Czech Gas Networks Investments S.à r.l.

Condensed Consolidated Interim Financial Statements

30 June 2021

Contents

Condensed Consolidated Interim Statement of Financial Position as at 30 June 2021

In CZK millions	Note	30 June 2021	31 December 2020
ASSETS			
Non-current assets			
Property, plant and equipment	7	102,663	105,250
Right-of-use assets		2,903	2,206
Intangible assets		698	743
Derivative financial assets	9	1,072	307
Other non-current assets		1	1
Total non-current assets		**107,337**	**108,507**
Current assets			
Inventories		5	5
Trade and other receivables		564	575
Other taxes receivable		10	62
Cash and cash equivalents		1,883	1,741
Total current assets		**2,462**	**2,383**
TOTAL ASSETS		**109,799**	**110,890**
EQUITY			
Share capital		1	1
Share premium		27,219	27,219
Accumulated deficit		(9,073)	(3,388)
Total equity		**18,147**	**23,832**
LIABILITIES			
Borrowings	8,10	70,065	65,620
Lease liabilities	10	1,861	1,215
Deferred income tax liabilities		15,101	15,453
Provisions		11	17
Other non-current liabilities		288	292
Derivative financial liabilities	9	1,738	742
Total non-current liabilities		**89,064**	**83,339**
Current liabilities			
Borrowings	8,10	355	384
Lease liabilities	10	204	165
Trade and other payables	5.4	1,420	2,110
Contract liabilities	5.4	24	573
Current income tax payable		278	122
Other taxes payable		228	267
Provisions		79	98
Total current liabilities		**2,588**	**3,719**
Total liabilities		**91,653**	**87,058**
TOTAL LIABILITIES AND EQUITY		**109,799**	**110,890**

Approved for issue and signed on behalf of Board of Managers on 28 September 2021.

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	2021	2020
Revenue	5.1	**8,187**	7,610
Other income		52	26
Work performed by the Group and capitalised		174	170
Net impairment (charge)/reversals on financial assets		(2)	1
Raw materials and consumables used		(103)	(113)
Employee benefits expense		(902)	(825)
Depreciation and amortisation		(3,662)	(3,793)
Services	5.2	(1,132)	(1,492)
Other operating expenses		(409)	(498)
Operating profit		**2,203**	**1,086**
Finance income		806	8*
Finance costs	5.3	(1,498)	(3,185)*
Profit before income tax		**1,511**	**(2,091)**
Income tax expense		(257)	(121)
PROFIT FOR THE PERIOD		**1,254**	**(2,212)**
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**1,254**	**(2,212)**

* See Note 2 for details about restatement of net presentation of result on trading derivatives

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 2020		**1**	**27,856**	**(501)**	**27,356**
Loss for the six-month period ended 30 June 2020		-	-	(2,212)	(2,212)
Total comprehensive loss for six-month period ended 30 June 2020		**-**	**-**	**(2,212)**	**(2,212)**
Capital distributions to the shareholder other than dividend		-	(253)	-	(253)
Balance as at 30 June 2020		**1**	**27,603**	**(2,713)**	**24,891**

In CZK millions	**Note**	**Share capital**	**Share premium account**	**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**

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

In CZK millions	Note	2021	2020
Cash flows from operating activities			
Cash generated from operations		5,028	4,274*
Income taxes paid		(464)	(268)
Interest paid	10, 5.3	(1,106)	(1,112)*
Net cash from operating activities		**3,458**	**2,894**
Cash flows used in investing activities			
Purchases of property, plant and equipment and intangible assets		(1,377)	(1,095)
Proceeds from the sale of property, plant and equipment		27	3
Net cash used in investing activities		**(1,350)**	**(1,092)**
Cash flows used in financing activities			
Principal elements of lease payments	10	(132)	(158)
Loans received from credit institutions	10	21,500	
Loans repaid to credit institutions	10	(21,764)	
Bond issued	10	13,069	
Loans repaid to shareholders	10	(7,700)	
Capital distributions to shareholders other than dividends		-	(253)
Dividends paid to the Company's shareholders	6	(6,939)	-
Net cash used in financing activities		**(1,966)**	**(343)**
Change in cash and cash equivalents		142	1,391
Cash and cash equivalents at the beginning of the period		**1,741**	**926**
Cash and cash equivalents at the end of the period		**1,883**	**2,317**

* See Note 2 for details about restatement of net presentation of result on trading derivatives

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 2021 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 2021 and 31 December 2020, 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 revenues allowed (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 final methodology parameters for price regulation for the 5th regulatory period were published on 9 June 2020.

