EPH Financing CZ, a.s.

Annual Report
for the year ending on 31 December 2020

Prague, 4 May 2022

Correction of and amendment to the Annual Report of the company EPH Financing CZ, a.s. for the year ending on 31 December 2020

The board of directors of the company EPH Financing CZ, a.s. informs that as of the date hereof the Issuer's Annual Report for the year ending on 31 December 2020 was amended and corrected by virtue of notice given by the Czech National Bank.

The following modifications were made in the Issuer's 2020 annual report submitted in chapter *II. Text part of the Annual Report*:

- Addition to the information concerning the bond issue and making use of the proceeds from the sale thereof;
- Addition to the information concerning the EPH Group;
- Addition to the information concerning the internal control principles and procedures and rules of approach to potential risks in relation to the financial reporting process;
- Addition to the information concerning auditors' remuneration;
- Addition to the information to the effect that the Company has not been a party to any judicial proceedings.

  Information as to the ultimate owner of the Company's sole shareholder was added to the notes to the financial statements.

The external auditor, i.e. Deloitte Audit s.r.o., was made familiar with the amendments to the Annual Report of EPH Financing CZ, a.s. for the year ending on 31 December 2020.

Signed	*Signed*
Marek Spurný	Pavel Horský
Member of the Board of Directors	Member of the Board of Directors

Content

I. Auditor´s Report

Deloitte Audit s.r.o.
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zapsána Městským soudem
v Praze, oddíl C, vložka 24349
IČO: 49620592
DIČ: CZ49620592

INDEPENDENT AUDITOR´S REPORT

To Shareholders of
EPH Financing CZ, a.s.

With its registered office: Pařížská 130/26, Josefov, 110 00 Prague 1

Opinion

We have audited the accompanying financial statements of EPH Financing CZ, a.s. (hereinafter "Company") prepared in accordance with International Financial Reporting Standards as adopted by the European Communities, consisting of the Statement of Financial Position as of 31 December 2020, the Statement of Comprehensive Income, the Statement of Changes in Equity and the Cash Flow Statement for the year then ended and notes to this Financial Statements, which contains a description of the significant accounting policies used and other explanatory information.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of EPH Financing CZ, a.s. as of 31 December 2020 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as amended by European Community law.

Basis for Opinion

We concluded our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council and the Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs), as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor´s Responsibilities for the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Main audit matters

The main audit matters are those that, in our professional judgment, were the most significant in the audit of the current period´s Financial Statements. We have addressed these matters in the context of the audit of the Financial Statements as a whole and in the context of forming an opinion on these Financial Statements. We do not make a separate opinion on these matters.

As stated in the notes to the Financial Statements in article 14., the Company is a Special Purpose Vehicle (SPV), which Energetický a průmyslový holding, a.s. established in order to obtain funds in the form of bond subscriptions. Funds obtained from bond subscriptions were provided to the parent company – Energetický a průmyslový holding, a.s. – in the form of a loan and further distributed to operating companies from the Energetický a průmyslový holding a.s. group. Loan loss provisions represent the best estimate of expected losses prepared by the management of the Company at the balance sheet date. The estimate was determined in accordance with the requirements of IFRS 9 Financial Instruments. The impairment model for expected credit losses uses the double valuation principle, according to which an allowance for impairment losses is valued as either: twelve-month expected credit losses, or expected credit losses over the life of the asset, depending on whether a significant increase in credit risk has been identified for the exposure. The area was selected as the main audit matter because the determination of the expected loss represents a significant judgment of the management of the Company. The most important judgment in determining the amount of the provision include the assumptions used in the model (e.g.

Deloitte.

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macroeconomic and credit risk parameters), early identification of exposures with a significant increase in risk (level 2) and non-performing exposures (level 3).
In the above area, our audit procedures included: obtaining an inventory of financial instruments and other financial assets and testing the measurement of the gross value of the receivable. Our procedures also included conducting management inquiries regarding the performance of Energetický a průmyslový holding, a.s. (including subsidiaries), reading minutes of management meetings of Energetický a průmyslový holding, a.s. We have tested the provisioning check. We used the work of an in-house specialist to assess the model of impairment of expected credit losses made by the management of the Company, their assumptions and the reliability of these estimates. The in-house specialist tested the reliability of the input data (including an assessment of macroeconomic, credit and other risk parameters). Furthermore, the in-house specialist assessed the provision calculation methodology, where the specialist assessed whether the model takes into account all relevant risks and whether the model assumptions are in line with historical results and future prospects.

Another fact

The Financial Statements of EPH Financing CZ, a.s. for the year ending on 31 December 2019, it was audited by another auditor who expressed an unqualified opinion on these Financial Statements on 30 April 2020.

Other information provided in the Annual Report

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the separate and Annual Report other than the Financial Statements and our auditor's report. The Board of Directors of the Company is responsible for the other information.

Our opinion on the consolidated Financial Statements does not cover the other information. In connection with our audit of the Financial Statements, our responsibility is to read the other information and. in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that

- the other information describing matters that are also presented in the separate and the Financial Statements is, in all material respects, consistent with the Financial Statements.
- the other information has been prepared in accordance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Board of Directors, the Supervisory Board and Audit Committee of the Company for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the Financial Statements in accordance with International Financial Reporting Standards as adopted by the European Community law and for such internal control as the statutory body determines is necessary to enable the preparation of consolidated Financial Statements that are free from material misstatement, whether due to fraud or error.

In preparing the Financial Statements, the Board of Directors is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and the Audit Committee are responsible for the oversight of the Group's financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Financial Statements.

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Financial Statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Directors.
- Conclude on the appropriateness of the Board of Director's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Financial Statements, including the disclosures, and whether the Financial Statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

It is also our responsibility to provide the Audit Committee with a statement that we have complied with the applicable ethical requirements regarding independence and to inform it of any relationships and other matters that may be reasonably believed to affect our independence and any related measures.

Furthermore, it is our responsibility to select, on the basis of matters that we have informed the Boards of Directors, the Supervisory Board and the Audit Committee, those that are most significant in the audit of the current year´s Financial Statements and which therefore constitute the main audit matters, and to describe these matters in our report. This obligation does not apply when the law prohibits the disclosure of such a matter or, in a very exceptional case, that we should not disclose the matter our report because the potential negative effects of the disclosure can reasonably be expected to outweigh the public interest benefits.

Report on other legal requirements

In accordance with Article 10 (2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, our independent auditor´s report provides the following information required in addition to International Standards on Auditing:

Appointment of the auditor and duration of the audit

On 30 April 2020, we were appointed by the General Meeting of the Company. We have been the auditor of the Company for the first year.

Compliance with the additional report for the Audit Committee

We certify that our opinion on the Financial Statements in this report is consistent with our additional report to the Audit Committee of the Company, which we prepared on 27 April 2021 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

Providing non-audit services

We declare that no non-audit services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council have been provided.

In additional to the statutory audit, we have provided the Company with the following services, which are not listed the notes to the Financial Statements:

- Review of the reporting package for purpose of consolidating the EPH group.

Report on compliance with the ESEF Regulation

We performed a reasonable assurance engagement to verify the compliance of the Financial Statements contained in the Annual Report with the provisions of Commission Delegated Regulation (EU) 2018/815 on a European single electronic format that apply to the Financial Statements ("ESEF Regulation").

Responsibility of the Board of Directors

The Board of Directors of the Company responsible for preparing the Financial Statements in accordance with the ESEF Regulation. The Board of Directors of the Company is responsible for, among other things:

- Design, implement and maintain an internal control system relevant to the application of the requirements of the ESEF Regulation.
- Preparing of Financial Statements contained in the Annual Report in valid XHTML format.

Auditor´s responsibility

Our responsibility is to express an opinion on whether the Financial Statements included in the Annual Report are consistent in all significant (material) respects with the requirements of the ESEF. We performed this reasonable assurance engagement in accordance with the International Standard on Assurance Engagements ISAE 3000 (revised) – "Assurance Engagements, which are not an audit or review of historical financial information" (hereinafter "ISAE 3000").

The nature, timing and extent of the procedures selected depend on the auditor´s judgment. A reasonable level of assurance is a high level of assurance however, it does not guarantee that verification performed in accordance with the above standard will in all cases reveal any significant non-compliance that exists with the requirements of the ESEF Regulation.

We performed the following activities within the selected procedures:

- We have read the requirements of the ESEF Regulation.
- We became acquainted with the internal controls of the Company relevant to the application of the requirements of the ESEF Regulation.
- We have identified and evaluated the risks of significant (material) non-compliance with the requirements of the ESEF Regulation die to fraud or error.
- Based on this, they designed and implemented procedures to respond to the assessed risks and to obtain reasonable assurance for the purpose of expressing our conclusion.

The objective of our procedures was to assess whether all Financial Statements included in the Annual Report were prepared in a valid XHTML format.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Conclusion

In our opinion, the Financial Statements of the Company for the year ending on 31 December 2020 contained in the Annual Report are in all significant (material) respects in accordance with the requirements of the ESEF Regulation.

Prague, 29 April 2021

Deloitte Audit s.r.o.
Registration number 079

Signed

David Batal
Registration number 079

Signed

II. Text part of the Annual Report

1) Characteristics of the Company

Business name:	EPH Financing CZ, a.s. (hereinafter "Company" or "Issuer")
Registered office:	Pařížská 130/26, Josefov, 110 00 Prague 1, Czech Republic
Company ID No:	043 02 575
LEI code:	315700JE7S5OSPRDNW76
Legal form:	Joint-stock company
Legal code:	The Company is established and exists in compliance with the laws of the Czech Republic, in particular Act No. 89/2012 Coll., the Civil Code as amended (hereinafter referred to as the "Civil Code") and Act No. 90/2012 Coll., on business corporations as amended (hereinafter referred to as the "BCA"), Act No. 455/1991 Coll., on trade licensing business as amended and Act No. 256/2004 Coll., on capital market business as amended
Telephone number:	+420 232 005 200
Web:	www.epholding.cz

EPH Financing CZ, a.s. was established on 7 August 2015 and was registered in the Commercial Register kept by the Municipal Court in Prague, Section B, Insert 20854.

The annual and semi-annual reports are published in electronic form on the website of the Company www.epholding.cz, Investors section, EPH Financing CZ section.

Scope of business: Own assets management

The Company was established for the purpose of issue of securities – bonds with fixed interest yield of 4.20% p.a., with the expected total nominal value of the issue of CZK 2,000,000, maturing in 2018. The bonds were admitted to trading in the regulated market of Burza cenných papírů v Praze, a.s. (Prague Securities Exchange) in the Czech Republic, and began to be traded as of the issue date, i.e. 30 September 2015. Centrální depozitář cenných papírů ČR, a.s. (Central Securities Depositary) allocated to the bonds the ISIN code CZ0003513012. The bonds were fully redeemed on 30 September 2018.

The second issue of bonds with fixed interest yield of 3.50% p.a., with the expected total nominal value of the issue of CZK 2,000,000, payable in 2020, started on 9 December 2016. The bonds were admitted to trading in the regulated market of Burza cenných papírů v Praze, a.s. (Prague Securities Exchange) in the Czech Republic. The issuer may decide to issue bonds with a higher total nominal value of the issue than the expected total nominal value. However, the total amount of such increase shall not exceed 50% of the expected total nominal value of the bonds issue. Centrální depozitář cenných papírů ČR, a.s. (Central Securities Depositary) allocated to the bonds the ISIN code CZ0003515413. The bonds were fully redeemed on 9 June 2020.

The third bonds issue started on 16 July 2018. The bonds bear interest at a variable rate representing the sum of the reference rate (6M PRIBOR) and a margin of 2.00% p.a. The expected nominal value of the issue was CZK 3,000,000 thousand and is redeemable in 2022. The bonds were admitted to trading in the regulated market of Burza cenných papírů v Praze, a.s. (Prague Securities Exchange) in the Czech Republic, and began to be traded as of the issue date, i.e. 16 June 2018. Centrální depozitář cenných papírů ČR, a.s. allocated to the bonds the ISIN code CZ0003519407.

