-current liabilities		
Cross currency swaps	-	(589)
Interest rate swaps	(1,649)	-
Total net fair value of derivative financial instruments	(1,558)	(473)

(i) Classification of derivatives

Derivatives are only used for hedging purposes and not as speculative investments. All the derivatives are classified in FVPL portfolio and designated as hedging instruments. They are presented as non-current assets and non-current liabilities to the extent they are not expected to be settled within 12 months after the end of the reporting period.

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

(ii) Amounts recognised in profit or loss

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

<i>In millions of CZK</i>	6 month period ended 30 June 2020	22 March to 30 June 2019
Finance costs		
Fair value loss on interest rate swaps	(1,765)	-
Finance income		
Fair value gain on cross currency swaps	680	-
Net loss on derivative financial instruments	(1,085)	-

9 Commitments

Capital expenditure commitments. As at 30 June 2020 the Group has contractual capital expenditure commitments in respect of property, plant and equipment of CZK 3,454 million (31 December 2019 CZK 2,385 million).

10 Related party transactions

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.

As at 30 June 2020, the outstanding balances with related parties were as follows:

<i>In millions of CZK</i>	Major immediate parent company CGN S.à r.l.
Borrowings	22,100

Details of Borrowings are disclosed in Note 7.

The income and expense items with related parties for the 6 months period ended 30 June 2020 were as follows:

<i>In millions of CZK</i>	Major immediate parent company CGN S.à r.l.
Finance costs	531

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

<i>In millions of CZK</i>	Major immediate parent company CGN S.à r.l.
Borrowings	22,015

Key management compensation. Key management represents 3 Statutory Directors of the subsidiaries and 6 members of the Company’s Board of Directors.

Key management compensation is presented below:

<i>In millions of CZK</i>	6 month period ended 30 June 2020
<i>Short-term benefits:</i>	
- Salaries	18
- Short-term bonuses	9
- Social security costs	8
<i>Other long-term employee benefits:</i>	
- Long-term bonus scheme	5
Total key management compensation	40

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

Besides the above-stated, an in-kind consideration in the form of using the cars leased by the Group amounted to CZK 1 million and presented as a depreciation of right-of-use assets in the period ended 30 June 2020.

11 Fair value measurement of financial instruments

Fair value (“FV”) measurements are analysed by level in the fair value hierarchy as follows: (i) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities, (ii) level two measurements are 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 on observable market data (that is, unobservable inputs). 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.

The fair value of the interest rate swaps was determined as the present value of future cash flows based on the observable yield curve from the Bloomberg terminal as at 30 June 2020 and 31 December 2019 adjusted for the own credit risk applied as at the contract date.

The cross currency swap was determined as the present value of future cash flows based on the forward exchange rates as at the balance sheet date and future cash flows were discounted by the observable yield curves from the Bloomberg terminal as at 30 June 2020 as at 31 December 2019 and adjusted for the own credit risk applied as at the contract date.

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<i>In millions of CZK</i>	30 June 2020	31 December 2019
	Level 2 fair value	Level 2 fair value
Financial assets		
Financial assets at fair value through profit and loss (FVPL)		
- Hedging derivatives – cross currency swaps	91	-
- Hedging derivatives – interest rate swaps	-	116
Total financial assets	91	116
Financial liabilities		
Financial liabilities at fair value through profit and loss (FVPL)		
- Hedging derivatives – cross currency swaps	-	589
- Hedging derivatives – interest rate swaps	1,649	-
Total financial liabilities	1,649	589

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 the carrying value of assets and liabilities not measured at fair value are as follows:

<i>In millions of CZK</i>	30 June 2020		31 December 2019	
	Level 3 fair value	Carrying value	Level 3 fair value	Carrying value
LIABILITIES				
Borrowings				
- Borrowings	65,938	65,398	64,903	64,403
TOTAL LIABILITIES	65,938	65,398	64,903	64,403

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

The fair values in level 3 of the fair value hierarchy were estimated using the discounted cash flows valuation technique. The fair value of floating rate instruments that are not quoted in an active market was estimated to be equal to their carrying amount. The fair value of unquoted fixed interest rate instruments was estimated based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risks and remaining maturities.

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

12 Presentation of Financial Instruments by Measurement Category

As at 30 June 2020 and 31 December 2019, all the Group's financial liabilities and financial assets were carried at amortised cost except the derivatives, which were carried at fair value.

13 Events occurring after the reporting period

In July 2020 the Group issued and placed EUR 600 million and CZK 6,750 million floating rate notes (the EUR Notes and CZK Notes) on international capital markets. The Notes rated BBB+ by both S&P and Fitch have been listed on the Global Exchange Market of the Irish Stock Exchange plc trading as Euronext Dublin. The EUR Notes (ISIN XS2193733503) are due in 2027, the CZK Notes in 2026 (ISIN XS2193733842).

The EUR Notes and CZK Notes emission proceeds were used to redeem the Borrowing Facilities A1 and partly A2 (see Note 7).