Czech Gas Networks Investments S.à r.l.

Condensed Consolidated Interim Financial Statements

30 June 2023

Contents

Condensed Consolidated Interim Statement of Financial Position as at 30 June 2023

In CZK millions	Note	30 June 2023	31 December 2022
ASSETS			
Non-current assets			
Property, plant and equipment	7	97,379	99,450
Right-of-use assets		3,365	3,151
Intangible assets		749	818
Derivative financial assets	9,13	3,469	4,962
Other non-current assets		1	1
Total non-current assets		**104,963**	**108,382**
Current assets			
Inventories		8	6
Trade and other receivables	3.5	713	585
Income tax prepayment		25	8
Other taxes receivable		16	1
Cash and cash equivalents	3.4	2,253	4,040
Derivative financial assets	3.12	2,579	2,888
Total current assets		**5,594**	**7,528**
TOTAL ASSETS		**110,557**	**115,910**
EQUITY			
Share capital		1	1
Share premium		26,173	26,173
Accumulated deficit		(12,572)	(9,382)
Total equity		**13,602**	**16,792**
LIABILITIES			
Non-current liabilities			
Borrowings	8,10	67,458	68,554
Lease liabilities	10	2,218	2,037
Deferred income tax liabilities		13,885	14,133
Provisions		8	56
Other non-current liabilities		308	320
Derivative financial liabilities	9,13	7,082	7,179
Total non-current liabilities		**90,959**	**92,279**
Current liabilities			
Borrowings	8,10	1,092	595
Lease liabilities	10	232	235
Trade and other payables	5.4	1,544	2,261
Contract liabilities	5.4	304	745
Current income tax payable		30	43
Other taxes payable		182	168
Provisions		71	77
Derivative financial liabilities	9,13	2,541	2,715
Total current liabilities		**5,996**	**6,839**
Total liabilities		**96,955**	**99,118**
TOTAL LIABILITIES AND EQUITY		**110,557**	**115,910**

Approved for issue and signed on behalf of Board of Managers on 8 September 2023.

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William Price
Manager

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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	2023	2022
Revenue	5.1	**7,040**	**7,603**
Other income		35	54
Work performed by the Group and capitalised		180	153
Net impairment (charge)/reversals on financial assets		(21)	(16)
Raw materials and consumables used		(150)	(155)
Employee benefits expense		(1,005)	(881)
Depreciation and amortisation		(3,388)	(3,462)
Services	5.2	(1,348)	(1,212)
Other operating expenses		(386)	(449)
Operating profit		**957**	**1,634**
Finance income		711	231
Finance costs	5.3	(2,432)	(2,231)
Profit / (Loss) before income tax		**(764)**	**(366)**
Income tax expense		(20)	(149)
LOSS FOR THE PERIOD		**(784)**	**(515)**
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(784)**	**(515)**

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 2022		1	**27,219**	**(6,667)**	**20,553**
Loss for the six-month period ended 30 June 2022		-	-	(515)	(515)
Total comprehensive loss 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**

In CZK millions	Note	Share capital	Share premium account	Accumulated deficit	Total
Balance as at 1 January 2023		1	**26,173**	**(9,382)**	**16,792**
Loss for the six-month period ended 30 June 2023		-	-	(784)	(784)
Total comprehensive loss for six-month period ended 30 June 2022		**-**	**-**	**(784)**	**(784)**
Dividends declared and paid	6	-	-	(2,406)	(2,406)
Balance as at 30 June 2023		**1**	**26,173**	**(12,572)**	**13,602**