They follow with the expectations which included, amongst others, a pre-agreed trajectory of Regulated Asset Base (RAB) reconciliation to net book values of fixed assets until 2025, setting a new value of 6.43% for the regulatory WACC parameter for the whole period, and a balanced framework for allowed operating costs covering inflation and efficiency requirements. Overall, tariff stability is expected to be maintained, while providing sufficient cash flow to finance the Group's capital expenditures needed to renew the network.

Significant changes in the current reporting period. The operating profit for the six-month period ended 30 June 2021 was affected by the following factors:

- Positive impact on revenues of CZK 577 million compared to the half-year ended 30 June 2020 mainly caused by weather, as temperatures in the first half of 2021 were lower than Czech Electricity and Gas market operator (OTE) long-term average.
- Estimate of negative impact of COVID-19 on revenues from the sale of capacity of CZK 69 million.
- CZK 360 million decrease in services is mainly affected by termination of service-level agreements with the innogy Group during 2020. The total decrease in service-level agreement expenses (without IT services) from innogy Group of CZK 267 million is partly compensated by an increase in services purchased from third parties. Some of them are now provided in-house and lead to other than service cost increases. The main effects of the termination of service level agreements with the innogy Group during 2020 are as follows:
    - Increase in supporting function operating services (facility, car fleet) by CZK 17 million.
    - Increase in employee benefits expenses by CZK 77 million corresponds with transfer of employees within the operational separation of the Group from the innogy Group in the Czech Republic. The transaction was completed before 31 December 2020.
    - Higher depreciation by CZK 68 million caused by split from the innogy Group in 2020.

A significant part of the lease contracts for the gas distribution network is concluded mainly with municipalities for an indefinite lease period, and the lease payment is a subject to the regulation. The lease payments of these contracts might be modified for a new regulatory period only, as stated in the lease contracts. Therefore, on 1 January 2021, with the beginning of the 5th regulatory period, those lease contracts were valorised; the valorisation resulted in an increase in the lease payments. The Group recognised lease modification for such contracts and recognised the CZK 704 million increase in the right-of-use assets and CZK 704 million increase in lease liabilities.

There were no other significant events and transactions affecting the six-month period ended 30 June 2021.

2 Significant accounting policies

Basis of preparation. This condensed consolidated interim financial information for the period of six months ended 30 June 2021 (“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 2020, 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 2020.

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 causing the COVID-19 disease was confirmed in early 2020. The COVID-19 pandemic developed rapidly in 2020 with a significant number of cases. Measures taken by various governments to contain the virus have impacted economic activity. The Group has taken a number of steps to monitor and mitigate the effects of COVID-19, such as safety and health measures for our employees and securing a safe and reliable supply of natural gas to its customers. At this stage, the impact on the Group’s business and results has not been significant and, based on its experience to date, the Group expects this to remain the case. The Group met all of its planned business and communication targets. The pandemic resulted in a broader use of digital communication, a trend the Group will continue to pursue in the future while preserving a strong control environment.

The Group will also continue to follow the various government policies and advice and, in parallel, the Group will do its utmost to continue its operations in the best and safest way possible without jeopardising the health of its employees.

Despite the incidence of COVID-19, the Group's business performance and cash flows were not significantly affected in neither the year ended 31 December 2020 nor in the period of six months ended 30 June 2021. The Group assessed the negative impact on revenues from the sale of network capacity to be approximately CZK 69 million for the period of six months ended 30 June 2021, which, however, was compensated by other positive revenue impacts.

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

Restatement of comparative information. The Group revised comparative information for the comparative period ended 30 June 2020 presented in the statement of profit or loss and statement of cash flows including making respective changes in items recognised. The presentation of finance income decreased by CZK 708 million and finance costs increased by CZK 708 million to present loss on trading derivatives as net amount.
The presentation of interest paid in the Statement of cash flows increased by CZK 158 million as an effect from realised derivatives presented as interest paid (see Note 5.3]

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 2021**	**six-month period ended 30 June 2020**
Revenue from gas distribution	8,126	7,555
Revenues from rendering of other services and sale of goods	61	55
Total revenue	**8,187**	**7,610**

For the six-month period ended 30 June 2021, the Group recognised 97% of total gas distribution revenue from wholesale traders of gas (2020: 97%) and 3% from end-consumers of gas distribution (2020: 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 2021**	**six-month period ended 30 June 2020**
Revenues from gas distribution		
Large- and medium-sized consumers category	2,782	2,619
Small-sized customers category	1,252	1,164
Households category	4,092	3,772
Total revenue from gas distribution	**8,126**	**7,555**

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 2021**	**six-month period ended 30 June 2020**
Gas transportation	539	631
IT and network services*	203	232
Consultancy and other fees	63	38
Gas network maintenance	116	123
Energy market operation fees	102	82
Travel expenses	15	15
Car fleet maintenance	14	4
Facility services	11	4
Other service level agreement services*	10	290
Training expenses	8	5
Phone costs	5	9
Billing services*	-	25
Other services	46	34
Total services	**1,132**	**1,492**

*Service expenses categories were mainly affected by the termination of service-level agreements with innogy Group.