The fourth issue of bonds started on 17 March 2020. The bonds bear a fixed yield of 4.5% p.a. with the maturity in 2025. The total expected nominal value of the issue is CZK 5,000,000 thousand with a potential increase up to the total nominal value of CZK 7,500,000 thousand, due in 2025. The bonds were admitted to trading in the regulated market of Burza cenných papírů v Praze, a.s. (Prague Securities Exchange) in the Czech Republic, and began to be traded as of the issue date, i.e. 17 March 2020. The issue was successfully placed in the course of March and July 2020 and the acquired funds were subsequently paid to the parent company, Energetický a průmyslový holding, a.s., under a loan agreement. Centrální depozitář cenných papírů ČR, a.s. allocated to the bonds the ISIN code ISIN CZ0003524464.

No rating has been allocated to the Issuer and to the bonds.

Organizational structure

The sole shareholder of the Company as of 31 December 2020 and 31 December 2019 is:

	Interest in share capital		Voting rights
	in thousands of CZK	%	%
Energetický a průmyslový holding, a.s.	2,000	100	100
Total	**2,000**	**100**	**100**

The shareholders of Energetický a průmyslový holding, a.s. as of 31 December 2020 are:

	Interest in share capital	Voting rights
	%	%
EP Corporate Group, a.s.	53	53
EP Investment II S. à r.l.	3	3
KUKANA ENTERPRISES LIMITED	44	44
Total	**100**	**100**

The shareholders of Energetický a průmyslový holding, a.s. as of 31 December 2019 are:

	Interest in share capital	Voting rights
	%	%
EP Investment S.à r.l.	53	53
EP Investment II S. à r.l.	47	47
Total	**100**	**100**

Information on the number of shares or similar securities representing a share in the Issuer owned by persons discharging managerial responsibilities of the Issuer, options and comparable investment instruments the value of which pertains to shares or similar securities representing a share in the Issuer as of 31 December 2020 and as of 31 December 2019 is as follows:

	Shares or similar securities	Options and comparable investment instruments
	Pcs	Pcs
Members of the statutory body	0	0
Members of the Supervisory Board	0	0
Total	**0**	**0**

The Company's registered capital has been paid up in full, being formed of 10 ordinary registered shares in certificated form with a nominal value of CZK 200,000 per share. The rights and obligations attached to the ordinary registered shares are defined in the Business Corporations Act (Act No. 90/2012 Coll. as amended) and in Article 6 of the Company's Articles of Association. The shareholders are entitled to receive dividends and hold 1 vote per shares with a nominal value of CZK 200,000 at the Company's general meeting.

The sole shareholders, i.e. the company Energetický a průmyslový holding, a.s. (hereinafter referred to as "EPH"), is the joint-stock company, with its registered office at Pařížská 130/26, Josefov, 110 00 Prague 1, Czech Republic. The main scope of business activity of EPH includes corporate investment in infrastructure and power industry. In addition to the two main activities, the Group is engaged in business in a number of other areas, such as logistics, development projects or trade brokering.

The ultimate majority owner of EP Corporate Group, a.s. and EP Investment II S. à r.l. is Mr. Daniel Křetínský, chairman of the board of directors of Energetický a průmyslový holding, a.s. and chairman of the board of directors of the Issuer. Control of the Issuer by indirectly controlling persons is based on the voting share which corresponds to the share in the Company's registered capital. Indirectly controlling persons exercise supervision over the Company's management through their participation in the general meeting of the parent company Energetický a průmyslový holding, a.s. Measures taken to ensure that control is not abused are based on generally applicable legal regulations. The Company has not taken any special step in excess of generally applicable legal regulations.

The Company is directly owned and controlled by EPH, due to which it is included in the consolidation whole of the company Energetický a průmyslový holding, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Prague 1, Company ID No.: 283 56 250. The details contained in the Company's Financial Statements are thus incorporated into the consolidated financial statements (or rather the Consolidated Annual Report) of the company Energetický a průmyslový holding, a.s. The Consolidated Annual Report can be obtained at the address of Energetický a průmyslový holding, a.s, or on the website www.epholding.cz or www.justice.cz, in the register of documents relating to Energetický a průmyslový holding, a.s..

EPH Financing CZ, a.s. is financially dependent on the parent company EPH as all of its revenues are linked to the parent company. The company EPH stood as guarantor in the form of financial guarantee for the Company's bond debts under Czech law. The Company is not aware of any grounds that such dependence of the EHP Group would be abused.

2) Financial situation of the Company

Basic numerical data on the Company's management for 2020, compared with the corresponding period of the previous year (i.e. 2019)

In the period ending as of 31 December 2020, the Company reported a loss in the amount of CZK 6,521 thousand (in the period ending as of 31 December 2019, the Company had reported a profit in the amount of CZK 2,047 thousand). This loss was due, in particular, to the creation of a provision in the amount of CZK 6,988 thousand for loans provided to the parent company EPH in accordance with the applied standard IFRS 9 (as described in detail in Note 3(c) of the Notes to the Financial Statements) (in the period ending as of 31 December 2019, a part of the provision in the amount of CZK 1,725 thousand had been released). The final amount of the provision for the loans reached as of 31 December 2020 CZK 11,380 thousand (as of 31 December 2019: CZK 4,392 thousand). The amount of the loans and thus also of the related provision was increased in 2020 by the funds acquired from the fourth bonds issue.

As regards the provision of funding to the EPH group companies, the Company's financial position as of 31 December 2020 is reflected in the total assets of the Company in the amount of CZK 10,113,311 thousand (as of 31 December 2019, the total assets amounted to CZK 5,652,627 thousand). The long-term part of these assets amounts to CZK 9,978,367 thousand (as of 31 December 2019, the long-term part of these assets amounted to CZK 2,599,420 thousand). Long-term financial instruments consist of the loan principal, the maturity of which is tied to the maturity of the bond principal, i.e. 16 July 2022 and 17 March 2025, respectively (as of 31 December 2019, the maturity date of the bonds principal was 9 June 2020 and 16 July 2022, respectively), see also Note 9 of the Notes to the Financial Statements. The long-term loans also include a loan provided in the amount of CZK 10,000 thousand (the same amount as of 31 December 2019), including interest, which is due on 24 April 2022. Total liabilities of the Company in the amount of CZK 10,111,447 thousand (as of 31 December 2019, CZK 5,644,242 thousand) consist mainly of bonds in issue, whose long-term part amounts to CZK 9,979,196 thousand (as of 31 December 2019, the long-term part amounted to CZK 2,592,206 thousand).

The increase of the long-term part of the Company's assets and liabilities was due to the successful placement of the fourth issue of bonds in March 2020 and July 2020, when the nominal value of the issue amounted to CZK 7,500, 000 thousand, and to the subsequent provision of acquired funds to the parent company under the loan agreement. This increase is also reflected in a change of the interest expense, which amounted to CZK 378,243 thousand (for the period ending as of 31 December 2019, the interest expense amounted to CZK 225,137 thousand) and of the interest yield of CZK 378,594 thousand (for the period ending as of 31 December 2019, the interest yield amounted to CZK 225,336 thousand).

A decline in the Company's short-term assets (which amounted as of 31 December 2020 to CZK 134,944 thousand and as of 31 December 2019 to CZK 3,053,207 thousand) and short-term liabilities (which amounted as of 31 December 2020 to CZK 132,251 thousand and as of 31 December 2019 to CZK 3,052,036 thousand) occurred due to the final settlement of the second bonds issue in June 2020 and repayment of a loan provided to the parent company.

Despite the loss incurred in the relevant period, the Company has reported positive equity in the amount of CZK 1,864 thousand (in the period ending on 31 December 2019: CZK 8,385 thousand) thanks to a decision of the sole shareholder to make in December 2018 an additional payment outside the registered capital in the amount of CZK 10,000 thousand (which is recognized in the balance sheet item Other capital funds).

No decision having a crucial impact on the Company or its shareholders was taken in the period under review. Decisions of the Company's bodies concerned current course of business relating to the reported activities of the Company and performance of obligations imposed upon those bodies by applicable laws and the Company's Articles of Association.

Issue of bonds and use of proceeds from their sale

As noted in clause 1 of the Text Part of the Annual Report, the Issuer exists for the sole purpose of issuing bonds and the object of its core business activities is the provision of credit/loans to the EPH Group companies. Hence, the sole source of the Issuer's income consists of repayments of credit/loans provided to the EPH Group companies. The Issuer does not carry on any investment activities.

Funds received from the issue of bonds were provided by the Issuer in the form of loans to its sole shareholder, Energetický a průmyslový holding, a.s., with its seat at Pařížská 130/26, Josefov, 110 00 Prague 1, ID No. 283 56 250, file number B 21747, administered by the Municipal Court in Prague (hereinafter "EPH"). The obtained funds were used by EPH in the process of liquidity management of the EPH Group, including refinancing of other indebtedness of EPH and of the other EPH Group members. Basic information about the loan agreements is provided in the following section of the Annual Report - IV. Report on Related Parties (specifically in clause V.1.1.).

The Issuer's financial and economic situation, its business activities, position in the market and ability to repay its debts from the bonds depends on EPH's ability to repay duly and in time its debts to the Issuer. This ability depends of the liquidity situation of EPH, which is based, in particular, on business results of its subsidiaries and on their ability to generate idle funds, on legal and tax regulations and restrictions resulting from contractual arrangements. Hence, the Issuer is exposed to the secondary risk of dependence on risks relating to the EPH Group, particularly on risks resulting from regulation and regulatory interventions into the energy market (regulatory tariffs, capacity payments and similar interventions), from geopolitical situation, technical failures and shortage of some input commodities, such as natural gas, and from restrictions based on decisions of regulators (such as restrictions related to the COVID-19 coronavirus pandemic).

Basic information about the EPH group

in millions of EUR	**For the period ending (as of) 30 June 2020**	**For the period ending (as of) 30 June 2019**
Sales	4,229	8,572
Operating profit	616	1,396
EBITDA	961	2,051
Net financial debt	5,220	5,261

EBITDA is the key indicator used by the EPH Group's board of directors to assess the performance of its operating segments. This indicator is defined as operating profit plus depreciation and amortization, which is further purged of any negative goodwill impacts. EBITDA's calculation can be found in the Annual Report of the EPH Group published on the website www.epholding.cz.

The EPH Group is engaged in business in the gas industry, electricity generation, distribution and deliveries of energy (gas and electricity), coal mining and logistics. Regionally, the EPH Group is primarily active in the Slovak, Czech, German, Italian, French and British market.

- *Gas Industry*: Through the group of SPP Infrastructure, a.s. (hereinafter referred to as SPPI which is included in the EPIF Group and where EPIF (EP Infrastructure, a.s.) indirectly holds a 49 percent share and full managerial control), EPH owns a shareholding in gas industry activities that cover transportation, distribution and storage of gas. The controlled gas industry assets comprising one of the greatest gas industry groups in Central Europe, are the key carrier of Russian natural gas to the European Union and are almost the monopoly gas distributor to companies and households in Slovakia.
- *Electricity generation*: Key electricity producers within the EPH Group are the Schkopau power plant (Saale Energie GmbH) in Germany controlled via JTSD Braunkohlebergbau GmbH, and the hard coal power plant Mehrum (Kraftwerk Mehrum GmbH) since 2017. Furthermore, modern gas and one hard coal power plant in Italy, gas, hard coal, wind and photovoltaic power plants in France, two steam and gas facilities in the United Kingdom, two power plants in Northern Ireland and, finally, a steam and gas power plant in Ireland. In Germany, the power plant Mehrum has a net installed capacity of 690 MWe, the Schkopau power plant having 400 MWe (being the share of the EPH Group in the Schkopau power plant). The net capacity of the Italian power plants amounts to 3,894 MWe (the EPH Group also holding 50 per cent in the company Ergosud S.p.A. which owns a gas power plant with net installed capacity of 814 MWe), gas facilities in Great Britain with a total 2,270 MWe, power plants in Northern Ireland with a total of 1 353 MW and the power plants in the Republic of Ireland of 400 MW. Electricity generation in those companies is concentrated within the EPPE Group (EP Power Europe, a. s.).
- *Energy distribution and supply*: Distribution of electricity in Central Slovakia and power supply to end customers in Slovakia is made by the EPIF Group through the company SSE (Stredoslovenská Energetika a.s.). In the Czech Republic and Slovakia, the EPH Group is a key entrepreneur in electricity and gas trade and supply thereof to end customer. Power supply to customers is provided by EP ENERGY TRADING, a.s. (EPET) primarily in the Czech Republic and by SSE primarily in the Slovak Republic. Both companies are part of the EPIF Group.
- *Renewable resources*: The EPH Group includes renewable resources with a total current net installed capacity of 40 MWe within the EPIF Group and another 741 Mwe of net installed capacity within the EPPE Group. They include wind power plants, photovoltaic resources, biogas power plants and bio mass plants generating renewable power in the Czech Republic, in Slovakia, Germany and Great Britain, in Italy and also in France since 2019 where the EPPE Group operates wind and photovoltaic power plants. In 2018, the originally hard coal power plant at Lynemouth in the United Kingdom was put into operation which was rebuilt to burn biomass with the capacity over 400 MWe.
- *Logistics and trade in power commodities*: The EPH Group is also oriented on coal trade, including sale of ancillary power products. It is a key entrepreneur in the area of carriage of loose material, in both internal and international transport.

