Czech Gas Networks Investments S.à r.l.

Condensed Consolidated Interim Financial Statements

30 June 2022

Contents

Condensed Consolidated Interim Statement of Financial Position as at 30 June 2022

In CZK millions	Note	30 June 2022	31 December 2021
ASSETS			
Non-current assets			
Property, plant and equipment	7	99,789	102,195
Right-of-use assets		3,145	3,046
Intangible assets		772	826
Derivative financial assets	9,13	6,025	4,622
Other non-current assets		1	1
Total non-current assets		**109,732**	**110,690**
Current assets			
Inventories		4	5
Trade and other receivables		460	616
Current income tax prepayment		23	-
Cash and cash equivalents		4,389	1,376
Derivative financial assets	9,13	2,324	795
Total current assets		**7,200**	**2,792**
TOTAL ASSETS		**116,932**	**113,482**
EQUITY			
Share capital		1	1
Share premium		27,219	27,219
Accumulated deficit		(7,182)	(6,667)
Total equity		**20,038**	**20,553**
LIABILITIES			
Borrowings	8,10	69,533	69,204
Lease liabilities	10	2,104	1,983
Deferred income tax liabilities		14,457	14,729
Provisions		61	52
Other non-current liabilities		333	339
Derivative financial liabilities	9,13	7,604	3,533
Total non-current liabilities		**94,092**	**89,840**
Current liabilities			
Borrowings	8,10	743	343
Lease liabilities	10	158	190
Trade and other payables	5.4	1,311	1,911
Contract liabilities	5.4	165	200
Current income tax payable		5	70
Other taxes payable		194	180
Provisions		167	168
Derivative financial liabilities	9,13	59	27
Total current liabilities		**2,802**	**3,089**
Total liabilities		**96,864**	**92,929**
TOTAL LIABILITIES AND EQUITY		**116,932**	**113,482**

Approved for issue and signed on behalf of Board of Managers on 5 September 2022.

Charles Roemers
Manager

Rosa Villalobos
Manager

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income for the six-month period ended 30 June

In CZK millions	Note	2022	2021
Revenue	5.1	**7,603**	**8,187**
Other income		54	52
Work performed by the Group and capitalised		153	174
Net impairment (charge)/reversals on financial assets		(16)	(2)
Raw materials and consumables used		(155)	(103)
Employee benefits expense		(881)	(902)
Depreciation and amortisation		(3,462)	(3,662)
Services	5.2	(1,212)	(1,132)
Other operating expenses		(449)	(409)
Operating profit		**1,634**	**2,203**
Finance income		231	806
Finance costs	5.3	(2,231)	(1,498)
Profit / (Loss) before income tax		**(366)**	**1,511**
Income tax expense		(149)	(257)
PROFIT FOR THE PERIOD		**(515)**	**1,254**
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(515)**	**1,254**

Condensed Consolidated Interim Statement of Changes in Equity for the six-month period ended 30 June

In CZK millions	Note	Share capital	Other distributable reserves	Accumulated deficit	Total
Balance as at 1 January 2021		1	**27,219**	**(3,388)**	**23,832**
Profit for the six-month period ended 30 June 2021		-	-	1,254	1,254
Total comprehensive income for six-month period ended 30 June 2021		**-**	**-**	**1,254**	**1,254**
Dividends declared and paid	6	-	-	(6,939)	(6,939)
Balance as at 30 June 2021		**1**	**27,219**	**(9,073)**	**18,147**

In CZK millions	Note	Share capital	Share premium account	Accumulated deficit	Total
Balance as at 1 January 2022		1	**27,219**	**(6,667)**	**20,553**
Loss for the six-month period ended 30 June 2022		-	-	(515)	(515)
Total comprehensive income for six-month period ended 30 June 2022		**-**	**-**	**(515)**	**(515)**
Dividends declared and paid	6	-	-	-	-
Balance as at 30 June 2022		**1**	**27,219**	**(7,182)**	**20,038**

Condensed Consolidated Interim Statement of Cash Flows for the six-month period ended 30 June