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

In CZK millions	**Note**	**2023**	**2022**
Cash flows from operating activities			
Cash generated from operations		3,224	4,917
Income taxes paid		(299)	(510)
Interest paid	10	(1,165)	(410)
Payments received (paid) for settlement of derivatives	5.3	273	(221)
Net cash from operating activities		**2,033**	**3,776**
Cash flows used in investing activities			
Purchases of property, plant and equipment and intangible assets		(1,252)	(1,134)
Proceeds from the sale of property, plant and equipment		5	17
Net cash used in investing activities		**(1,247)**	**(1,117)**
Cash flows used in financing activities			
Principal elements of lease payments	10	(167)	(146)
Loans received from credit institutions	10	-	500
Dividends paid to the Company's shareholders	6	(2,406)	-
Net cash used in financing activities		**(2,573)**	**(354)**
Change in cash and cash equivalents		(1,787)	3,013
Cash and cash equivalents at the beginning of the period		**4,040**	**1,376**
Cash and cash equivalents at the end of the period		**2,253**	**4,389**

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 2023 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 2023 and 31 December 2022, 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 2023 is the third year of the fifth regulatory period.

The high price of natural gas in 2022 resulted in a several-fold increase in the cost of covering gas losses in the distribution system for 2023. Therefore, at the end of 2022, a government decree decided on the so-called capping of gas prices to cover gas losses for distribution companies for the year 2023. The government determined the upper limit of this price in the amount of the price for gas losses in 2022 and established the conditions for the compensation of costs to gas suppliers for losses of the distribution companies. Due to this fact the Company pays for gas losses incurred in 2023 similar unit price as in 2022.

During the six-month period of 2023 ERO started a project with the objective to prepare methodology for the sixth regulatory period starting from 2026. The documents should be ready for the public consultation process planned for summer 2024. After approval, the documents will be valid as a regulatory methodology for the sixth regulatory period. ERO created several working groups in which the regulated companies including GasNet participate, mainly analysing regulated OPEX, RAB and WACC and also discussing topics specific for the whole gas industry.

Significant changes in the current reporting period. The operating profit for the six-month period ended 30 June 2023 was affected by the following factor:

- Negative impact on revenues of CZK 563 million compared to the half-year ended 30 June 2022 was mainly caused by the lower distribution volume that decreased due to European energy crisis.

There were no other significant events and transactions affecting the six-month periods ended 30 June 2023.

2 Significant accounting policies

Basis of preparation. This condensed consolidated interim financial information for the period of six months ended 30 June 2023 ("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 2022, 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 2022.

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.

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 Czech Republic has made substantial strides in reducing its dependence on Russian gas supplies. Currently, these supplies constitute less than 5% of the nation's total gas intake. This transformation is underscored by the nation's strategic shift towards sourcing a majority of its gas requirements from other sources such as LNG and Norwegian gas. The Group has assessed several scenarios concerning shortage of natural gas supplies to the Czech Republic and has not identified any 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 2023**	**six-month period ended 30 June 2022**
Revenue from gas distribution	6,912	7,471
Revenues from rendering of other services and sale of goods	129	132
Total revenue	**7,041**	**7,603**

For the six-month period ended 30 June 2023, the Group recognised 95% of total gas distribution revenue from wholesale traders of gas (2022: 96%) and 5% from end-consumers of gas distribution (2022: 4%). 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 2023**	**six-month period ended 30 June 2022**
Revenues from gas distribution		
Large- and medium-sized consumers category	2,525	2,661
Small-sized customers category	1,029	1,148
Households category	3,358	3,662
Total revenue from gas distribution	**6,912**	**7,471**

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 2023**	**six-month period ended 30 June 2022**
Gas transportation	803	727
IT and network services	201	200
Other services	88	50
Gas network maintenance	70	69
Energy market operation fees	55	70
Consultancy and other fees	37	20
Facility services and other maintenance	28	16
Travel expenses	24	19
Measurement of gas consumption	19	18
Car fleet maintenance	11	9
Training expenses	7	10
Phone costs	5	4
Total services	**1,348**	**1,212**

5.3 Finance costs

In CZK millions	**six-month period ended 30 June 2023**	**six-month period ended 30 June 2022**
Interest costs		
Interest expense on borrowings	1,163	818
Interest expense on the lease liability	41	38
Less capitalised finance costs	(29)	(17)
Net interest costs recognised in profit or loss	**1,175**	**839**
Other finance costs		
Foreign exchange losses	-	-
Net loss on trading derivatives	1,257	1,392
Thereof: Loss on unrealised derivatives	1,530	1,171
Loss (Gain) on realised derivatives	(273)	221
Total finance costs recognised in profit or loss	**2,432**	**2,231**

The effect from realised derivatives was presented in the Statement of cash flows separately.