5.3 Finance costs

In CZK millions	**six-month period ended 30 June 2021**	**six-month period ended 30 June 2020**
Interest costs		
Interest expense on borrowings	979	1068
Interest expense on the lease liability	29	25
Less capitalised finance costs	(5)	(11)
Net interest costs recognised in profit or loss	**1,003**	**1082**
Other finance costs		
Foreign exchange losses	26	860
Net loss on trading derivatives	469	1,243
Total finance costs recognised in profit or loss	**1,498**	**3,185**

The effect from realised derivatives amounting to CZK 238 million in the six-month period ended 30 June 2021 (2019: CZK 158 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 2021 as compared to the six-month period ended 30 June 2020 due to a restructuring of borrowings in the second half of 2020 and 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 2021 decreased by CZK 549 million in comparison with the balance as at 31 December 2020.

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

In CZK millions	**30 June 2021**	**31 December 2020**
Contract liabilities – advances from customers for gas distribution	17	571
Contract liabilities – advances from customers (services)	7	2
Total current contract liabilities	**24**	**573**

Trade and other payables decreased by CZK 690 million in comparison with the balance as at 31 December 2020. The main part of the decrease is caused by a CZK 397 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 220 million decrease in trade liabilities (mainly for gas distribution, electricity and other services). Furthermore, the deposit with customers and other liabilities decreased by CZK 73 million.

6 Dividends

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

In CZK millions	**2021**	**2020**
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**	**0.0**

All dividends are declared and paid in CZK.

On 25 June 2021, the General Meeting approved the individual financial statements of the Company under Luxembourg GAAP for 2020 with the profit for the year 2020 of CZK 17,550 million and decided about the distribution of dividend in the amount of CZK 850 million paid in 2020 as interim dividend.

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 2021	220	3,064	104,937	5,473	706	114,400
Accumulated depreciation	-	(560)	(7,293)	(1,297)	-	(9,150)
Carrying amount as at 1 January 2021	**220**	**2,504**	**97,644**	**4,176**	**706**	**105,250**
Additions	1	6	312	129	415	863
Transfers	1	4	50	25	(80)	-
Disposals	(1)	(4)	(36)	(12)	-	(53)
Depreciation charge	-	(182)	(2,781)	(434)	-	(3,397)
Carrying amount as at 30 June 2021	**221**	**2,328**	**95,189**	**3,884**	**1,041**	**102,663**
Cost as at 30 June 2020	221	3,070	105,125	5,612	1,041	115,069
Accumulated depreciation	-	(742)	(9,936)	(1,728)	-	(12,406)
Carrying amount as at 30 June 2021	**221**	**2,328**	**95,189**	**3,884**	**1,041**	**102,663**

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 5 million during the six-month period ended 30 June 2021 (2020: CZK 11 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 1.19% in the six-month period ended 30 June 2021 (2020: 2.29%). The Group capitalised own constructed fixed assets (mainly gas network) of CZK 174 million during the six-month period ended 30 June 2021 (2020: CZK 170 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 2021**	**31 December 2020**
Term loans		
- Non-current portion	70,065	65,620
- Current portion	355	384
Total borrowings	**70,420**	**66,004**

In CZK millions	**30 June 2021**	**31 December 2020**
Non-current borrowings		
Bonds		
- EUR Tranches	27,873	15,587
- CZK Tranche	6,738	6,738
Bank borrowings		
- Komerční banka, a.s.	21,410	21,551
Loans from shareholder		
- Czech Gas Network S.à r.l.	14,044	21,744
Total non-current borrowings	**70,065**	**65,620**
Current borrowings – interest accrued		
- Loans from shareholder Czech Gas Network S.à r.l.	140	269
- Bonds	215	115
Total current borrowings	**355**	**384**
Total borrowings	**70,420**	**66,004**

Bonds. Non-current bond borrowings consist of 2 issues of EUR notes and 1 issue of CZK notes as at 30 June 2021 (1 issue of EUR notes and 1 issue of CZK notes as at 31 December 2020).