In CZK millions	Note	2022	2021
Cash flows from operating activities			
Cash generated from operations		4,917	5,028
Income taxes paid		(510)	(464)
Interest paid	10, 5.3	(631)	(1,106)
Net cash from operating activities		**3,776**	**3,458**
Cash flows used in investing activities			
Purchases of property, plant and equipment and intangible assets		(1,134)	(1,377)
Proceeds from the sale of property, plant and equipment		17	27
Net cash used in investing activities		**(1,117)**	**(1,350)**
Cash flows used in financing activities			
Principal elements of lease payments	10	(146)	(132)
Loans received from credit institutions	10	500	21,500
Loans repaid to credit institutions	10	-	(21,764)
Bond issued	10	-	13,069
Loans repaid to shareholders	10	-	(7,700)
Dividends paid to the Company's shareholders	6	-	(6,939)
Net cash used in financing activities		**(354)**	**(1,966)**
Change in cash and cash equivalents		3,013	142
Cash and cash equivalents at the beginning of the period		**1,376**	**1,741**
Cash and cash equivalents at the end of the period		**4,389**	**1,883**

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

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" for the period ended 30 June 2022 for Czech Gas Networks Investments S.à r.l. (the "Company") and its subsidiaries (together "the Group"). The Company controls the operating entities GasNet, s.r.o. and GasNet Služby, s.r.o. through intermediate holding entity Czech Grid Holding, a.s.

The Company was incorporated on 22 March 2019 and is domiciled in the Grand Duchy of Luxembourg. The Company is organised under the laws of Luxembourg as a Société a Responsabilité Limitée for an unlimited period of time and was set up in accordance with regulations of Luxembourg. The Company's registered office is the Grand Duchy of Luxembourg, 20 Boulevard Royal, L-2449 Luxembourg, Registration No. B 233444.

As at 30 June 2022 and 31 December 2021, 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.

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

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

Regulatory framework. The gas distribution activity of the Group is regulated by an independent regulatory body, Energy Regulatory Office ("ERO"), as stipulated by the Energy Act. The regulation of the Group is conducted by determining the overall level of allowed revenues (the Revenue Cap) and the subsequent calculating of tariffs for distribution services for individual customers. These distribution prices (tariffs) are published annually in a price decree issued by ERO. Price Regulation Methodology is binding for the 5th regulatory period which runs from 2021 to 2025.

The year 2022 is the second year of the 5th regulatory period, for which the final methodology parameters for price regulation were published on 9 June 2020. The main changes of this period compared to the rules of the 4th regulatory period are as follows: setting the trajectory of gradual adjustment of the regulated value of assets to the residual value of assets by 2025, new rules for determining allowed costs and setting a new value of WACC parameter for the whole period of 6.43%.

Significant changes in the current reporting period. The operating profit for the six-month period ended 30 June 2022 was affected by the following factor:

- Negative impact on revenues of CZK 584 million compared to the half-year ended 30 June 2021 mainly caused by weather, as temperatures in the first half of 2022 were higher than Czech Electricity and Gas market operator (OTE) long-term average (for more information, please, see Note 5.1).

There were no other significant events and transactions affecting the six-month periods ended 30 June 2022 nor 2021.

2 Significant accounting policies

Basis of preparation. This condensed consolidated interim financial information for the period of six months ended 30 June 2022 ("the interim report") has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the European Union and should be read in conjunction with the annual financial statements of the Group for the year ended 31 December 2021, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS).

Except as described below, the same accounting policies and computation methods were followed in the preparation of this consolidated condensed interim financial information as compared with the annual consolidated financial statements of the Group for the year ended 31 December 2021.

Interim-period tax measurement. Interim-period income tax expense is accrued using the effective tax rate that would be applicable to expected total annual earnings, that is, the estimated weighted average annual effective income tax rate applied to the pre-tax income of the interim period.

COVID-19. The existence of the novel coronavirus type causing the COVID-19 disease was confirmed in early 2020 and has spread globally. Even though the pandemic and especially the restrictive measures taken in order to mitigate the health impacts have caused disruptions to many businesses and economic activities, they have not significantly affected the Group's operations and cash flows for the period of six month ended 30 June 2022 nor 2021.

