Czech Grid Holding, a.s

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	47,381	47,736
Right-of-use assets		2,903	2,206
Intangible assets		740	703
Other non-current assets		1	1
Total non-current assets		**51,025**	**50,646**
Current assets			
Inventories		5	5
Trade and other receivables		564	614
Other taxes receivable		10	62
Cash and cash equivalents		1,691	1,416
Total current assets		**2,270**	**2,097**
TOTAL ASSETS		**53,295**	**52,743**
EQUITY			
Share capital		24,158	24,158
Other distributable reserves		82	82
Accumulated deficit		(18,447)	(19,360)
Total equity		**5,793**	**4,880**
Non-current liabilities			
Borrowings	8,9	37,678	38,517
Lease liabilities	9	1,861	1,215
Deferred income tax liabilities		4,605	4,517
Provisions		11	17
Other non-current liabilities		288	292
Total non-current liabilities		**44,443**	**44,558**
Current liabilities			
Borrowings	8,9	868	-
Lease liabilities	9	204	165
Trade and other payables	1	1,393	2,095
Contract liabilities	5.4	24	573
Current income tax payable		278	122
Other taxes payable		213	252
Provisions		79	98
Total current liabilities		**3,059**	**3,305**
Total liabilities		**47,502**	**47,863**
TOTAL LIABILITIES AND EQUITY		**53,295**	**52,743**

Approved for issue and signed on behalf of Board of Directors on 16 August 2021.

Martin Gebauer
Chairman of the Board of Directors

Gary Wheatley Mazzotti
Member of the Board of Directors

Condensed Consolidated Interim Statement of Profit or Loss and Other Comprehensive Income for the six-month period ended 30 June 2021

In CZK millions	Note	2021	2020
Revenue	5.1	**8,187**	**7,610**
Other income		52	25
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		(1,380)	(1,286)
Services	5.2	(1,096)	(1,492)
Other operating expenses		(377)	(318)
Operating profit		**4,553**	**3,772**
Finance income		-	7
Finance costs	5.3	(873)	(548)
Profit before income tax		**3,680**	**3,231**
Income tax expense		(697)	(607)
PROFIT FOR THE PERIOD		**2,983**	**2,624**
OTHER COMPREHENSIVE INCOME FOR THE PERIOD		**-**	**-**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**2,983**	**2,624**

Condensed Consolidated Interim Statement of Changes in Equity for the six-month period ended 30 June 2021

In CZK millions	Note	Share capital	Other distributable reserves	Accumulated deficit	Total
Balance as at 1 January 2020		**24,158**	**82**	**(4,456)**	**19,784**
Profit for the six-month period ended 30 June 2020		-	-	2,624	2,624
Total comprehensive income for six-month period ended 30 June 2020		**-**	**-**	**2,624**	**2,624**
Dividends declared	6	-	-	(2,753)	(2,753)
Balance as at 30 June 2020		**24,158**	**82**	**(4,585)**	**19,655**

In CZK millions	Note	Share capital	Other distributable reserves	Accumulated deficit	Total
Balance as at 1 January 2021		**24,158**	**82**	**(19,360)**	**4,880**
Profit for the six-month period ended 30 June 2021		-	-	2,983	2,983
Total comprehensive income for six-month period ended 30 June 2021		**-**	**-**	**2,983**	**2,983**
Dividends declared and paid	6	-	-	(2,070)	(2,070)
Balance as at 30 June 2021		**24,158**	**82**	**(18,447)**	**5,793**

Condensed Consolidated Interim Statement of Cash Flows for the six-month period ended 30 June 2021

In CZK millions	Note	2021	2020
Cash flows from operating activities			
Profit before income tax		3,680	3,231
Adjustments:			
Depreciation and impairment of property, plant and equipment	7	1,198	1,137
Amortisation and impairment of other intangible assets		85	48
Depreciation of right-of-use assets		97	101
Net impairment charge/(reversals) on financial assets		2	(1)
Net gain on disposals of property, plant and equipment		(7)	(2)
Finance income		-	(7)
Finance costs	5.3	873	548
Operating cash flows before working capital changes		**5,928**	**5,055**
Decrease/(increase) in trade and other receivables		48	(219)
Decrease in inventories		-	1
Decrease in other non-current liabilities		(4)	(5)
Decrease in contract liabilities, trade and other payables	1, 5.4	(883)	(512)
(Decrease) / increase in provisions		(25)	67
Decrease in other taxes receivable and payable		52	-
Income taxes paid		(464)	(268)
Interest paid	9	(825)	(437)
Net cash from operating activities		**3,827**	**3,682**
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	9	(132)	(158)
Dividends paid to the Company's shareholders	6	(2,070)	(2,000)
Net cash used in financing activities		**(2,202)**	**(2,158)**
Change in cash and cash equivalents		275	432
Cash and cash equivalents at the beginning of the period		**1,416**	**822**
Cash and cash equivalents at the end of the period		**1,691**	**1,254**

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 Grid Holding, a.s. (the "Company") and its subsidiaries GasNet, s.r.o. and GasNet Služby, s.r.o. Entities Czech Grid Holding a.s., GasNet, s.r.o. and GasNet Služby, s.r.o. are together referred to as "the Group". Both subsidiaries are 100% owned by Czech Grid Holding, a.s.