- *Coal mining*: The EPH Group takes a major position in brown coal mining in Germany where the mining company MIBRAG (a member of the EPPE Group) operates two surface mines (Profen and Vereinigten Schleenhain) in Saxony Anhalt and in Saxony.

Details concerning expected economic situation in the next year

In 2021, the Company intends to continue its primary activity, namely issue and management of bonds and granting loans to EPH Group companies. This means that no major changes are expected in the results structure of the Company and the Company's results are to be primarily affected by revenues in the form of interest generated by granted loans, expenses associated with issued bonds and any potential adjusting items to granted loans created in compliance with IFRS rules.

3) Coronavirus pandemic

Assessment of the pandemic coronavirus impact

This report has been prepared to provide information about potential impact of the pandemic on the Company's activities.

As the Company was established for the purpose of issue and administration of bonds and provision of credit/loans to the companies of the EPH Group (the "Group") and has no other business activities, the measures adopted against the pandemic do not directly affect it. The key source of the Company's income consists of instalments of loans provided to the parent company, Energetický a průmyslový holding, a.s. (hereinafter "EPH"). Beside the bonds and related contractual obligations, the Company does not carry on its accounts any other material liabilities.

Based on the information relating to the Group, which concerns the year 2020 and which is available to us, we believe that EPH's existence is not endangered; however, the reliability of estimates of long-term impacts on EPH is rather limited with regard to the uncertain scope of impacts of the epidemic on the economies of the European states and the uncertainties associated with measures adopted by individual European states.

Current situation

The COVID-19 pandemic is considered as an indicator of a potential decrease of the value of the Company's assets; therefore, the Company updated the test of recoverable value, using the best available estimates. Results of the completed analyses do not indicate that the pandemic has caused any decrease of the value of the Company's assets. The primary reasons for creation of the provision were not related to the coronavirus pandemic. The pandemic impact in the following years will depend particularly on the overall economic development in Europe. The EPH Group adopted a number of appropriate measures for the elimination of risk and mitigation of impacts of the current situation on the key segments and on the health of its employees.

The Company's management assessed potential impacts of the coronavirus epidemic on its activities and business and concluded that they have no impact on the going concern assumption. Hence, the Company did not apply and does not intend to apply for public aid. Due to the foregoing, this Annual Report and the financial statements as of 31 December 2020 were prepared under the assumption that the Company would continue to be able to carry on its activities.

At the same time, the Company has no knowledge of any unfavourable trends, requirements, obligations or events that could have a material effect on the Company's outlook in the current financial year.

As noted above, the Company was established solely for the purpose of issue of securities – bonds (details about the bonds are provided in Note 9 of the Notes to the Financial Statements. The financial funds acquired from the issue of the above-mentioned bonds were used for the provision of credit/loans to the EPH Group companies (currently directly to EPH, which also guarantees the bonds issued by the Company).

III. STATUTORY DECLARATION

Today, the Board of Directors and the Supervisory Board discussed and approved the Annual Report of EPH Financing CZ, a.s., (hereinafter "Company") for the year ending on 31 December 2020, prepared in accordance with Czech accounting legislation.

The statutory Financial Statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the Accounting Standards Board (IASB) as adopted by the European Union.

To the best of our knowledge, the presented Annual Report and Financial Statements give a true and fair view of the assets, liabilities, financial position, profits and losses as well as cash flows for 2020. In addition, an overview of the activities of the Company provides a true description of the development and performance of the business of the Company and its position, together with the main opportunities and risks associated with the Company expected development.

We recommend the Annual Report for adoption and approval at the General Meeting.

Prague, 29 April 2021

Signed
____
Marek Spurný
Member of the Board of Directors

Signed
____
Pavel Horský
Member of the Board of Directors

IV. REPORT ON RELATIONS

between the controlling and controlled entities and on the relations between the controlled entity and other entities controlled by the same controlling entity (related entities)

prepared by the Board of Directors of

EPH Financing CZ, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Prague 1, ID No.: 043 02 575, registered in the Commercial Register kept by the Municipal Court in Prague, Section B, Insert 20854. The report is prepared in accordance with Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended).

("**Report** ")

I.
Preamble

The Report has been prepared pursuant to Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended).

The Report has been submitted for review to the Company's Supervisory Board in accordance with Section 83 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended), and the Supervisory Board's position will be communicated to the Company's General Meeting deciding on the approval of the Company's ordinary financial statements and on the distribution of the Company's profits or the settlement of its loss.

The Report has been prepared for the 2020 accounting period.

II.
Structure of relations between the entities

CONTROLLED ENTITY

The controlled entity is EPH Financing CZ, a.s. with its registered office at Pařížská 130/26, Josefov, 110 00 Prague 1, ID No.: 043 02 575, recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, file 20854.

DIRECTLY CONTROLLING ENTITY

Energetický a průmyslový holding, a.s.,

registered office: Pařížská 130/26, Josefov, 110 00 Prague 1, Czech Republic
ID No.: 283 56 250

INDIRECTLY CONTROLLING ENTITY

EP Investment S.à r.l.

registered office: 39, Avenue J.F. Kennedy, L – 1855, Luxembourg
Reg. No.: B 184488

PERSONS CONTROLLED BY THE SAME CONTROLLING ENTITY

In addition to the relationship between the controlled entity and EP Investment Advisors, s.r.o. described in Section V. below, in 2020 the controlled entity had no other relationships with other entities controlled by the same controlling entity.

III.
Role of the controlled entity; method and means of control

Role of the controlled entity

- own assets management,
- bond issue,
- provision of loans, credits or other forms of financing to related companies.

Method and means of control

The controlling entity holds a majority share of voting rights in EPH Financing CZ, a.s. over which it exercises a controlling influence.

IV.
Overview of acts specified by Section 82 (2) (d) of Act No. 90/2012 Coll., the Corporations Act

In 2020, with the exception of the provided loan, no act was carried out at the initiative or in the interest of the controlling entity regarding assets exceeding 10% of the controlled entity´s equity determined according to the last Financial Statements.

V.
Agreements concluded between EPH Financing CZ, a.s. and other related entities

V.1.1.
In 2020, the following loan agreements were in place

On 9 December 2016, a Loan Agreement was signed between Energetický a průmyslový holding, a.s. as the Debtor and EPH Financing CZ, a.s. as the Creditor up to a total of CZK 3,000,000,000, with a final maturity of 9 June 2020. The Debtor undertakes to pay the Creditor interest on the loan in the aggregate amount equal to the sum of all interest (before taxes) that the Creditor must pay to the Bondholders from the date of issue of the bonds to the date of redemption of the bonds on the basis of issue conditions.

On 16 July 2018, a Loan Agreement was signed between Energetický a průmyslový holding, a.s. as the Debtor and EPH Financing CZ, a.s. as the Creditor up to a total of CZK 4,500,000,000, with a final maturity of 13 July 2022. The Debtor undertakes to pay the Creditor interest on the loan in the aggregate amount equal to the sum of all interest (before taxes) that the Creditor must pay to the Bondholders from the date of issue of the bonds to the date of redemption of the bonds on the basis of issue conditions.

On 24 April 2019, a Loan Agreement was signed between Energetický a průmyslový holding, a.s. as the Debtor and EPH Financing CZ, a.s. as the Creditor up to a total of CZK 10,000,000, with a maturity of 24 April 2022 and an interest rate of 3.5% per annum.

On 13 April 2020, a Loan Agreement was signed between Energetický a průmyslový holding, a.s. as the Debtor and EPH Financing CZ, a.s. as the Creditor up to a total of CZK 7,500,000,000, with a maturity of 14 April

2025. The Debtor undertakes to pay the Creditor interest on the loan in the aggregate amount equal to the sum of all interest (before taxes) that the Creditor must pay to the Bondholders from the date of issue of the bonds to the date of redemption of the bonds on the basis of issue conditions.

V.1.2.
Other contracts valid in 2020

On 1 October 2016, Incumbency Agreements were signed with members of the Audit Committee and EPH Financing CZ, a.s.

On 1 November 2017, an Incumbency Agreement was signed with a member of the Audit Committee and EPH Financing CZ, a.s.

V.1.3.
In 2020, the following operating agreements were in place

Lease Agreement Relating to Business Premises dated 7 August 2015 concluded between EP Investment Advisors, s.r.o. as the Tenant and EPH Financing CZ, a.s. as the Subtenant.

A Technical Assistance Agreement dated 7 August 2015 concluded between EP Investment Advisors, s.r.o. as the Provider and EPH Financing CZ, a.s. as the Client.

A Technical Assistance Agreement dated 2 January 2019 concluded between Energetický a průmyslový holding, a.s. as the Provider and EPH Financing CZ, a.s. as the Client.

V.2.
Other juridical acts made between EPH Financing CZ, a.s. and other related parties

Except for the above, no other agreements were concluded by and between EPH Financing CZ, a.s. and the related entities, and no supplies or considerations were provided between them.

EPH Financing CZ, a.s. did not adopt or carry out any other juridical acts or measures in the interest or at the initiative of related entities.

V.3.
Transactions, receivables and payables of EPH Financing CZ, a.s. vis-à-vis related entities

The receivables and payables of EPH Financing CZ, a.s. from/to related entities as of 31 December 2020 will be included in the notes to the Financial Statements, which will be part of the Annual Report.

VI.

We hereby confirm that we have included in this Report on relations between related entities of EPH Financing CZ, a.s. prepared pursuant to Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended), for the accounting period from 1 January 2020 to 31 December 2020 all information regarding:

- agreements between related entities,
- supplies and considerations provided to related parties,
- other juridical acts carried out in the interest of related parties; and
- all measures taken or implemented in the interest or at the initiative of related parties

that was known to us as of the date of this Report.

In addition, the Board of Directors of EPH Financing CZ, a.s. declares that EPH Financing CZ, a.s. incurred no damage as a result of the actions of the controlling entity or of any entity controlled by the same entity. All transactions between the controlled entity and the controlling entity/entities controlled by the same controlling entity were concluded at arm´s length. The contractual and other relations with related parties resulted in no loss or financial advantage or disadvantage to EPH Financing CZ, a.s.

Prague, 27 March 2021

Signed	*Signed*
______________________________	______________________________
Marek Spurný	Pavel Horský
Member of the Board of Directors	Member of the Board of Directors

V. Report of the Board of Directors on business activities and the state of the assets of the Company

I.
The bodies of the Company worked in the above composition

Composition of the Board of Directors as of 31 December 2020:

- JUDr. Daniel Křetínský (Chairman of the Board of Directors)
- Mgr. Marek Spurný (Member of the Board of Directors)
- Mgr. Pavel Horský (Member of the Board of Directors)

Composition of the Supervisory Board as of 31 December 2020:

- Ing. Jan Špringl (Chairman of the Supervisory Board)
- Mgr. Petr Sekanina (Member of the Supervisory Board)
- Mgr. Ondřej Novák (Member of the Supervisory Board)

II.
Business activities and balance of assets

The specific purpose of the Company's incorporation on 7 August 2015 was the issue of securities - bonds. The first issue of 30 September 2015, when the maximum possible volume of bonds in the amount of CZK 3 billion was underwritten, was fully redeemed in September 2018.