Military conflict in Ukraine. In late February 2022 ongoing political tension between Russia and Ukraine escalated in a conflict with a military invasion of Russian forces in Ukraine. The worldwide reaction to Russia's violation of international law and aggression against Ukraine was the imposition of extensive sanctions and limitations on business activity. Overall effect of the recent development is increased volatility in the financial and commodity markets, as well as consequences on the economy in general. The Group considered the business risks comprising adverse effects of economic sanctions imposed on Russia, business interruptions (including supply chain), increased occurrences of cyber-attacks, legal and regulatory compliance risk and many others, and has assessed that their direct impact on the Group is not significant at this time.

The Group has assessed several scenarios concerning interruption of Russian natural gas supplies to the Czech Republic. Even in case of the worst scenario, i.e. complete interruption of gas supplies to the Czech market, there is no material going concern uncertainty. Gas network operators are in close contact and keep monitoring the whole situation. In case natural gas supplies to the Czech Republic are disrupted all gas network operators are ready to act according to the valid legislation that clearly states concrete steps on how to proceed in such extraordinary situations.

3 Adoption of new and revised standards

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

4 Segment information

The main activity of the Group is gas distribution. Other activities include construction, 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 the operating results of the whole Group and makes decisions about resources to be allocated to business activities and assesses the Group's performance. Additionally, the means of controlling and assessing operating managers is carried out at the Group level. Their remuneration depends on fulfilling the Group's key performance indicators.

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

5 Profit and loss information and seasonality of operations

5.1 Disaggregation of revenue

Analysis of revenue by category is presented as follows:

In CZK millions	**six-month period ended 30 June 2022**	**six-month period ended 30 June 2021**
Revenue from gas distribution	7,471	8,126
Revenues from rendering of other services and sale of goods	132	61
Total revenue	**7,603**	**8,187**

For the six-month period ended 30 June 2022, the Group recognised 96% of total gas distribution revenue from wholesale traders of gas (2021: 97%) and 4% from end-consumers of gas distribution (2021: 3%). 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:

In CZK millions	**six-month period ended 30 June 2022**	**six-month period ended 30 June 2021**
Revenues from gas distribution		
Large- and medium-sized consumers category	2,661	2,782
Small-sized customers category	1,148	1,252
Households category	3,662	4,092
Total revenue from gas distribution	**7,471**	**8,126**

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

5.2 Services

In CZK millions	**six-month period ended 30 June 2022**	**six-month period ended 30 June 2021**
Gas transportation	727	539
IT and network services	200	203
Other services	93	46
Energy market operation fees	70	102
Gas network maintenance	44	116
Consultancy and other fees	20	63
Travel expenses	19	15
Facility services and other maintenance	16	11
Training expenses	10	8
Car fleet maintenance	9	14
Phone costs	4	5
Other service level agreement services	-	10
Total services	**1,212**	**1,132**

5.3 Finance costs

In CZK millions	**six-month period ended 30 June 2022**	**six-month period ended 30 June 2021**
Interest costs		
Interest expense on borrowings	818	979
Interest expense on the lease liability	38	29
Less capitalised finance costs	(17)	(5)
Net interest costs recognised in profit or loss	**839**	**1,003**
Other finance costs		
Foreign exchange losses	-	26
Net loss on trading derivatives	1,392	469
Total finance costs recognised in profit or loss	**2,231**	**1,498**

The effect from realised derivatives amounting to CZK 221 million in the six-month period ended 30 June 2022 (2021: CZK 238 million) was presented in the Statement of cash flows as interest paid.

Interest expense on borrowings decreased in the six-month period ended 30 June 2022 as compared to the six-month period ended 30 June 2021 due to a restructuring of borrowings in the first half of 2021.

5.4 Seasonality of operations

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

Annual consumption correlates with a heating period (January to April and September to December) and a non-heating period (May to August). Based on past history, the revenues and margin related to the heating period represent approximately 77% of the annual revenues and margin.

The peak occurs during the winter period when cold weather increases demand for natural gas and, consequently, gas distribution. The bottom is reached during the summer period with an inverse effect. However, the seasonality does not have a significant impact on the revenue spit and operating profit between the first and the second halves of a year.