Details of the bonds issued were as follows:

Issue	**Issuer**	**Maturity date**	**Interest rate**	**30 June 2021**	**31 December 2020**
EUR fixed interest rate bonds Tranche 1	The Company	16 July 2027	1.00%	15,291	15,661
CZK floating interest rate notes	The Company	22 July 2026	1.00% + 6M PRIBOR	6,778	6,779
EUR fixed interest rate bonds Tranche 2	The Company	31 March 2031	0.875%	12,757	-
Total				**34,826**	**22,440**

On 31 March 2021 the Group issued new EUR 500 million euro note with coupon rate of 0,875% p.a. (Tranche 2) and maturity 10 years on 31 March 2031. Net proceeds were used at the same date for a

prepayment of bank borrowings, specifically Facility A and Facility C were reimbursed in advance in full and Facility B in part.

Bank borrowings. Non-current bank borrowings consist of 2 tranches as at 30 June 2021 with the effective interest rate of 1.34 % p.a. (as at 31 December 2020: 4 tranches with weighted average interest rate of 1.38 % p.a.)

Non-current bank borrowings as at 30 June 2021 have maturities in 2024:

Nature	Lender	Maturity date	Interest rate	Currency	Carrying amount as at 30 June 2021
Term loan Facility	Komerční Banka, a.s.	20 May 2028	0.55% + PRIBOR 6m	CZK	20,415
Capex Facility	Komerční Banka, a.s.	20 May 2028	0.55% + PRIBOR 6m	CZK	995
Total					**21,410**

Non-current bank borrowings as at 31 December 2020 had maturities ranging from 2024 to 2026.

Nature	Lender	Maturity date	Interest rate	Currency	Carrying amount as at 31 December 2020
Facility A1	Komerční Banka, a.s.	30 September 2024	1.25% + EURIBOR 6m	EUR	1,299
Facility B	Komerční Banka, a.s.	30 September 2024	0.9% + PRIBOR 6m	CZK	9,776
Facility C	Komerční Banka, a.s.	30 September 2026	1.1% + PRIBOR 6m	CZK	9,776
Capex Facility	Komerční Banka, a.s.	30 September 2024	0.9% + PRIBOR 6m	CZK	700
Total					**21,551**

On 31 March 2021 the Group used proceeds from EUR 500 million euro-notes issued at the same date and in advance fully reimbursed Facility A1 and Facility C and partially also Facility B.

On 18 May 2021 the Group entered into new Senior Facilities Agreement (new SFA) and on 20 May 2021 the Group reimbursed in advance outstanding part of Facility B and Capex Facility using the proceeds utilized under the new SFA.

Total loss on the extinguishment of bank borrowings in March and May 2021 amounted CZK 228 million and was recognised in finance cost in the six-month period ended 30 June 2021 (CZK 0 million was recognised in finance cost in the six-month period ended 30 June 2020).

The total amount utilized under the new SFA in the six-month period ended 30 June 2021 was CZK 21,500 less CZK 92 million in transaction costs.

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

Loans from Shareholder consist of 1 tranche of Loan Notes as at 30 June 2021 (2 tranches as at 31 December 2020).

In May 2021 the Group prepaid the Loan Notes A in a principal amount of CZK 7,700 million and thus only Loan Notes B in the amount of CZK 14,044 million remain unpaid as at 30 June 2021.

Loans Notes B 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.

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

Tranche	Noteholder	Maturity date	Interest rate	31 December 2020
Loan Notes A	CGN	30 September 2044	4.90%	7,795
Loan Notes B	CGN	30 September 2044	4.90%	14,218
Total				**22,013**

Current borrowings as at 30 June 2021 amount to CZK 355 million and consist of accrued interest payable on the loan notes issued by the Group to its shareholder of CZK 140 million (as at 31 December 2019: CZK 269 million) and accrued interest payable on the EUR Tranches and CZK Tranche of bonds of CZK 215 million (as at 31 December 2019: CZK 115 million).

9 Derivative financial instruments

The Group entered into several derivative contracts under which:

- a minimum of 85% of the notional amount of all borrowings denominated in a currency other than CZK is hedged through cross-currency swaps for a term of at least 12 month;
- 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 the group executed a number of forward-starting interest rate swaps to adjust interest rate hedge ratio to 90% from 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 hedge 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.

The fair value of interest swap agreements (derivative asset) amounted to CZK 1,072 million (as at 31 December 2020: CZK 307 million), and the fair value of interest swap agreements and cross currency interest-rate swaps (derivative liability) amounted to CZK 1,738 million as at 31 December 2020 (as at 31 December 2019: CZK 742 million).