Interest expense on borrowings increased in the six-month period ended 30 June 2023 as compared to the six-month period ended 30 June 2022 due to the increase of interest rates in the Czech Republic in 2022. However, this adverse impact was compensated by gain on realised derivatives that the Group concluded to mitigate the interest-rate risk.

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 the 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.. Total contract liabilities as at 30 June 2023 decreased by CZK 441 million in comparison with the balance as at 31 December 2022.

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

In CZK millions	**30 June 2023**	**31 December 2022**
Contract liabilities – advances from customers for gas distribution	304	745
Total current contract liabilities	**304**	**745**

Trade and other payables decreased by CZK 717 million in comparison with the balance as at 31 December 2022. The main part of the decrease is caused by a trade liabilities decrease of CZK 351 million (mainly for gas distribution, electricity and other services) and estimated liabilites of CZK 83 million due to seasonality and the peak of heating season in December. The furter decrease represents a decrease of CZK 96 million of tliabilities from investment activities driven by seasonality, when investment activities are mainly finalised during the last quarter and before the year. Furthermore, the liabilities to employees decreased by CZK 137 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	**2023**	**2022**
Dividends payable as at 1 January		
Interim dividends declared during the interim period	2,406	-
Interim dividends paid during the interim period	(2,406)	-
Dividends payable as at 30 June	**-**	**-**
Dividends per share declared in the period of six months ended 30 June	**-**	**-**

All dividends are declared and paid in CZK.

On 24 May 2023, the Board of Managers decided to pay out interim dividends from retained earnings in the amount of CZK 2,406 million, the cash settlement was performed on 2 June 2023.

On 22 June 2023, the Sole Shareholder approved the individual financial statements of the Company under Luxembourg GAAP for 2022 with the profit for the year 2022 of CZK 1,260 million and decided about the full allocation to retained earnings of the Company.

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 2023	226	3,668	110,175	6,630	756	121,455
Accumulated depreciation	-	(1,164)	(17,984)	(2,857)	-	(22,005)
Carrying amount as at 1 January 2023	**226**	**2,504**	**92,191**	**3,773**	**756**	**99,450**
Additions	2	14	302	137	665	1,120
Transfers	1	5	42	11	(59)	-
Disposals	(1)	(1)	(22)	(8)	(14)	(46)
Depreciation charge	-	(113)	(2,643)	(390)	-	(3,146)
Carrying amount as at 30 June 2023	**228**	**2,409**	**89,870**	**3,523**	**1,348**	**97,378**
Cost as at 30 June 2023	228	3,684	110,490	6,748	1,348	122,498
Accumulated depreciation	-	(1,275)	(20,620)	(3,225)	-	(25,120)
Carrying amount as at 30 June 2023	**228**	**2,409**	**89,870**	**3,523**	**1,348**	**97,378**

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 29 million during the six-month period ended 30 June 2023 (2022: CZK 17 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 11.76% in the six-month period ended 30 June 2023 (2022: 6.72%). The Group capitalised own constructed fixed assets (mainly gas network) of CZK 180 million during the six-month period ended 30 June 2023 (2022: CZK 153 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 2023**	**31 December 2022**
Term loans		
- Non-current portion	67,458	68,554
- Current portion	1,092	595
Total borrowings	**68,550**	**69,149**