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

Advance payments for gas distribution from low-volume customer categories and households are recognised on a relatively linear basis during the year, with the peak of gas distribution revenue in winter months during the heating period. The revenues from gas distribution in this period are recognised against relatively linear contract liabilities, resulting in a minimal level of contract liabilities after the whole heating period. Therefore, contract liabilities in the summer are relatively lower than in winter months. Total contract liabilities as at 30 June 2022 decreased by CZK 35 million in comparison with the balance as at 31 December 2021.

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

In CZK millions	**30 June 2022**	**31 December 2021**
Contract liabilities – advances from customers for gas distribution	165	200
Total current contract liabilities	**165**	**200**

Trade and other payables decreased by CZK 600 million in comparison with the balance as at 31 December 2021. The main part of the decrease is caused by a CZK 192 million decrease in liabilities from investment activities driven by seasonality, when investment activities are mainly finalised during the last quarter and before the year end. Due to seasonality and the peak of heating season in December, there was also a CZK 144 million decrease in trade liabilities (mainly for gas distribution, electricity and other services). Furthermore, the liabilities to employees decreased by CZK 214 million and deposit with customers and other liabilities decreased by CZK 50 million.

6 Dividends

Dividends declared and paid on ordinary shares during the interim period were as follows:

In CZK millions	**2022**	**2021**
Dividends payable as at 1 January	-	-
Dividends declared during the interim period	-	6,939
Dividends paid during the interim period	-	(6,939)
Dividends payable as at 30 June	**-**	**-**
Dividends per share declared in the period of six months ended 30 June	**-**	**9.91**

All dividends are declared and paid in CZK.

On 30 June 2022, the General Meeting approved the individual financial statements of the Company under Luxembourg GAAP for 2021 with the profit for the year 2021 of CZK 4,695 million and decided about the distribution of dividend in the amount CZK 4,695 million and distribution from retained earnings of CZK 3,101 million in total amount of CZK 7,796 million, which was paid as interim dividend in 2021.

On 18 May 2021, the Board of Managers decided to pay out interim dividends from retained earnings in the amount of CZK 6,939 million, the cash settlement was on 27 May 2021.

7 Property, plant and equipment

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

In CZK millions	**Freehold Land**	**Buildings**	**Gas Network**	**Equipment**	**Construction in progress**	**Total**
Cost as at 1 January 2022	222	3,503	107,342	6,093	729	117,889
Accumulated depreciation	-	(900)	(12,671)	(2,123)	-	(15,694)
Carrying amount as at 1 January 2022	**222**	**2,603**	**94,671**	**3,970**	**729**	**102,195**
Additions	3	20	303	144	435	905
Transfers	2	3	56	17	(78)	-
Disposals	(2)	(1)	(39)	(21)	-	(63)
Depreciation charge	-	(143)	(2,704)	(401)	-	(3,248)
Carrying amount as at 30 June 2022	**225**	**2,482**	**92,287**	**3,709**	**1,086**	**99,789**
Cost as at 30 June 2022	225	3,524	107,652	6,202	1,086	118,689
Accumulated depreciation	-	(1,042)	(15,365)	(2,493)	-	(18,900)
Carrying amount as at 30 June 2022	**225**	**2,482**	**92,287**	**3,710**	**1,086**	**99,789**

Construction in progress comprises mainly construction of the gas network. Upon completion, assets are transferred to use. Borrowing costs were capitalised to construction in progress in the amount of CZK 17 million during the six-month period ended 30 June 2022 (2021: CZK 5 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 6.72% in the six-month period ended 30 June 2022 (2021: 1.19%). The Group capitalised own constructed fixed assets (mainly gas network) of CZK 153 million during the six-month period ended 30 June 2022 (2021: CZK 174 million).