The Company was incorporated and is domiciled in the Czech Republic. The Company is a public joint-stock company and was set up in accordance with Czech regulations.

As at 30 June 2021 and as at 31 December 2020, the Company was 100% owned by Czech Gas Networks Investments S.à r.l., the company with registered office at 20 Boulevard Royal, L-2449 Luxembourg, Grand Duchy of Luxembourg, Registration No. B233444, legal form: limited-liability company (société à responsabilité limitée).

Macquarie European Infrastructure Fund IV was the ultimate controlling party of the Group as at 31 December 2020 and 30 June 2021.

Registered address and place of business. The Company's registered address is Prague 9 - Prosek, Prosecká 855/68, the Czech Republic.

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 (by - 0.6 degree Celsius in February, by -0.7 degree Celsius in March, by -3 degree Celsius in April, by -2.7 degree Celsius in May).
- Estimate of negative impact of COVID-19 on revenues from the sale of capacity of CZK 69 million.
- CZK 396 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 due to purchase of non-current assets.

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.

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	**6 month period ended 30 June 2021**	**6 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
Gas network maintenance	116	123
Energy market operation fees	102	82
Consultancy fees	27	38
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	57	38
Total services	**1,096**	**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	Note	six-month period ended 30 June 2021	six-month period ended 30 June 2020
Interest expense on borrowings		849	534
Interest expense on the lease liability		29	25
Less capitalised finance costs		(5)	(11)
Total finance costs recognised in profit or loss		**873**	**548**

Interest expense on borrowings increased in the six-month period ended 30 June 2021 as compared to the six-month period ended 30 June 2020 due to a significant increase in borrowings in the second half of 2020 from the immediate parent in the course of settling interim dividends (Note 6).

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 702 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 78 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	2,070	2,753
Dividends paid during the interim period	(2,070)	(2,000)
Settlement through increase in borrowings (Note 8)	-	(753)
Dividends payable as at 30 June	**-**	**-**
Dividends per share declared in the period of six months ended (in CZK)	**53.65**	**71.36**

All dividends are declared and paid in CZK.

On 26 March 2020, the General Meeting approved the separate financial statements of the Company under local accounting rules for 2019 with the profit for the year 2019 of CZK 4,011 million and decided about the distribution of dividends in the amount of CZK 1,753 million. On 31 March 2020, there was a settlement of CZK 1,000 million in cash and CZK 753 million through an increase in borrowings.

On 24 June 2020, the General Meeting decided to pay out dividends from retained earnings in the amount of CZK 1,000 million. On 30 June 2020, there was a settlement of CZK 1,000 million in cash.

On 6 November 2020, the Company's Board of Directors approved the interim financial statements under local accounting rules as at 31 October 2020 and decided on declaring interim dividends for 2020 in the total amount of CZK 16,254 million by distribution from the interim reporting period net profit under Czech Accounting Rules. Interim dividends were settled through the increase in borrowings.

On 17 March 2021, the General Meeting approved the separate financial statements of the Company under local accounting rules for 2020 with the profit for the year 2020 of CZK 17,810 million and decided about the distribution of final dividends for 2020 in the amount of CZK 17,454 million. The difference between the final dividends and interim dividends declared for 2020 in the amount of CZK 1,200 million was recognised in the six-month period ended 30 June 2021 and was paid in cash.

On 19 May 2021, the General Meeting decided to pay out dividends from retained earnings in the amount of CZK 870 million. On 20 May 2021, there was a settlement of CZK 870 million in cash.

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	236	3,563	73,323	11,521	908	89,551
Accumulated depreciation	-	(1,673)	(31,613)	(8,529)	-	(41,815)
Carrying amount as at 1 January 2021	**236**	**1,890**	**41,710**	**2,992**	**908**	**47,736**
Additions	1	6	312	129	415	863
Transfers	1	4	50	25	(80)	-
Disposals	(1)	(2)	(14)	(3)	-	(20)
Depreciation charge	-	(63)	(854)	(281)	-	(1,198)
Carrying amount as at 30 June 2021	**237**	**1,835**	**41,204**	**2,862**	**1,243**	**47,381**
Cost as at 30 June 2020	237	3,566	73,646	11,586	1,243	90,278
Accumulated depreciation	-	(1,731)	(32,442)	(8,724)	-	(42,897)
Carrying amount as at 30 June 2021	**237**	**1,835**	**41,204**	**2,862**	**1,243**	**47,381**

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 period of six months ended 30 June 2021 (2020: CZK 11 million). The capitalisation rate used to determine the amount of borrowing costs eligible for capitalisation was 1.14% in the period of six months ended 30 June 2021 (2020: 2.00%). 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 loans provided by the shareholders, as follows:

In CZK millions	**30 June 2021**	**31 December 2020**
Term loans		
- Non-current portion	37,678	38,517
- Current portion	868	-
Total borrowings	**38,546**	**38,517**

There are no new loan facilities recognised in comparison with 31 December 2020; only the current portion of the borrowings has been reclassified.