In CZK millions	**30 June 2023**	**31 December 2022**
Non-current borrowings		
Bonds		
- EUR Tranches	37,778	38,377
- CZK Tranche	6,743	6,742
Bank borrowings		
- Multiple lenders	8,893	9,391
Loans from shareholder		
- Czech Gas Network S.à r.l.	14,044	14,044
Total non-current borrowings	**67,458**	**68,554**
Current borrowings		
- Loans from shareholder Czech Gas Network S.à r.l.	115	173
- Bank borrowings	520	-
- Bonds	457	422
Total current borrowings	**1,092**	**595**
Total borrowings	**68,550**	**69,149**

Current borrowings as at 30 June 2023 amount to CZK 1,092 million (as at 31 December 2022: CZK 595 million) and consist of accrued interest payable on the loan notes issued by the Group to its shareholder of CZK 115 million (as at 31 December 2022: CZK 173 million), accrued interest payable on the EUR Tranches and CZK Tranche of bonds of CZK 457 million (as at 31 December 2022: CZK 422 million) and Capex facility of CZK 500 million and the accrued interest payable on this facility of CZK 20 million.

Bank borrowings. Non-current bank borrowings consist of 1 tranche as at 30 June 2023 with the effective interest rate of 8.45 % p.a. (as at 31 December 2022: 2 tranches with effective interest rate of 6.63% p.a.)

Non-current bank borrowings as at 30 June 2023 have maturities in 2028:

Nature	Lender	Maturity date	Interest rate	Currency	Carrying amount as at 30 June 2023	Carrying amount as at 31 December 2022
Facility A	Multiple lenders	20 May 2028	0.55% + PRIBOR 6m	CZK	8,893	8,891
Capex Facility	Multiple lenders	20 May 2028	0.55% + PRIBOR 6m	CZK	-	500
Total					**8,893**	**9,391**

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.

The Group decided to prepay the Capex Facility of CZK 500 million earlier than on contractual due date 20 May 2028. The loan was repaid on 3 July 2023 and is presented as Current borrowings as at 30 June 2023.

Bonds issued. Non-current bond borrowings consist of 3 issues of EUR notes and 1 issue of CZK notes as at 30 June 2023 and as at 31 December 2022.

Details of the bonds issued were as follows:

Issue	Issuer	Maturity date	Interest rate	30 June 2023	31 December 2022
EUR fixed interest rate bonds	The Company	16 July 2027	1.00%	14,310	14,465
CZK floating interest rate notes	The Company	21 July 2026	1.00% + 6M PRIBOR	6,995	7,000
EUR bonds	The Company	31 March 2031	0.875%	11,819	12,058
EUR Green Notes	The Company	8 September 2029	0.450%	11,854	12,018
Total				**44,978**	**45,541**

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

Tranche	Noteholder	Maturity date	Interest rate	30 June 2023	31 December 2022
Loan Notes	CGN	30 September 2044	4.90%	14,159	14,217
Total				**14,159**	**14,217**

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 multiple derivative contracts with banks under which:

- the foreign exchange 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.

In April 2023, the Group entered into three fixed-to-fixed cross-currency swap agreements maturing on 16 July 2027, 8 September 2029 and 31 March 2031 to mitigate the foreign exchange risk related to the EUR fixed interest rate notes previously issued by the Group for, the total amount of EUR 329.704 million (equivalent of CZK 5,601 million) to cover the Group's position in EUR.

The Group did not enter into any derivative contract in 2022.

As at 30 June 2023, the total notional amount of all cross currency swaps the Group has entered into equals EUR 1,600 million (equivalent of CZK 40,775 million). Maturities of these swaps range between 2026 and 2031. As at 31 December 2022 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 2023 and as of 31 December 2022, 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 30 June 2023, 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 6,048 million as at 30 June 2023 (as at 31 December 2022: CZK 7,850 million). The fair value of cross-currency interest-rate swap agreements (derivative liability) amounted to CZK 9,623 million as at 30 June 2023 (as at 31 December 2022: CZK 9,894 million).