8 Borrowings

Borrowings comprise the loans received by the Group from its sole shareholder and borrowings from credit institutions and bondholders, as follows:

In CZK millions	**30 June 2022**	**31 December 2021**
Term loans		
- Non-current portion	69,533	69,204
- Current portion	743	343
Total borrowings	**70,276**	**69,547**

In CZK millions	**30 June 2022**	**31 December 2021**
Non-current borrowings		
Bonds		
- EUR Tranches	39,361	39,537
- CZK Tranche	6,740	6,739
Bank borrowings		
- Multiple lenders	9,388	8,884
Loans from shareholder		
- Czech Gas Network S.à r.l.	14,044	14,044
Total non-current borrowings	**69,533**	**69,204**
Current borrowings – interest accrued		
- Loans from shareholder Czech Gas Network S.à r.l.	473	132
- Bonds	269	211
Total current borrowings	**743**	**343**
Total borrowings	**70,276**	**69,547**

Current borrowings as at 30 June 2022 amount to CZK 743 million (as at 31 December 2021: CZK 343 million) and consist of accrued interest payable on the loan notes issued by the Group to its shareholder of CZK 473 million (as at 31 December 2021: CZK 132 million) and accrued interest payable on the EUR Tranches and CZK Tranche of bonds of CZK 269 million (as at 31 December 2021: CZK 211 million).

Bank borrowings. Non-current bank borrowings consist of 2 tranches as at 30 June 2022 with the weighted effective interest rate of 6.68 % p.a. (as at 31 December 2021: 1 tranche with effective interest rate of 1.34 % p.a.)

Non-current bank borrowings as at 30 June 2022 have maturities in 2028:

Nature	Lender	Maturity date	Interest rate	Currency	Carrying amount as at 30 June 2022	Carrying amount as at 31 December 2021
Facility A	Multiple lenders	20 May 2028	0.55% + PRIBOR 6m	CZK	8,888	8,884
Capex Facility	Multiple lenders	20 May 2028	0.55% + PRIBOR 6m	CZK	500	-
Total					**9,388**	**8,884**

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

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

Bonds. Non-current bond borrowings consist of 3 issues of EUR notes and 1 issue of CZK notes as at 30 June 2022 and as at 31 December 2021.

Details of the bonds issued were as follows:

Issue	Issuer	Maturity date	Interest rate	30 June 2022	31 December 2021
EUR fixed interest rate bonds	The Company	16 July 2027	1.00%	14,906	14,899
CZK floating interest rate notes	The Company	22 July 2026	1.00% + 6M PRIBOR	6,796	6,782
EUR bonds	The Company	31 March 2031	0.875%	12,313	12,423
EUR Green Notes	The Company	8 September 2029	0.0457%	12,355	12,383
Total				**46,370**	**46,487**

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

Tranche	Noteholder	Maturity date	Interest rate	30 June 2022	31 December 2021
Loan Notes	CGN	30 September 2044	4.90%	14,517	14,184
Total				**14,517**	**14,184**

Loans Notes 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.

9 Derivative financial instruments

The Group entered into several derivative contracts under which:

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

In May 2020, for the minimum of 90% of the notional amount of each loan facility and bond, the Group concluded forward-starting interest-rate swaps that come into effect since January 2021 onwards.

On 31 March 2021, the Group entered into a number of cross-currency swap agreements, all maturing on 31 March 2031, to mitigate the risk of the notional amount of EUR fixed interest rate notes issued on the same date for the total amount of EUR 448 million to cover the Group's position in EUR.

In July 2021, the Group entered into a number of forward starting interest rate swap agreements to mitigate the interest rate risk related to payments under the bank facilities and bonds all maturing after the period end. By entering into these interest rate swap agreements, the Group has increased the interest rate risk-free ratio back to 90%, as it dropped below targeted value in May 2021 in relation with drawing of new non-current bank borrowings (for more information, please, see Note 10).

In September 2021, the Group entered into a number of cross-currency swap agreements, all maturing on 8 September 2029, to mitigate the foreign exchange risk related to the notional amount of the Green Bond issued by the Group on 8 September 2021 with the notional amount of EUR 500 million, for the total amount of EUR 364 million (equivalent of CZK 9,239 million) to cover the Group's position in EUR.

As at 30 June 2022, the total notional amount of all cross currency swaps the Group has entered into equals EUR 1,360 million (equivalent of CZK 33,646 million). Maturities of these swaps range between 2026 and 2031. As at 31 December 2021 the notional amount of all cross currency swaps the Group had entered into equalled EUR 1,360 million (equivalent of CZK 35,174 million) with maturities ranging between 2026 - 2031.