Following the first successful issue, the Company realized in 2016 the second issue in the same amount with fixed interest yield of 3.50% p.a. Centrální depozitář cenných papírů ČR, a.s. allocated to the bonds the ISIN code CZ0003515413. The issue was fully redeemed in June 2020.

The third bonds issue started on 16 July 2018. The bonds bear interest at a variable rate representing the sum of the reference rate (6M PRIBOR) and a margin of 2.00% p.a. The expected nominal value of the issue was CZK 3,000,000 thousand and is redeemable in 2022. The bonds were admitted to trading in the regulated market of Burza cenných papírů v Praze, a.s. (Prague Securities Exchange) in the Czech Republic, and began to be traded as of the issue date, i.e. 16 June 2018. Centrální depozitář cenných papírů ČR, a.s. allocated to the bonds the ISIN code CZ0003519407. Thereafter, the obtained funds were provided to the parent company, Energetický a průmyslový holding, a.s., under a loan agreement.

The fourth issue of bonds started on 17 March 2020. The bonds bear a fixed yield of 4.5% p.a. with the maturity in 2025. The total expected nominal value of the issue is CZK 5,000,000 thousand with a potential increase up to the total nominal value of CZK 7,500,000 thousand, due in 2025. The bonds were admitted to trading in the regulated market of Burza cenných papírů v Praze, a.s. (Prague Securities Exchange) in the Czech Republic, and began to be traded as of the issue date, i.e. 17 March 2020. The issue was successfully placed in the course of March and July 2020 and the acquired funds were subsequently paid to the parent company, Energetický a průmyslový holding, a.s., under a loan agreement. Centrální depozitář cenných papírů ČR, a.s. allocated to the bonds the ISIN code ISIN CZ0003524464.

Basic numerical data on the Company's management for 2020, compared with the corresponding period of the previous year 2019

In the period ending as of 31 December 2020, the Company reported a loss in the amount of CZK 6,521 thousand (in the period ending as of 31 December 2019, the Company had reported a profit in the amount of CZK 2,047 thousand). This loss was due, in particular, to the creation of a provision in the amount of CZK 6,988 thousand for loans provided to the parent company EPH in accordance with the applied standard IFRS 9 (as described in detail in Note 3(c) of the Notes to the Financial Statements) (in the period ending as of 31 December 2019, a part of the provision in the amount of CZK 1,725 thousand had been released). The final amount of the provision for the loans reached as of 31 December 2020 CZK 11,380 (as of 31 December 2019: CZK 4,392). The amount of the loans and thus also of the related provision was increased in 2020 by the funds acquired from the fourth bonds issue.

As regards the provision of funding to the EPH group companies, the Company's financial position as of 31 December 2020 is reflected in the total assets of the Company in the amount of CZK 10,113,311 thousand (as of 31 December 2019, the total assets amounted to CZK 5,652,627 thousand). The long-term part of these assets amounts to CZK 9,978,367 thousand (as of 31 December 2019, the long-term part of these assets amounted to CZK 2,599,420 thousand). Long-term financial instruments consist of the loan principal, the maturity of which is tied to the maturity of the bond principal, i.e. 16 July 2022 and 17 March 2025, respectively (as of 31 December 2019, the maturity date of the bonds principal was 9 June 2020 and 16 July 2022, respectively), see also Note 9 of the Notes to the Financial Statements. The long-term loans also include a loan provided in the amount of CZK 10,000 thousand (the same amount as of 31 December 2019), including interest, which is due on 24 April 2022. Total liabilities of the Company in the amount of CZK 10,111,447 thousand (as of 31 December 2019, CZK 5,644,242 thousand) consist mainly of bonds in issue, whose long-term part amounts to CZK 9,979,196 thousand (as of 31 December 2019, the long-term part amounted to CZK 2,592,206 thousand).

The increase of the long-term part of the Company's assets and liabilities was due to the successful placement of the fourth issue of the bonds in March 2020 and July 2020, when the nominal value of the issue amounted to CZK 7,500, 000 thousand, and to the subsequent provision of acquired funds to the parent company under the loan agreement. This increase is also reflected in a change of the interest expense, which amounted to CZK 378,243 thousand (for the period ending as of 31 December 2019, the interest expense amounted to CZK 225,137 thousand) and of the interest yield of CZK 378,594 thousand (for the period ending as of 31 December 2019, the interest yield amounted to CZK 225,336 thousand).

A decline in the Company's short-term assets (which amounted as of 31 December 2020 to CZK 134,944 thousand and as of 31 December 2019 to CZK 3,053,207 thousand) and short-term liabilities (which amounted as of 31 December 2020 to CZK 132,251 thousand and as of 31 December 2019 to CZK 3,052,036 thousand) occurred due to the final settlement of the second bonds issue in June 2020 and repayment of a loan provided to the parent company.

Despite the loss incurred in the relevant period, the Company has reported positive equity in the amount of CZK 1,864 thousand (in the period ending on 31 December 2019: CZK 8,385 thousand) thanks to a decision of the sole shareholder to make in December 2018 an additional payment outside the registered capital in the amount of CZK 10,000 thousand (which is recognized in the balance sheet item Other capital funds).

No decision having a crucial impact on the Company or its shareholders was taken in the period under review. Decisions of the Company's bodies concerned current course of business relating to the reported activities of the Company and performance of obligations imposed upon those bodies by applicable laws and the Company's Articles of Association.

View of the Company's activities in 2021:

The Company intends to carry on its primary activity, i.e. the issuing and administration of bonds and provision of credit/loans to the EPH Group companies. Due to the foregoing, no principal changes in the composition of the Company's results are expected and the Company's results will primarily consist of income in the form of interest on provided loans, expenses incurred in connection with bonds in issue and of any provisions for provided loans which are created in accordance with IFRS rules.

In 2020, there were no changes in the composition of the bodies of the Company and no changes in the Commercial Register.

III.
Important decisions of the body of the Company

In 2020, no decision was made with a significant impact on the Company or its shareholders. The decisions of the bodies of the Company concerned the current agenda associated with the activities of the Company and the fulfilment of the obligations set for these bodies by the applicable legislation and the Articles of Association of the Company.

Prague, 29 April 2021

Signed	*Signed*
____________________________	____________________________
Marek Spurný	Pavel Horský
Member of the Board of Directors	Member of the Board of Directors

VI. Financial Statements as of 31 December 2020

EPH Financing CZ, a.s.

Financial Statements
as of 31 December 2020

in accordance with International Financial Reporting Standards
as adopted by the European Union

Content

Statement of Comprehensive Income

in thousands of CZK

	Note	2020	2019
Income	12	2,033	1,156
Expense (Services)	12	(1,808)	(956)
Operating profit / (loss)		**225**	**200**
Finance income	13	378,594	225,336
Finance expense	13	(378,243)	(225,137)
Change in provision for financial instruments	13	(6,988)	1,725
Net finance income (expense)		**(6,637)**	**1,924**
Profit (loss) before income tax		**(6,412)**	**2,124**
Income tax expenses	11	(109)	(77)
Profit (loss) for the year		**(6,521)**	**2,047**
Total comprehensive income for the year		**(6,521)**	**2,047**
Total comprehensive income attributable to:			
Owners of the controlling company			
Profit/(loss) for the year from continuing operations		(6,521)	2,047
Non-controlling interest			
Profit/(loss) for the year from continuing operations			
Total comprehensive income for the year		**(6,521)**	**2,047**
Basic and diluted earnings per share from continuing operations in CZK		**(652,100)**	**204,700**
Total basic and diluted earnings per share		**(652,100)**	**204,700**

The notes presented on pages 6 to 36 form an integral part of these Financial Statements.

Statement of financial position

in thousands of CZK

	Note	As of 31 December 2020	As of 31 December 2019
Assets			
Financial instruments and other financial assets	7	9,978,367	2,599,420
of which: to parent company		*9,978,367*	*2,599,420*
Total long-term assets		**9,978,367**	**2,599,420**
Trade receivables and other assets	6	-	555
of which: to parent company		-	*555*
Financial instruments and other financial assets	7	125,379	3,050,252
of which: to parent company		*125,379*	*3,050,252*
Prepayments and other deferrals	6	-	40
Cash and cash equivalents	5	9,565	2,360
Total short-term assets		**134,944**	**3,053,207**
Total assets		**10,113,311**	**5,652,627**
Equity			
Share capital	8	2,000	2,000
Other capital funds	8	10,000	10,000
Retained earnings or total comprehensive income for the year		(10,136)	(3,615)
Total equity		**1,864**	**8,385**
Liabilities			
Financial instruments and other financial liabilities	9	9,979,196	2,592,206
Total long-term liabilities		**9,979,196**	**2,592,206**
Trade payables and other liabilities	10	435	335
Financial instruments and financial liabilities	9	131,737	3,051,659
Tax liabilities	11	79	42
Total short-term liabilities		**132,251**	**3,052,036**
Total liabilities		**10,111,447**	**5,644,242**
Total equity and liabilities		**10,113,311**	**5,652,627**

The notes presented on pages 6 to 36 form an integral part of these Financial Statements.

Statement of changes in equity

in thousands of CZK

	Share capital	Other capital funds	Retained earnings prior years	Total equity
As of 31 December 2018	**2,000**	**10,000**	**(5,662)**	**6,338**
Total comprehensive income for the year:				
Profit or (loss)			2,047	**2,047**
As of 31 December 2019	**2,000**	**10,000**	**(3,615)**	**8,385**
Total comprehensive income for the year:				
Profit or (loss)			**(6,521)**	**(6,521)**
As of 31 December 2020	**2,000**	**10,000**	**(10,136)**	**1,864**

Equity in the amount of CZK 1,864 thousand belongs to the owners of the controlling company.

The notes presented on pages 6 to 36 form an integral part of these Financial Statements.

Statement of cash flows

in thousands of CZK

	Note	For a period of twelve months from 1 January 2020 to 31 December 2020	For a period of twelve months from 1 January 2019 to 31 December 2019
OPERATING ACTIVITIES			
Profit/(loss) for the year before taxes		(6,521)	2,047
Tax on income from current activities	11	109	77
Change in provisions	13	6,988	(1,725)
Net interest expense	13	(351)	(199)
Adjustment by other non-monetary operations		-	-
Operating profit/(loss) before changes in working capital		**225**	**200**
Change in trade receivables and other assets		639	1,580
Change in trade payables and other liabilities		6,447	(1,243)
Cash generated from (used in) operations		**7,311**	**537**
Income from bond issues, excluding transaction fees		7,500,000	182,237
Repayment of the bond issue		(3,000,000)	-
Loan provided to the parent company		(7,500,000)	(192,237)
Repayment of a loan provided to the parent company		3,000,000	-
Interest paid		(324,223)	(201,997)
Interest received		324,223	201,997
Income tax paid from current activities		(106)	(61)
Cash flows generated from (used in) operating activities		**7,205**	**(9,524)**
FINANCING ACTIVITIES			
Cash deposits in equity		-	10,000
Cash flows from (used in) financing activities		**-**	**10,000**
Net increase (decrease) in cash and cash equivalents		7,205	476
Cash and cash equivalents at beginning of the year		**2,360**	**1,884**
Cash and cash equivalents at end of the year		**9,565**	**2,360**

The notes presented on pages 6 to 36 form an integral part of these Financial Statements.

Notes to the Financial Statements

1. Background

EPH Financing CZ, a.s. ("Company" or "Issuer ") was established on 7 August 2015 by registration in the Commercial Register under file number B 20854 kept by the Municipal Court in Prague, the ID No. of the Company is 043 02 575, LEI code: 315700JE7S5OSPRDNW76.

Main activity of the Company is the issue and management of bonds and the provision of credits/loans to companies in the EPH Group.