All the Group's borrowings are denominated in CZK and bear a fixed interest rate, except for borrowing related to the construction of gas network, recognised as current.

In CZK millions	**30 June 2021**	**31 December 2020**
Non-current borrowings		
- Czech Gas Networks Investments S.à r.l.	37,678	38,517
Total non-current borrowings	**37,678**	**38,517**

Non-current borrowings consist of 15 tranches as at 30 June 2021 and as at 31 December 2020 with a weighted average interest rate of 4.44% p.a. as at 30 June 2021 (31 December 2020: 4.46% p.a.).

Non-current borrowings as at 31 December 2021 have maturities ranging from 2023 to 2036.

In CZK millions	**30 June 2021**	**31 December 2020**
Current borrowings		
- Czech Gas Networks Investments S.à r.l.	868	-
Total current borrowings	**868**	**-**

Current borrowings as at 30 June 2021 have a maturity date on 1 January 2022. They consist of a specific borrowing of CZK 800 million arranged to finance construction of a gas network. The borrowings bear a floating interest rate of 3M PRIBOR + 0.99% margin. CZK 68 million represents accrued interest outstanding as at 30 June 2021.

9 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	Borrowings	Lease liabilities	Total liabilities from financing activities
Liabilities from financing activities as at 1 January 2021		**38,517**	**1,380**	**39,897**
Non-cash movements:				
Interest expenses		844	29	873
Interest capitalised		5	-	5
New leases and modifications		-	793*	793
Total non-cash movements		**849**	**822**	**1,671**
Cash movements:				
Interest paid (expensed and capitalised)		(820)	(5)	(825)
Repayments of principal		-	(132)	(132)
Total cash movements		**(820)**	**(137)**	**(957)**
Liabilities from financing activities as at 30 June 2021		**38,546**	**2,065**	**40,611**

* Thereof CZK 704 million represent increase of lease liabilities due to the valorisation of lease contracts (note 1).

In CZK millions	Note	Borrowings	Lease liabilities	Total liabilities from financing activities
Liabilities from financing activities as at 1 January 2020		**21,510**	**1,551**	**23,061**
Non-cash movements:				
Settlement of the liability from unpaid part of dividends		753	-	753
Interest expenses		523	25	548
Interest capitalised		11	-	11
New leases and modifications		-	149	149
Total non-cash movements		**1,287**	**174**	**1,461**
Cash movements:				
Interest paid (expensed and capitalised)		(437)	-	(437)
Repayments of principal		-	(158)	(158)
Total cash movements		**(437)**	**(158)**	**(595)**
Liabilities from financing activities as at 30 June 2020		**22,360**	**1,567**	**23,927**

10 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).

11 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 CGNI S.à r.l.**	
	30 June 2021	**31 December 2020**
Borrowings	38,488	38,517

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 CGNI S.à r.l.**	
	Six-month period ended 30 June 2021	**Six-month period ended 30 June 2020**
Finance costs	845	523

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.

In CZK millions	Six-month period ended 30 June 2021		Six-month period ended 30 June 2020	
	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 1 million is presented as a depreciation of the right-of-use assets in the six-month period ended 30 June 2021 (2020: CZK 2 million).

12 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 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:

In CZK millions	30 June 2021		31 December 2020	
	Level 3 fair value	**Carrying value**	**Level 3 fair value**	**Carrying value**
LIABILITIES				
Borrowings				
- Borrowings	39,687	38,546	40,042	38,517
TOTAL LIABILITIES	**39,687**	**38,546**	**40,042**	**38,517**

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.

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.

13 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.

14 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 2021.

Report on Review of Condensed Consolidated Interim Financial Statements

To the shareholder of Czech Grid Holding, a.s.

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of Czech Grid Holding, a.s. and its subsidiaries (together – the "Group") as at 30 June 2021 and the related condensed consolidated interim statements of profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and the related explanatory notes. Management is responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed consolidated interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

16 August 2021

PricewaterhouseCoopers Audit, s.r.o.
represented by

Václav Prýmek

Soňa Hoblová
Statutory Auditor, Licence No. 2470

This report is addressed to the shareholder of Czech Grid Holding, a.s.