As at 30 June 2022 and as of 31 December 2021, the total notional amount of all interest rate swaps the Group has entered into equals CZK 70,002 million. Thereof CZK 48,502 million already mitigate the interest rate risk the Group faces as of 31 December 2021, whereas the rest of CZK 21,500 million belong to forward starting interest rate swaps with effective date 30 September 2024.

The fair value of interest rate swap agreements (derivative asset) amounted to CZK 8,349 million as at 30 June 2022 (as at 31 December 2021: CZK 5,417 million). The fair value of cross currency interest-rate swap agreements (derivative liability) amounted to CZK 7,663 million as at 30 June 2022 (as at 31 December 2021: CZK 3,560 million).

In CZK millions	**30 June 2022**	**31 December 2021**
Non-current assets		
Interest-rate swaps	6,025	4,622
Current assets		
Interest-rate swaps	2,324	795
Non-current liabilities		
Cross currency interest-rate swaps	(7,604)	(3,533)
Current liabilities		
Cross currency interest-rate swaps	(59)	(27)
Total net fair value of derivative financial instruments	**686**	**1,857**

Classification of derivatives.

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

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

Fair value measurement.

For information about the methods and assumptions used in determining the fair value of derivatives, refer to Note 13.

Amounts recognised in profit or loss.

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

In CZK millions	**Six-month period ended 30 June 2022**	**Six-month period ended 30 June 2021**
Interest-rate swaps		
Fair value loss on interest-rate swaps	2,932	(1,528)
Cross currency interest-rate swaps		
Fair value gain on cross-currency interest-rate swaps	(4,104)	1,297
Net loss on derivative financial instruments	**(1,171)**	**(231)**

10 Reconciliation of liabilities arising from financing activities

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

In CZK millions	**Note**	**Bank Borrowings**	**Loans from Shareholder**	**Bonds**	**Lease liabilities**	**Total liabilities from financing activities**
Liabilities from financing activities as at 1 January 2022		**8,884**	**14,176**	**46,487**	**2,173**	**71,720**
Non-cash movements:						
Interest expenses	5.3	214	341	246	38	839
Interest capitalised	7	17	-	-	-	17
Foreign exchange difference		-	-	(186)	-	(186)
Increase of leases and lease modifications		-	-	-	204	204
Total non-cash movements		**231**	**341**	**60**	**242**	**874**
Cash movements:						
Issuance of bonds		-	-	-	-	-
Drawing of borrowings		500	-	-	-	500
Settlement of borrowings		-	-	-	-	-
Interest paid (expensed and capitalised)		(227)	-	(176)	(7)	(410)
Repayment of principal		-	-	-	(146)	(146)
Total cash movements		**273**	**-**	**(176)**	**(153)**	**(56)**
Liabilities from financing activities as at 30 June 2022		**9,388**	**14,517**	**46,371**	**2,262**	**72,538**

In CZK millions	Note	Bank Borrowings	Loans from Shareholder	Bonds	Lease liabilities	Total liabilities from financing activities
Liabilities from financing activities as at 1 January 2021		**21,551**	**22,013**	**22,440**	**1,380**	**67,384**
Non-cash movements:						
Interest expenses	5.3	331	484	159	29	1,003
Interest capitalised		5	-	-	-	5
Foreign exchange difference		(20)	-	(784)	-	(803)
Increase of leases and lease modifications		-	-	-	793*	793
Total non-cash movements		**316**	**484**	**(625)**	**822**	**997**
Cash movements:						
Issuance of bonds		-	-	13,069	-	13,069
Drawing of borrowings		21,500	-	-	-	21,500
Settlement of borrowings		(21,764)	(7,700)	-	-	(29,464)
Interest paid (expensed and capitalised)		(193)	(612)	(59)	(5)	(868)
Repayment of principal		-	-	-	(132)	(132)
Total cash movements		**(457)**	**(8,312)**	**13,010**	**(137)**	**4,104**
Liabilities from financing activities as at 30 June 2021		**21,410**	**14,185**	**34,825**	**2,065**	**72,485**

* Thereof CZK 704 million represent increase of lease liabilities due to the valorisation of lease contracts.