The fiscal year is the same as the calendar year. The Financial Statements have been prepared for the period from 1 January 2020 to 31 December 2020 ("2020"). The Financial Statements for the previous financial year from 1 January 2019 to 31 December 2019 ("2019").

The annual and semi-annual reports are published in electronic form on the website of the Company www.epholding.cz, Investors section, EPH Financing CZ section. The data in the Financial Statements have been verified by an auditor.

Registered office of the Company

Pařížská 130/26
Josefov, 110 00 Prague 1
Czech Republic

Scope of business: Own assets management

The Company was established for the purpose of issue of securities – bonds with fixed interest yield of 4.20% p.a., with the expected total nominal value of the issue of CZK 2,000,000, maturing in 2018. The bonds were admitted to trading in the regulated market of Burza cenných papírů v Praze, a.s. (Prague Securities Exchange) in the Czech Republic, and began to be traded as of the issue date, i.e. 30 September 2015. Centrální depozitář cenných papírů ČR, a.s. (Central Securities Depositary) allocated to the bonds the ISIN code CZ0003513012. The bonds were fully redeemed on 30 September 2018.

The second issue of bonds with fixed interest yield of 3.50% p.a., with the expected total nominal value of the issue of CZK 2,000,000, payable in 2020, started on 9 December 2016. The bonds were admitted to trading in the regulated market of Burza cenných papírů v Praze, a.s. (Prague Securities Exchange) in the Czech Republic. The issuer may decide to issue bonds with a higher total nominal value of the issue than the expected total nominal value. However, the total amount of such increase shall not exceed 50% of the expected total nominal value of the bonds issue. Centrální depozitář cenných papírů ČR, a.s. (Central Securities Depositary) allocated to the bonds the ISIN code CZ0003515413. The bonds were fully redeemed on 9 June 2020.

The third bonds issue started on 16 July 2018. The bonds bear interest at a variable rate representing the sum of the reference rate (6M PRIBOR) and a margin of 2.00% p.a. The expected nominal value of the issue was CZK 3,000,000 thousand and is redeemable in 2022. The bonds were admitted to trading in the regulated market of Burza cenných papírů v Praze, a.s. (Prague Securities Exchange) in the Czech Republic, and began to be traded as of the issue date, i.e. 16 June 2018. Centrální depozitář cenných papírů ČR, a.s. allocated to the bonds the ISIN code CZ0003519407.

The fourth issue of bonds started on 17 March 2020. The bonds bear a fixed yield of 4.5% p.a. with the maturity in 2025. The total expected nominal value of the issue is CZK 5,000,000 thousand with a potential increase up to the total nominal value of CZK 7,500,000 thousand, due in 2025. The bonds were admitted to trading in the regulated market of Burza cenných papírů v Praze, a.s. (Prague Securities Exchange) in the Czech Republic, and began to be traded as of the issue date, i.e. 17 March 2020. The issue was successfully placed in the course of March and July 2020 and the acquired funds were subsequently paid to the parent company, Energetický a průmyslový holding, a.s., under a loan agreement. Centrální depozitář cenných papírů ČR, a.s. allocated to the bonds the ISIN code ISIN CZ0003524464.

No rating has been allocated to the Issuer and to the bonds.

Statutory bodies of the Company as of 31 December 2020 and 31 December 2019

Composition of the Board of Directors:

- JUDr. Daniel Křetínský (Chairman of the Board of Directors)
- Mgr. Marek Spurný (Member of the Board Directors)
- Mgr. Pavel Horský (Member of the Board of Directors)

Composition of the Supervisory Board:

- Ing. Jan Špringl (Chairman of the Supervisory Board)
- Mgr. Petr Sekanina (Member of the Supervisory Board)
- Mgr. Ondřej Novák (Member of the Supervisory Board)

There are no conflicts of interest for members of the management and supervisory bodies

Organizational structure:

The sole shareholder of the Company as of 31 December 2020 and 31 December 2019 is:

	Interest in share capital		Voting rights
	in thousands of CZK	**%**	**%**
Energetický a průmyslový holding, a.s.	2,000	100	100
Total	**2,000**	**100**	**100**

The shareholders of Energetický a průmyslový holding, a.s. as of 31 December 2020 are:

	Interest in share capital	Voting rights
	%	**%**
EP Corporate Group, a.s.	53	53
EP Investment II S. à r.l.	3	3
KUKANA ENTERPRISES LIMITED	44	44
Total	**100**	**100**

The shareholders of Energetický a průmyslový holding, a.s. as of 31 December 2019 are:

	Interest in share capital	Voting rights
	%	**%**
EP Investment S.à r.l.	53	53
EP Investment II S. à r.l.	47	47
Total	**100**	**100**

Information on the number of shares or similar securities representing a share in the Issuer owned by persons discharging managerial responsibilities of the Issuer, options and comparable investment instruments the value of which pertains to shares or similar securities representing a share in the Issuer as of 31 December 2019 and as of 31 December 2020 is as follows:

	Shares or similar securities	Options and comparable investment instruments
	Pcs	**Pcs**
Members of the statutory body	0	0
Members of the Supervisory Board	0	0
Total	**0**	**0**

The Company is part of the EPH Group consolidation unit.

The Consolidated Financial Statements of the broadest group of entities for the years 2020 and 2019 are prepared by EP Investment S. à r.l., with its registered office at Avenue John F. Kennedy 39, L-1855 Luxembourg. This company is the ultimate parent company of the sole shareholder of the Company.

The sole shareholders, i.e. the company Energetický a průmyslový holding, a.s. (hereinafter referred to as "EPH"), is the joint-stock company, with its registered office at Pařížská 130/26, Josefov, 110 00 Prague 1, Czech Republic. The main scope of business activity of EPH includes corporate investment in infrastructure and power industry. In addition to the two main activities, the Group is engaged in business in a number of other areas, such as logistics, development projects or trade brokering.

The ultimate majority owner of EP Corporate Group, a.s. and EP Investment II S. à r.l. is Mr. Daniel Křetínský, chairman of the board of directors of Energetický a průmyslový holding, a.s. and chairman of the board of directors of the Issuer. Control of the Issuer by indirectly controlling persons is based on the voting share which corresponds to the share in the Company's registered capital. Indirectly controlling persons exercise supervision over the Company's management through their participation in the general meeting of the parent company Energetický a průmyslový holding, a.s. Measures taken to ensure that control is not abused are based on generally applicable legal regulations. The Company has not taken any special step in excess of generally applicable legal regulations.

The Company is directly owned and controlled by EPH, as part of the EPH group (the parent company Energetický a průmyslový holding, a.s. is a consolidating entity that prepares a Consolidated Annual Report in the Czech language, which includes Consolidated Financial Statements in accordance with IFRS, and which will be published in the Commercial Register). Debts from the bonds of the Company were guaranteed by EPH in the form of a financial guarantee under Czech law.

EPH Financing CZ, a.s. is financially dependent on the parent company EPH, as all revenues are associated with the parent company.

The Issuer exists for the sole purpose of issuing bonds and the object of its core business activities is the provision of credit/loans to the EPH Group companies. Hence, the sole source of the Issuer's income consists of repayments of credit/loans provided to the EPH Group companies. The issuer uses proceeds from the bonds to provide financing to companies from EPH Group. The Issuer´s financial and economic situation, its business activities, market position and ability to meet debts from bonds depend on the ability of its debtors to properly and timely meet their debts to the Issuer. Failure of any debtor to properly and timely meet its due debts to the Issuer may have a negative impact on the Issuer´s financial and economic situation, its business activities and the Issuer´s ability to repay its debt from the Bonds.

There are no known reasons for the Company to abuse this dependence on the EPH group.

The Issuer does not carry our any investment activities.

Basic numerical data on the Company's management for 2020, compared with the corresponding period of the previous year 2019

In the period ending as of 31 December 2020, the Company reported a loss in the amount of CZK 6,521 thousand (in the period ending as of 31 December 2019, the Company had reported a profit in the amount of CZK 2,047 thousand). This loss was due, in particular, to the creation of a provision in the amount of CZK 6,988 thousand for loans provided to the parent company EPH in accordance with the applied standard IFRS 9 (as described in detail in Note 3(c) of the Notes to the Financial Statements) (in the period ending as of 31 December 2019, a part of the provision in the amount of CZK 1,725 thousand had been released). The final amount of the provision for the loans reached as of 31 December 2020 CZK 11,380 (as of 31 December 2019: CZK 4,392). The amount of the loans and thus also of the related provision was increased in 2020 by the funds acquired from the fourth bonds issue.

As regards the provision of funding to the EPH group companies, the Company's financial position as of 31 December 2020 is reflected in the total assets of the Company in the amount of CZK 10,113,311 thousand (as of 31 December 2019, the total assets amounted to CZK 5,652,627 thousand). The long-term part of these assets amounts to CZK 9,978,367 thousand (as of 31 December 2019, the long-term part of these assets amounted to CZK 2,599,420 thousand). Long-term financial instruments consist of the loan principal, the maturity of which is tied to the maturity of the bond principal, i.e. 16 July 2022 and 17 March 2025, respectively (as of 31 December 2019, the maturity date of the bonds principal was 9 June 2020 and 16 July 2022, respectively), see also Note 9 of the Notes to the Financial Statements. The long-term loans also include a loan provided in the amount of CZK 10,000 thousand (the same amount as of 31 December 2019), including interest, which is due on 24 April 2022. Total liabilities of the Company in the amount of CZK 10,111,447 thousand (as of 31 December 2019, CZK 5,644,242 thousand) consist mainly of bonds in issue, whose long-term part amounts to CZK 9,979,196 thousand (as of 31 December 2019, the long-term part amounted to CZK 2,592,206 thousand).

The increase of the long-term part of the Company's assets and liabilities was due to the successful placement of the fourth issue of the bonds in March 2020 and July 2020, when the nominal value of the issue amounted to CZK 7,500, 000 thousand, and to the subsequent provision of acquired funds to the parent company under the loan agreement. This increase is also reflected in a change of the interest expense, which amounted to CZK 378,243 thousand (for the period ending as of 31 December 2019, the interest expense amounted to CZK 225,137 thousand) and of the interest yield of CZK 378,594 thousand (for the period ending as of 31 December 2019, the interest yield amounted to CZK 225,336 thousand).

A decline in the Company's short-term assets (which amounted as of 31 December 2020 to CZK 134,944 thousand and as of 31 December 2019 to CZK 3,053,207 thousand) and short-term liabilities (which amounted as of 31 December 2020 to CZK 132,251 thousand and as of 31 December 2019 to CZK 3,052,036 thousand) occurred due to the final settlement of the second bonds issue in June 2020 and repayment of a loan provided to the parent company.

Despite the loss incurred in the relevant period, the Company has reported positive equity in the amount of CZK 1,864 thousand (in the period ending on 31 December 2019: CZK 8,385 thousand) thanks to a decision of the sole shareholder to make in December 2018 an additional payment outside the registered capital in the amount of CZK 10,000 thousand (which is recognized in the balance sheet item Other capital funds).

No decision having a crucial impact on the Company or its shareholders was taken in the period under review. Decisions of the Company's bodies concerned current course of business relating to the reported activities of the Company and performance of obligations imposed upon those bodies by applicable laws and the Company's Articles of Association.

Significant legal proceedings

The Company is not and has not been a party to any litigation or state, adjudication or arbitration proceedings, and the Board of Directors does not anticipate participation in litigation, state, adjudication or arbitration proceedings.

Significant contracts

To the knowledge of the Company, there are no significant contracts, other than contracts entered into in the ordinary course of the business of the Company, that could give rise to a liability or claim on any member of the EPH group that would be material to the ability of the Company to meet its obligations to bondholders.

Ownership interests that establish a controlling influence of the Company

The Company has no ownership interests.

Details concerning expected economic situation in 2021

The Company intends to continue its primary activity, namely issue and management of bonds and granting loans to EPH Group companies. This means that no major changes are expected in the results structure of the Company and the Company's results are to be primarily affected by revenues in the form of interest generated by granted loans, expenses associated with issued bonds and any potential adjusting items to granted loans created in compliance with IFRS rules.