In CZK millions	**30 June 2023**	**31 December 2022**
Non-current assets		
Interest-rate swaps	3,469	4,962
Current assets		
Interest-rate swaps	2,579	2,888
Non-current liabilities		
Cross currency interest-rate swaps	(7,082)	(7,179)
Current liabilities		
Cross currency interest-rate swaps	(2,541)	(2,715)
Total net fair value of derivative financial instruments	**(3,575)**	**(2,044)**

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 2023**	**Six-month period ended 30 June 2022**
Interest-rate swaps		
Fair value gain (loss) on interest-rate swaps	(1,802)	2,932
Cross currency interest-rate swaps		
Fair value gain (loss) on cross-currency interest-rate swaps	271	(4,104)
Net loss on derivative financial instruments	**(1,531)**	**(1,171)**

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 2023		**9,391**	**14,217**	**45,541**	**2,272**	**71,421**
Non-cash movements:						
Interest expenses	5.3	344	341	449	41	1,175
Interest capitalised	7	29	-	-	-	29
Foreign exchange difference		-	-	(616)	-	(616)
Increase of leases and lease modifications		-	-	-	322	322
Total non-cash movements		**373**	**341**	**(167)**	**363**	**910**
Cash movements:						
Interest paid (expensed and capitalised)		(351)	(399)	(396)	(19)	(1,165)
Repayment of principal		-	-	-	(167)	(167)
Total cash movements		**(351)**	**(399)**	**(396)**	**(186)**	**(1,332)**
Liabilities from financing activities as at 30 June 2023		**9,413**	**14,159**	**44,978**	**2,449**	**70,999**

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
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**

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 2023 and 31 December 2022.

***Capital expenditure commitments*.** As at 30 June 2023, the Group has contractual capital expenditure commitments in respect of property, plant and equipment of CZK 3,969 million (31 December 2022: CZK 2,624 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 2023	**31 December 2022**
Borrowings	14,159	14,217
Trade and other receivables	3	2

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 2023	**Six-month period ended 30 June 2022**
Finance costs	341	341

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 2023 and 3 Senior Executives in the six-month period ended 30 June 2022 is set out below.

In CZK millions		**Six-month period ended 30 June 2023**			**Six-month period ended 30 June 2022**	
	Expense	**Provisions**	**Trade and other payables**	**Expense**	**Provisions**	**Trade and other payables**
Short-term benefits:						
- Salaries	10	-	-	9	-	-
- Short-term bonuses	3	-	-	-	-	1
- Social security costs	4	-	-	4	-	-
Other long-term employee benefits:						
- Long-term motivation program	4	-	-	1	30	-
Total key management compensation	**21**	**-**	**-**	**14**	**30**	**1**

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

No in kind-consideration in the form of the use of leased cars was provided in the six-month period ended 30 June 2023(2022: CZK 1 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 2023 and 31 December 2022.

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 2023 and 31 December 2022.

Recurring fair value measurements in CZK millions	**30 June 2023 Level 2 fair value**	**31 December 2022 Level 2 fair value**
ASSETS		
Derivatives		
- Interest-rate swaps	6,048	7,850
TOTAL ASSETS	**6,048**	**7,850**
LIABILITIES		
Derivatives		
- Cross currency interest swap	(9,623)	(9,894)
TOTAL LIABILITIES	**(9,623)**	**(9,894)**

The fair value of EUR fixed interest rate bonds issued amounts to CZK 30,400 million as at 30 June 2023 (as at 31 December 2022: CZK 29,409 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 2023 the fair value of the loans from shareholder amounts to CZK 12,103 million. As at 31 December 2022 their fair values were CZK 11,157 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 2023 and 31 December 2022, 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 2023 and 31 December 2022, 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

On 3 July 2023 the Company repaid the Capex facility of CZK 500 million and the related interest liability of CZK 20 million.

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 2023.