In CZK millions	**30 June 2021**	**31 December 2020**
Non-current assets		
Interest-rate swaps	1,072	307
Non-current liabilities	**(1,738)**	**(742)**
Interest-rate swaps	(122)	(653)
Cross currency interest-rate swaps	(1,616)	(89)
Total net fair value of derivative financial instruments	**(666)**	**(435)**

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. 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.

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 11.

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 2021**	**Six-month period ended 30 June 2020**
Interest-rate swaps		
Fair value loss on interest-rate swaps	(1,528)	(1,765)
Cross currency interest-rate swaps		
Fair value gain on cross-currency interest-rate swaps	1,297	680
Net loss on derivative financial instruments	**(231)**	**(1,085)**

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 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 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)
New leases and modifications of leases		-	-	-	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 (Note 1).

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 2021 and 31 December 2020.

Capital expenditure commitments. As at 30 June 2021, the Group has contractual capital expenditure commitments in respect of property, plant and equipment of CZK 3,894 million (31 December 2020: CZK 2,651 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 2021	**31 December 2020**
Borrowings	14,184	22,013

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 2021	**Six-month period ended 30 June 2020**
Finance costs	484	531

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 4 Senior Executives in the six-month period ended 30 June 2021 and 2020 is set out below.

	Six-month period ended 30 June 2021		**Six-month period ended 30 June 2020**	
In CZK millions	**Expense**	**Trade and other payables**	**Expense**	**Trade and other payables**
Short-term benefits:				
- Salaries	8	-	7	-
- Short-term bonuses	-	1	-	9
- Social security costs	4	-	2	-
Other long-term employee benefits:				
- Long-term motivation program	-	1	-	3
Total key management compensation	**12**	**2**	**9**	**12**

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 4 million is presented as a depreciation of the right-of-use assets in the six-month period ended 30 June 2021 (2020: CZK 3 million).

13 Fair-value measurement of financial instruments

Fair-value (“FV”) measurements are analysed by level in the fair-value hierarchy in the following manner: (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 own 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 2021 and 31 December 2020 adjusted for the own credit risk applied as at the contract date.

The fair value of 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 2021 and 31 December 2020 and adjusted for the own credit risk applied as at the contract date.

Recurring fair value measurements in CZK millions	**30 June 2021** **Level 2 fair value**	**31 December 2020** **Level 2 fair value**
ASSETS		
Derivatives		
- Interest-rate swaps	1,072	307
TOTAL ASSETS	**1,072**	**307**
LIABILITIES		
Derivatives		
- Interest-rate swaps	(122)	(653)
- Cross currency interest swap	(1,616)	(89)
TOTAL LIABILITIES	**(1,738)**	**(742)**

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:

The fair value of bonds issued (Note 8) amounts to CZK 35,396 million as at 30 June 2020 (as at 31 December 2020: CZK 23,197 million). 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. From 30 September 2019 to 30 June 2021, there was a significant increase in the market long-interest rate (from 1.26% as of 30 September 2019 to 2,09% as of 30 June 2021) which leads to decrease in the fair value of the liability to shareholders to CZK 12,572 million. The loans from shareholders belong to level 3 of the fair value hierarchy.

For all other borrowings as at 30 June 2021 and 31 December 2020, their fair values were not materially different from their carrying amounts. All other borrowings had level 3 of the fair value hierarchy.

Carrying values of Trade and other receivables, Trade and other payables approximate to their fair values because of their current nature.

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 anticipated 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 amortised cost. The discount rate was determined as a sum of the intra-group margin and IRS rate.

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.

14 Presentation of financial instruments by measurement category

As at 30 June 2021 and 31 December 2020, 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

In July 2021, the Group entered into a number of forward starting interest rate swap agreements to hedge the interest 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 hedging 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 8).

On 8 September 2021, the Group issued and placed EUR 500 million (equivalent of CZK 12,744 million) fixed rate Green bond (EUR Green Bond) on international capital markets. The Green Bonds 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 Green Bonds (ISIN XS2382953789) are due in 2029. The Green Bonds proceeds were used to redeem the Capex Facility and partly Term-loan facility (for more information, please, see Note 8).

In September 2021, the Group also entered into a number of cross-currency swap agreements, all maturing on 8 September 2029, to hedge the notional amount of the Green Bonds for the total amount of EUR 364 million (equivalent of CZK 9,278 million) to cover the Group's position in EUR.

No other 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 2021.