The Company is exposed to a number of risks associated with doing business in European markets, such as commodity risks, foreign exchange and interest rate risks, risks associated with regulation and new laws. Another current potential risk is the development of the coronavirus epidemic in Europe and its impact on business activities of both private entities and states, including the risk of restriction of cross-border movement of persons, goods and services.

2. Basis of preparation of Separate Financial Statements

(a) Statement of compliance

The Financial Statements have been prepared in accordance with International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB), as adopted by the European Union.

These Financial Statements are unconsolidated.

(b) Basis of measurement

The Financial Statements have been prepared on a going-concern basis using the historical cost method.

The accounting policies described in the following paragraphs are consistently applied in individual accounting periods.

(c) Functional and presentation currency

The functional and presentation currency of the Company is the Czech crown ("CZK"). All financial information presented in CZK is rounded to the nearest thousand, unless otherwise stated.

(d) Use of estimates and judgements

The preparation of financial statements in accordance with International Financial Reporting Standards requires the use of certain critical accounting estimates that affect the reported items of assets, liabilities, income and expenses. It also requires management to exercise judgement in the process of applying the Company's accounting policies. The resulting accounting estimates will, by definition, seldom equal the related actual results.

i. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk resulting in a material adjustment in the following years is included in the following notes:

- Note 7 – Financial instruments and other financial assets;
- Note 9 – Financial instruments and other financial liabilities.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Company has an established control Framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The valuation team regularly reviews significant unobservable input data and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuation should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the input data used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: input data that does not include quoted level 1 prices that can be determined for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. by derived from prices).

Level 3: input data for a given asset or liability that cannot be identified in the market (unobservable input data).

If the input data used to measure the fair value of an asset or a liability might be categorised in different level of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

(e) Reporting by segments

All revenues were generated in the territory of the Czech Republic and the Company does not divide is activities into various operational segments. Most of the revenues are of financial nature and are described in detail in Note 12 hereof – Revenues and services, and in Note 13 hereof – Financial revenues and expenses, gains (losses) from financial instruments.

(f) The latest accounting standards

i. Recently adopted accounting standards

The following paragraphs provide a summary of the key requirements of IFRSs that are effective for annual periods beginning on or after 1 January 2020 and that have thus been applied by the Group for the first time.

Amendments to References to the Conceptual Framework in IFRS Standards (Effective for annual periods beginning on or after 1 January 2020)

Amendments to References to the Conceptual Framework in IFRS Standards sets out amendments to IFRS Standards, their accompanying documents and IFRS practice statements to reflect the issue of the revised Conceptual Framework for Financial Reporting in 2018.

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASC's Framework for the Preparation and Presentation of Financial Statements adopted by the Board in 2001 (Framework) or the Conceptual Framework for Financial Reporting issued in 2010. Amendments updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments do not have a significant impact on the Company's Financial Statements.

Amendment to IFRS 3 – Definition of a Business (Effective for annual periods beginning on or after 1 January 2020)

The amendment is aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amended definition of business emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. Moreover, the amendment adds a supplementary guidance and an optional concentration test.

These amendments do not have a significant impact on the Company's Financial Statements.

Amendments to IAS 1 and IAS 8 – Definition of Material (Effective for annual periods beginning on or after 1 January 2020)

The amendment clarifies the definition of "material" and ensures that the definition is consistent across all IFRS Standards. The amended definition states, that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decision that the primary users make on the basis of those financial statements, which provide financial information about a specific reporting entity.

These amendments do not have a significant impact on the Company's Financial Statements.

Amendments to IFRS 9, IAS 39 and IFRS 7 – Reform of reference rates - effective for the financial year beginning on 1 January 2020 or later)

These amendments concern some specific requirements for assurance accounting for the purpose of providing relief from potential impacts of uncertainty caused by the reform of reference rates (such as interbank interest rates). The amendments also demand from the companies to provide further information to investors who are directly affected by such uncertainty about their assurance arrangements.

These amendments do not have a significant impact on the Company's Financial Statements.

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – Reform of reference rates - phase 2 (effective for the financial year beginning on 1 January 2021)

These amendments concern modifications of financial assets, financial liabilities and liabilities arising from leases (reporting of modifications in connection with the reform), specific requirements regarding assurance accounting (assurance accounting is not ended solely due to the reform, the assurance arrangements and documentation must be adjusted) and disclosure requirements under IFRS 7, which accompanies the amendments.

These amendments will not have a significant impact on the Company's Financial Statements.

The Company has not previously adopted any IFRS standards, where their adoption was not mandatory at the balance sheet date. If the transition provision in an adopted IFRS give an entity the option to adopt new standards with future effectiveness or retrospective effect, the Company generally chooses adopt the standard with future effect from the date of transition to the new standard.

ii. Standards not yet effective

At the date of authorisation of these Financial Statements, the following significant Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for the period ending on 31 December 2020 and thus have not been adopted by the Company:

IFRS 17 Insurance contracts (effective for the financial year beginning on 1 January 2023 or later (not yet adopted by the EU)) and IFRS 4 – Extension of the temporary exception from the application of IFRS 9 (effective for the financial year beginning on 1 January 2023 or later)

Insurance contracts combine the characteristics of financial instruments and service contracts. Moreover, a number of insurance contracts generate cash flows with a substantial variability over time. To ensure provision of useful information, IFRS 17 combines valuation of future cash flows by the present value with accounting for profit for the period of provision of services under a contract, reports separately results of insurance contracts and financial revenue or expenses incurred from the insurance, and requires from the accounting entity to elect an accounting procedure to determine whether to report all financial revenues and expenses arising from insurance in the net profit or whether to report a part of those revenues or expenses in the other comprehensive income.

With regard to the nature of the core business activity of the Company, this standard will have no impact on the Company's Financial Statements.

Amendment to IAS 1 – Classification of liabilities as short- and long-term (effective for the financial year beginning on 1 January 2023 or later (not yet adopted by the EU))

This amendment further specifies the classification of debts and other liabilities as short-term or long-term and sets the method of determining whether to classify the debts or other liabilities reported with an uncertain settlement date in the statement of financial position as short-term (due or potentially due within one year) or as long-term liabilities. The amendment contains a specification of classification requirements for debt instruments that may be settled by the Company by capitalization.

The Company currently reviews the impact of this amendment on the financial statements.

Amendment to IFRS 3 – Reference to the Conceptual Framework, IAS 16 – Proceeds before intended use, IAS 37 – Onerous contracts – costs of performance of the contract, and Annual Improvement to the IFRS –2018-2020 (effective for the financial year beginning on 1 January 2022 or later (not yet adopted by the EU))

This amendment to IFRS 3 updates references to the Conceptual Framework; the amendment to IAS 16 forbids deducting from the acquisition cost of fixed assets amounts received from sale of items arising in the process of putting the assets into the condition required for their use, and demands from the Company to recognize such income and the related expenses in its net profit; amendment to IAS 37 clarifies the expenses that are to be taken into account by the accounting entity in its assessment whether a contract is onerous.

The Annual Improvements amend the following standards: IFRS 1 First Adoption of the International Financial Reporting Standards (simplifies the application of IFRS 1 by a subsidiary which is the first user after the parent company was the first user, amends the reporting of cumulative exchange rate differences), IFRS 9 Financial instruments (clarifies which fees the Company should include in the assessment to determine whether the conditions of a new or modified financial liability have changed substantially in comparison with the conditions of the original liability), IAS 41 Agriculture (strikes out the requirement for elimination of cash flows relating to taxation from the determination of fair value) and the illustrative examples accompanying IFRS 16 Leases.

These amendments will not have a material impact on the Company's Financial Statements.

Amendment IFRS 16 – Rent relief in relation to Covid-19 (effective for the financial year beginning on 1 January 2020 or later)

According to this amendment, the lessee is not obliged to determine whether the rent relief due directly to Covid-19 represents a modification of the lease. The lessee may report rent relief as if it was not a modification of the lease. The amendment does not deal with the reporting by the lessor.

This amendment will not have a material impact on the Company's Financial Statements.

3. Significant accounting policies

(a) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand and in banks, and short-term highly liquid investments with original maturities of three months or less.

(b) Non-derivative financial assets

i. Classification

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income – debt instrument, fair value through other comprehensive income - equity instrument (FVOCI) or fair value through profit or loss (FVTPL). The classification of financial asset is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset shall be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI test").

Principal is the fair value of the financial asset at initial recognition. Interest takes into account the time value of money, the credit risk associated with the outstanding amount of principal for a specific period of time and other basic risks and costs associated with the provision of loans, as well as a profit margin. Loans and receivables that meet the SPPI test and the business model test are normally classified as financial assets at amortized cost.

A debt instruments shall be measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collection contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI test").

The Company may make an irrevocable election at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit or loss (as described below) and are not held for trading to present subsequent changes in fair value in other comprehensive income. The Company does not record any financial assets at fair value through other comprehensive income.

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. The Company does not record any financial assets at fair value through profit or loss.

The Company may, at initial recognition, irrevocably designate a financial asset, that would be measured at amortized cost or at FVOCI, as measured at fair value through profit or loss if this eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

ii. Recognition

Financial assets are recognised on the date the Company becomes party to the contractual provision of the instrument.

iii. Measurement

Upon initial recognition, financial assets are measured at fair value plus, in the case of a financial instrument not at fair value through profit or loss, transaction costs directly attributable to the acquisition of the financial instrument. Attributable transaction costs relating to financial assets measured at fair value through profit or loss are recognised in profit or loss as incurred. For the methods used to estimate fair value, refer to Note 4 – Determination of fair values.

Financial assets at FVTPL are subsequently measured at fair value, with net gains and losses, including any dividend income, recognised in profit or loss.

Debt instruments at FVOCI are subsequently measured at fair value. Interest income calculated using effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other gains and losses are recognised in other comprehensive income and reclassified to profit or loss upon derecognition of the asset.

Equity instruments at FVOCI are subsequently measured at fair value. Dividends are recognised in profit or loss. Other gains and losses are recognised in other comprehensive income and are never reclassified to profit or loss.

Financial assets measured at amortized cost are subsequently measured at amortized cost using effective interest rate method. Equity instruments at FVOCI are subsequently measured at fair value. Dividends are recognised in profit or loss. Other gains and losses are recognised in other comprehensive income and are never reclassified to profit or loss.

iv. De-recognition

A financial asset is derecognised when the contractual rights to the cash flows from the asset expire, or when the rights to receive the contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

v. Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the Company has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis.

vi. Reclassification between categories

The Company reclassifies all affected financial assets only in case of a change of its business model relating to the administration of financial assets.

If the Company reclassifies financial assets, it uses the reclassification prospectively from the reclassification date. The accounting entity does not adjust any formerly reported profit, loss (including provisions) or interest income or expenses.

FVTPL to accrued value

If the Company reclassifies a financial asset from the FVTPL category to a category valued by accrued value, the fair value of such asset as of the reclassification date will become its new gross book value. The effective interest rate is determined on the basis of the fair value of the asset as of the reclassification date. The reclassification date is deemed to be the date of first recognition for the purpose of creation of provisions (expected credit losses).

Accrued value to FVTPL

If the Company reclassifies a financial asset from the category valued by fair value to the FVTPL category, the fair value of such asset is determined as of the reclassification date. Any profit or loss arising from the difference between the previous accrued value of the financial asset and its fair value is recognized in the profit and loss account.

Accrued value to FVOCI

If the Company reclassifies a financial asset from the category valued by fair value to the FVOCI category, the fair value of such asset is determined as of the reclassification date. Any profit or loss arising from the difference between the previous accrued value of the financial asset and its fair value is recognized in other comprehensive income. The effective interest rate and provisions are not adjusted due to the reclassification.

FVOCI to accrued value

If the Company reclassifies a financial asset from the FVOCI category to a category valued by accrued value, the asset is reclassified at fair value as of the reclassification date. Any accumulated profit or loss recognized earlier in the other comprehensive income is reclassified from equity and adjusted against fair value of such financial asset as of the reclassification date. Due to the foregoing, the financial asset is measured as of the reclassification date in such manner as if it were always appraised at its accrued value. Such adjustment affects the other comprehensive income but does not affect the profit and loss account; therefore, it is not considered as a reclassification adjustment. The effective interest rate and provisions are not adjusted due to the reclassification.