11 Contingencies and commitments

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

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

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

The Group does not have any significant contingent liabilities as at 30 June 2022 and 31 December 2021.

Capital expenditure commitments. As at 30 June 2022, the Group has contractual capital expenditure commitments in respect of property, plant and equipment of CZK 2,813 million (31 December 2021: CZK 3,438 million).

Bank commitments. According to shareholder loan agreement, all the future payments related to shareholder loans or distribution to the shareholder are subordinated to the repayment of principal and interest from bank borrowings.

12 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 outstanding balances with related parties were as follows:

In CZK millions	**Immediate parent company CGN S.à r.l.**	
	30 June 2022	**31 December 2021**
Borrowings	14,517	14,176
Trade and other receivables	2	3

Details of Borrowings are disclosed in Note 8.

The expense items with related parties for the six-month period ended 30 June were as follows:

In CZK millions	**Immediate parent company CGN S.à r.l.**	
	Six-month period ended 30 June 2022	**Six-month period ended 30 June 2021**
Finance costs	341	484

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

The information regarding the remuneration of the 3 Senior Executives in the six-month period ended 30 June 2022 and 4 Senior Executives in the six month period ended 30 June 2021 is set out below.

	Six-month period ended 30 June 2022			Six-month period ended 30 June 2021		
In CZK millions	**Expense**	**Provisions**	**Trade and other payables**	**Expense**	**Provisions**	**Trade and other payables**
Short-term benefits:						
- Salaries	9	-	-	8	-	-
- Short-term bonuses	-	-	1	-	-	1
- Social security costs	4	-	-	4	-	-
Other long-term employee benefits:						
- Long-term motivation program	1	30	-	-	7	-
Total key management compensation	**14**	**30**	**1**	**12**	**7**	**1**

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, in-kind consideration in the form of the use of cars leased by the Group amounted to CZK 1 million is presented as a depreciation of the right-of-use assets in the six-month period ended 30 June 2022 (2021: CZK 4 million).

13 Fair-value measurement of financial instruments

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

Financial assets and liabilities measured at fair value

The Fair value of the interest-rate swaps was determined as the present value of future cash flows based on the observable yield curve from the Bloomberg terminal as at 30 June 2022 and 31 December 2021.

The cross-currency interest-rate swap was determined as the present value of future cash flows based on the forward exchange rates as at the balance sheet date and future cash flows were discounted by the observable yield curves from the Bloomberg terminal as at 30 June 2022 and 31 December 2021.

Recurring fair value measurements in CZK millions	**30 June 2022 Level 2 fair value**	**31 December 2021 Level 2 fair value**
ASSETS		
Derivatives		
- Interest-rate swaps	8,349	4,622
TOTAL ASSETS	**8,349**	**4,622**
LIABILITIES		
Derivatives		
- Cross currency interest swap	(7,663)	(3,560)
TOTAL LIABILITIES	**(7,663)**	**(3,560)**

The fair value of EUR fixed interest rate bonds issued amounts to CZK 28,351 million as at 30 June 2022 (as at 31 December 2021: CZK 39,920 million). EUR fixed interest rate bonds issued belong to level 1 of the fair value hierarchy, since they are quoted in an active market.

The loans from the shareholder were provided at market terms on 30 September 2019. As at 30 June 2022 the fair value of the loans from shareholder amounts to CZK 13,959 million. As at 31 December 2021 their fair values were CZK 16,741 million.

All other borrowings (bank borrowings, CZK floating interest rate bonds and loans from shareholder) belong to level 2 of the fair value hierarchy. As at 30 June 2022 and 31 December 2021, their fair values were not materially different from their carrying amounts.

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

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

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

14 Presentation of financial instruments by measurement category

As at 30 June 2022 and 31 December 2021, all the Group's financial liabilities and financial assets were carried at amortised cost except the derivatives, which were carried at fair value.

15 Events after the reporting period

No events have occurred subsequent to the balance sheet date that would have a material impact on the condensed consolidated interim financial statements as at 30 June 2022.