FVTPL to FVOCI

If the Company reclassifies a financial asset from FVTPL to FVOCI, the financial asset will continue to be appraised at its fair value. The effective interest rate is determined on the basis of the fair value of the asset as of the reclassification date. Besides, the reclassification date is considered as the first recognition date for the purpose of calculation of provisions (expected credit losses).

FVOCI to FVTPL

If the Company reclassifies a financial asset from FVOCI to FVTPL, the financial asset will continue to be appraised at its fair value. Any accumulated profit or loss recognized earlier in the other comprehensive income is reclassified from equity to the profit and loss account as a reclassification adjustment as of the reclassification date.

(c) Impairment

i. Financial assets (including trade and other receivables and contract assets)

Policy applicable after 1 January 2018

The Company measures allowances using expected credit loss ("ECL") model for financial assets at amortized cost, debt instruments at FVOCI and contract assets. Allowances are measured on either of the following base:

• twelve-month ECLs: ECLs that result from possible default events within the 12 months after the balance sheet date;

• lifetime ECLs: ECLs that result from all possible default events over the expected life of a financial instrument.

The Company measures allowance at an amount equal to lifetime ECLs except for those financial assets for which credit risk has not increased significantly since initial recognition. For trade receivables and contract assets, the Company has chosen to quantify allowances the amount of expected credit losses for the duration in the simplified regime.

The ECL model is based on the principle of expected credit losses. For the purposes of designing the ECL model, the portfolio of financial assets is split into segments. Financial assets within each segment are allocated to three stages (Stage I – III) or to a group of financial assets that are impaired at the date of the first recognition purchased or originated credit-impaired financial assets ("POCI"). At the date of the initial recognition, the financial asset is included in Stage I or POCI. Subsequent to initial recognition, financial asset is allocated to Stage II if there was a significant increase in credit risk since initial recognition or to Stage III if the asset has been credit-impaired.

The Company assumes that the credit risk on a financial asset has increased significantly if:

(a) a financial asset or its significant portion is overdue for more than 30 days (if a financial asset or its significant portion is overdue for more than 30 days and less than 90 days, and the delay does not indicate an increase in counterparty credit risk, the individual approach shall be used and the financial asset shall be classified in Stage I); or

(b) the Company negotiates with the debtor about debt's restructuring (at the request of the debtor or the Company) or;

(c) the probability of default (PD) of the debtor increases by 20%; or

(d) other material events occur which require individual assessment (e.g. development of an external rating of the main credit risks).

At each balance sheet date, the Company assesses whether financial assets carried at amortised cost and investments to equity instrument are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The Company considers financial asset to be credit-impaired if:

(a) a financial asset or its significant part is overdue for more than 90 days; or

(b) legal action has been taken in relation to the debtor which outcome or the actual process may have an impact on the debtor's ability to repay the debt; or

(c) insolvency proceedings or similar proceedings under the foreign legislation have been initiated in respect of the debtor, which may lead to a declaration of bankruptcy and the application for the opening of this proceeding has not been refused or rejected or the proceedings have not been discontinued within 30 days of initiation ((b) and (c) are considered as "Default event"); or

(d) the probability of default of the borrower increases by 100% compared to the previous rating; or

(e) other material events occur which require individual assessment (e.g. development of external ratings of the main credit risks).

For the purposes of ECL calculation, the Company uses components needed for the calculation, namely probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). In case of short-term loans, the so-called "maturity adjustment" is also included in the calculation. Forward-looking information means any macroeconomic factor projected for future, which has a significant impact on the development of credit losses ECLs are present values of probability-weighted estimate of credit losses. The Group considers mainly expected growth of gross domestic product, reference interest rates, stock exchange indices or unemployment rates.

Presentation of provisions

Provisions for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets and the annual change is recognised in the income statement. For debt securities valued at FVOCI, the provision is recognized in other comprehensive income ("OCI").

(d) Non-derivative financial liabilities

The Company has the following liabilities that are not derivatives ("non-derivative financial liabilities"): loans and credit, issues of debt securities, bank overdrafts, accounts payable and other liabilities. These financial liabilities are first recognised as of their settlement date at their fair value increased by all relevant directly related transaction costs, with the exception of financial liabilities at fair value recognized in profit or loss, where the transaction costs are recognized in profit or loss as incurred. Thereafter, financial liabilities are valued by amortized acquisition cost with the use of the effective interest rate, with the exception of financial liabilities recognized in profit or loss. Methods of making fair value estimates are described in Note 4 of the Notes to the Financial Statements – Determination of fair value.

Following the performance, cancellation or expiration of contractual obligations, the Company eliminates the financial liability from its accounting.

(e) Revenue

Revenues from contracts with customers

The Company uses a five-step model to determine when to recognise revenue, and at what amount. The model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on the criteria for meeting the performance obligation, the revenue is recognised:

- over time, in a manner that depicts the Company's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

The only source of the income of the Company is income from services related to the management of provided loans.

(f) Finance income and expense

i. Finance income

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, gains on sale of investments in securities and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised in profit or loss as it accrues, using the effective interest method.

ii. Finance expenses

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, fees and commissions expense for payment transactions and guarantees, impairment losses recognized on financial assets, and losses on hedging instruments that are recognized in profit or loss.

(g) Income tax

Income taxes comprise current and deferred tax. Income taxes are recognised in the Statement of Comprehensive Income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the reporting period, using tax rates enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused deductible temporary differences can be utilised. For the above reason, the Company did not account for a deferred tax asset.

4. Determination of fair values

Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed, where appropriate, in the notes specific to that asset or liability.

(a) Non-derivative financial assets

The fair value of financial assets at fair value through profit or loss, debt and equity instruments at FVOCI and financial assets at amortized cost is based on their quoted market price at the balance sheet date without any deduction for transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated by management using pricing models or discounted cash flows techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the balance sheet date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the balance sheet date.

The fair value of trade and other receivables, including service concession receivables, is estimated as the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

The fair value of trade and other receivables and of financial assets at amortized cost is determined for disclosure purposes only.

(b) Non-derivate financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

5. Cash and cash equivalents

in thousands of CZK	As of 31 December 2020	As of 31 December 2019
Current accounts with banks	9,565	2,360
Total	**9,565**	**2,360**

The Company assessed the need to create a credit loss allowance for receivables from banks (which are included in Cash and cash equivalents) and considered that the resulting allowance would be negligible.

6. Trade receivables and other assets (including advances)

in thousands of CZK	As of 31 December 2020	As of 31 December 2019
Trade receivables	-	555
Advances provided	-	40
Total	**-**	**595**
Short-term	-	*595*
Total	**-**	**595**

As of 31 December 2020 and 31 December 2019, all trade receivables and other assets were due.

Credit risks and impairment losses relation to trade and other receivables are dealt with in Note 14 - Risk management policies and disclosures.

7. Financial instruments and other assets

in thousands of CZK	As of 31 December 2020	As of 31 December 2019
Financial assets		
Loans to entities other than credit institutions	10,115,125	5,654,064
of which: loans owed by the parent company	*10,115,125*	*5,654,064*
Provision for loans	*(11,379)*	(4,392)
Total	**10,103,746**	**5,649,672**
Long-term	*9,978,367*	*2,599,420*
Short-term	*125,379*	*3,050,252*
Total	**10,103,746**	**5,649,672**

Long-term financial instruments consist of the credit principal the maturity date of which is based on the maturity of the bond principal, i.e. 16 July 2022 and 17 March 2025, see also Note 9 - Financial instruments and other financial liabilities. Long-term loans also include a newly provided loan in the amount of CZK 10,000 thousand, including interest, which is due on 24 April 2022.

Short-term financial instruments include interest accrued on provided loans in the amount of CZK 125,929 thousand (CZK 57,547 thousand as of 31 December 2019), payable semi-annually.

The weighted average effective interest rate on loans to entities other than credit institutions as of 31 December 2020 was 4.50% (3.69% as of 31 December 2019).

As of 31 December 2020, the Company reported a provision of CZK 11,380 thousand (2019: CZK 4,392 thousand) for loans provided to the parent company Energetický a průmyslový holding, a.s. Provisions were recognized in both years based on the impairment test performed as of 31 December 2020 and 31 December 2019.

The parent company was not assigned a rating.

Detailed information on the loan from the parent company EPH is given in the table below

As of 31 December 2020	**Principal**	**Accrued interest**	**Unamortized fee**	**Maturity**	**Interest rate (%)**	**Effective interest rate (%)**
in thousands of CZK						
Loan of EPH (3)	2,601,000	28,816	(5,399)	16 July 2022	2.36*	3.44
Loan of EPH (4)	10,000	550**	-	24 April 2022	3.50	3.29
Loan of EPH (5)	7,500,000	96,563	(116,404)	17 March 2025	4.50	4.87
Total	**10,111,000**	**125,929**	**(121,803)**	**-**	**-**	**-**

* The interest rate is based on the interest rate on the bonds, see Note 9 – Financial instruments and other financial liabilities

** Interest payable together with the principal.

As of 31 December 2019	**Principal**	**Accrued interest**	**Unamortized fee**	**Maturity**	**Interest rate (%)**	**Effective interest rate (%)**
in thousands of CZK						
Loan of EPH (2)	3,000,000	6,125	(5,689)	9 June 2020	3.50	3.90
Loan of EPH (3)	2,601,000	51,223	(8,794)	16 July 2022	4.22*	3.44
Loan of EPH (4)	10,000	199**	-	24 April 2022	3.50	3.29
Total	**5,611,000**	**57,547**	**(14,483)**	**-**	**-**	**-**

* The interest rate is based on the interest rate on the bonds, see Note 9 – Financial instruments and other financial liabilities

** Interest payable together with the principal.

Fair value information

The fair value of interest-bearing instruments held at amortised costs is given in the table below:

in thousands of CZK	**As of 31 December 2020**		**As of 31 December 2019**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Loan of EPH (2)	-	-	2,999,030	2,976,032
Loan of EPH (3)	2,621,464	2,656,968	2,640,454	2,714,274
Loan of EPH (4)	10,539	10,767	10,188	10,184
Loan of EPH (5)	7,471,743	7,661,976	-	-
Total	**10,103,746**	**10,329,711**	**5,649,672**	**5,700,490**

All interest-bearing financial instruments carried at amortized costs are included in Level 2 of the fair value hierarchy (for more details on valuation methods see Note 2 (d) i – Assumption and estimation uncertainties).

8. Equity

The authorised, issued and fully paid share capital as of 31 December 2020 and 31 December 2019 consisted of 10 ordinary shares with a nominal value of CZK 200,000 per share.

Ordinary shares represent a 100% share in the share capital of EPH Financing CZ, a.s. There are no special rights and obligations associated with ordinary shares.

The rights and obligations associated with registered ordinary shares are defined in the Commercial Act (Aco No. 90/2012 Coll., as amended) and in the Articles of Association of the Company in Article 6. Shareholders of EPH Financing CZ, a.s. they are not limited in their rights attached to the shares or in the payment of dividends.

Shareholders have the right to receive dividends and at the General Meeting of the Company they have 1 vote per share with a nominal value of CZK 200,000.

As of 31 December 2020	**Number of shares**	**Ownership %**	**Voting rights %**
Energetický a průmyslový holding, a.s.	10	100	100
Total	**10**	**100**	**100**

As of 31 December 2019	**Number of shares**	**Ownership %**	**Voting rights %**
Energetický a průmyslový holding, a.s.	10	100	100
Total	**10**	**100**	**100**

Reconciliation of the number of issued shares at the beginning and at the end of the year is provided as follows.

	Number of issued shares
Shares issued as of 31 December 2018	10
Newly issued shares	-
Shares issued as of 31 December 2019	**10**

	Number of issued shares
Shares issued as of 31 December 2019	10
Newly issued shares	-
Shares issued as of 31 December 2020	**10**

Basic earnings per share

Basic earnings/(loss) per share in CZK to CZK 200,000 nominal value is CZK (652,100) ((CZK (204,700) as of 31 December 2019).

The calculation of basic earnings/(loss) per share as of 31 December 2020 was based on profit/(loss) belonging to ordinary shareholders in the amount of CZK (6,521) thousand (CZK 2,047 thousand as of 31 December 2019), and from the weighted average number of 10 issued ordinary shares.

Diluted earnings per share

As the Company issued no convertible debentures or other financial instruments with dilutive potential effects on ordinary shares, diluted earnings per share is the same as basic earnings per share.

9. Financial instruments and other financial liabilities

in thousands of CZK	As of 31 December 2020	As of 31 December 2019
Bonds issued at amortized cost	10,110,933	5,643,865
Total	**10,110,933**	**5,643,865**
Long-term	*9,979,196*	*2,592,206*
Short-term	*131,737*	*3,051,659*
Total	**10,110,933**	**5,643,865**

The weighted average interest rate on loans to entities other than credit institutions as of 31 December 2020 was 4.50% (3.69% as of 31 December 2019).

Bonds issued at amortized cost

Detailed information on issued bonds is given in the table below:

As of 31 December 2020

in thousands CZK	ISIN	Principal	Accrued interest	Unamortized fee	Maturity	Interest rate (%)	Effective interest rate (%)
Bonds of EPH Financing CZ (3)	CZ0003519407	2,601,000	28,816	(5,399)	16 July 2022	2.36*	3.44
Bonds of EPH Financing CZ (4)	CZ0003524464	7,500,000	96,563	(110,047)	17 March 2025	4.50	4.87
Total		**10,101,000**	**125,379**	**(115,446)**	**-**	**-**	**-**

* The bonds bear interest at a floating interest rate as the sum of the reference rate (6M PRIBOR) and a margin of 2.00 % p.a. set for each interest period.

As of 31 December 2019

in thousands CZK	ISIN	Principal	Accrued interest	Unamortized fee	Maturity	Interest rate (%)	Effective interest rate (%)
Bonds of EPH Financing CZ (2)	CZ0003515413	3,000,000	6,125	(5,689)	09 June 2020	3.50	3.90
Bonds of EPH Financing CZ (3)	CZ0003519407	2,601,000	51,223	(8,794)	16 July 2022	4.22*	3.44
Total		**5,601,000**	**57,348**	**(14,483)**	**-**	**-**	**-**

* The bonds bear interest at a floating interest rate as the sum of the reference rate (6M PRIBOR) and a margin of 2.00 % p.a. set for each interest period.

*Bonds 2020 (ISIN CZ0003515413***)**

The bonds were issued on 9 December 2016 and were fully repaid on 9 June 2020, including accrued interest.

Bonds 2022 (ISIN CZ0003519407)

These bonds were issued on 16 March 2018 with the expected total nominal value of CZK 3,000 million with a potential 50% increase of the expected total nominal value of the bonds issue, i.e. to CZK 4,500 million.

The bonds are traded on the Prague Securities Exchange and are due in 2022 (hereinafter "Bonds 2022"). Bonds 2022 bear interest at a floating rate of 6M PRIBOR plus a margin of 2.00% p.a.; the interest is due twice a year retroactively as of 16 January and 17 July of each year. The total nominal amount of the subscribed bonds reached as of 31 December 2020 CZK 2,601,000 thousand (CZK 2,601,000 as of 31 December 2019).

The Issuer's debts arising from Bonds 2022 were guaranteed by Energetický a průmyslový holding, a.s. in the form of a financial guarantee in accordance with Czech law.

In particular, the Bonds carry the right to payment of the nominal value as of their Final Maturity Date and the right to payment of the yield on the Days of Payment of the Income. The Bonds further carry the Bondholder's right to demand prepayment of the Bonds, in Cases of breach of obligations, as well as the right to participate in and to vote at meetings of Bondholders in cases where such meeting is convened in accordance with the Act No. 190/2004 Coll.

The Company may repurchase the Bonds 2022 at any time and for any price in the market or otherwise. If the principal of the Bonds 2022 is not prepaid (an option that is not being considered at present by the Company), the Company will repay it in the lump-sum form on 16 July 2022.

Bonds 2022 are reported after deduction of costs incurred in connection with the issue, which amount to CZK 13,983 thousand (CZK 13,983 thousand as of 31 December 2019). Those costs are gradually charged during the existence of Bonds 2022 to the profit and loss account based on the effective interest rate amounting as of 31 December 2020 to 3.44% (3.44% as of 31 December 2019).

Bonds 2025 (ISIN CZ0003524464)

These bonds were issued on 17 March 2020 with the expected total nominal value of CZK 5,000 million with a potential 50% increase of the expected total nominal value of the bonds issue, i.e. to CZK 7,500 million.

The bonds are traded on the Prague Securities Exchange and are due in 2025 (hereinafter "Bonds 2025"). Bonds 2025 bear interest at the rate of 4.50% p.a.; the interest is due twice a year retroactively as of 17 March and 17 September of each year. The total nominal amount of the subscribed bonds reached as of 31 December 2020 CZK 7,500 000 thousand.

The Issuer's debts arising from Bonds 2025 were guaranteed by Energetický a průmyslový holding, a.s. in the form of a financial guarantee in accordance with Czech law.

In particular, the Bonds carry the right to payment of the nominal value as of their Final Maturity Date and the right to payment of the yield on the Bonds. The Bonds further carry the Bondholder's right to demand prepayment of the Bonds in case of Non-performance of Obligations, as well as the right to participate in and to vote at meetings of Bondholders in cases where such meeting is convened in accordance with the Bonds Act or the Terms of Issue.

Beginning with the expiration of two years from the Issue Date (including such date), the Issuer will be entitled to prepay (partially – by a reduction of the nominal value of all outstanding Bonds – or fully) all outstanding Bonds and may only exercise such right if it notifies the Bondholders thereof not later than 60 (sixty days before the relevant Prepayment Date of the Bonds. The Issuer shall be obliged to prepay the entire outstanding nominal value of the Bonds or a part thereof, plus unpaid interest accrued as of the Prepayment Date to the prepaid nominal value of the Bonds or to its prepaid part, and any extraordinary interest yield. The Issuer may prepay partially the Bonds by reducing their nominal value solely as of the Yield Payment Date. If the prepayment occurs, upon the Issuer's decision, between: (a) the second anniversary of the Issue Date (inclusive) and the fourth anniversary of the Issue Date (with the exception of such date), the extraordinary interest yield will be equal to 1/48 of the annual interest yield on the prepaid Bonds for each commenced month of the period from the Prepayment Date of the Bonds (with the exception of such month) until the Final Maturity Date of the Bonds (inclusive), and (b) the fourth anniversary of the Issue Date /inclusive) and the fifth anniversary of the Issue Date (with the exception of such date), the Issuer will not pay any extraordinary interest yield.

The Company will repay the principal of Bonds 2025 in the lump-sum form on 17 March 2025.

Bonds 2025 are reported after deduction of costs incurred in connection with the issue, which amount to CZK 130,005 thousand. Those costs are gradually charged during the existence of Bonds 2025 to the profit and loss account based on the effective interest rate amounting as of 31 December 2020 to 4.87%.

Fair value information

The following table sets out the fair value of interest-bearing instruments carried at amortized cost:

in thousands of CZK		As of 31 December 2020		As of 31 December 2019	
	ISIN	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Bonds issued at amortized cost (2)	CZ0003515413	-	-	3,000,437	2,976,032
Bonds issued at amortized cost (3)	CZ0003519407	2,624,417	2,656,968	2,643,428	2,714,274
Bonds issued at amortized cost (4)	CZ0003524464	7,486,516	7,661,976	-	-
Total		**10,110,933**	**10,318,944**	**5,643,865**	**5,690,306**

All interest-bearing financial instruments carried at amortized costs are included in Level 2 of the fair value hierarchy (for more details on valuation methods see Note 2 (d) i – Assumption and estimation uncertainties).

10. Trade payables and other liabilities

in thousands of CZK	**As of 31 December 2020**	**As of 31 December 2019**
Trade payables	435	335
Other liabilities	-	-
Total	**435**	**335**
Short-term	435	335
Total	**435**	**335**

Trade payables and other liabilities were not secured as of 31 December 2020 or as of 31 December 2019. The estimate of liabilities is based on contractual terms or invoices received after the balance sheet date, but before the publication of the Financial Statements.
The liquidity risk to which the Company is exposed in connection with trade and other payables is described in Note 14 – Risk Management and Disclosure Procedures.

11. Income tax

Current taxes

The Company created a provision for income tax, see below.

	As of 31 December 2020	As of 31 December 2019
Profit before tax	575	399
Tax rate	19%	19%
Tax	109	77
Tax credit	-	-
Estimate of tax payable *	**109**	**77**
Advances paid for tax payable	**(30)**	**(35)**
Tax liabilities	**79**	**42**

* Current income tax is the amount that is calculated in accordance with the currently valid tax legislation of the Czech Republic (i.e. the Income Tax Act 586/1992 Coll.). The starting point for the calculation is therefore the accounting profit before taxes calculated according to the currently valid accounting legislation of the Czech Republic, i.e. without the influence of International Financing Reporting Standards.

The effective tax rate is the same as the tax rate valid in the Czech Republic, i.e. 19 %.

12. Incomes and services

Operating costs represent costs associated with the preparation of the issue of bonds, the issue, service and administration of bonds. The income of the Company then represents the reimbursement of all costs by the parent company and the contractual remuneration of the Company.

Other operating expenses

in thousands of CZK	**2020**	**2019**
Audit, accounting, consolidation	528	453
Others	1,280	503
Total costs from continuing operations	**1,808**	**956**

The fee to the statutory auditor as of 31 December 2020 amounts to CZK 269 thousand (CZK 182 thousand in 2019) and represents a fee for the audit of the statutory Financial Statements of the Company as of 31 December 2020. Non-audit services were not provided by the auditor in the given period.

13. Finance income and expense, profit/(loss) from financial instruments

Recognized in the Profit and Loss Statement

in thousands of CZK	**2020**	**2019**
Interest income	378,594	225,336
Finance income	**378,594**	**225,336**
Interest expense	(378,243)	(225,137)
Finance expense	**(378,243)**	**(225,137)**
(Losses)/gains on changes in the value of financial assets	(6,988)	1,725
Profit/(loss) from financial instruments	**(6,637)**	**1,924**
Net finance income/(expense) recognised in profit or loss	**(6,637)**	**1,924**

Interest income relates to the loan provided and interest expenses to the issued bonds.

14. Risk management policies and disclosures

This section describes the financial and operational risks to which the Company is exposed and the way in which it manages such risks. The most important types of financial risks for the Company are credit risk, interest rate risk and liquidity risk.

(a) Credit risk

Credit risk is the risk of financial loss that a counterparty in a transaction in a financial instrument fails to meet its contractual obligations. This risk arises for the Company primarily in the area of loans, as the Company provided a loan to the parent company Energetický a průmyslový holding, a.s. The Company individually analyses the creditworthiness of the parent company and only then are it offered the payment and delivery terms. The Company continuously monitors credit risk. The carrying amount of the loan represents the maximum credit risk of the Company. The Company creates an allowance for impairment, which is an estimate of expected credit losses and quantifies it in the amount of expected credit losses over time.

The basis for calculation of the provision by the end of the relevant reviewed period is the book value of the loan provided to the parent company (i.e. the principal plus unpaid interest). If the remaining maturity period is shorter than 1 year, such fact is taken into account in the calculation. This means that if there are, for instance, 9 months until the maturity of the loan, the book value of the loan will be adjusted by a coefficient of 0.75. Furthermore, the LGD parameter and the stipulated "default rate" are considered. The default rate is determined on the basis of the rating of EP Infrastructure, a.s. granted by leading rating agencies, when the Company's rating is implied on the basis of an analysis of the maturity of bonds of EPIF and the Company, the allocated ratings and credit margins published by Reuters page. Based on such information, the default rate is set subsequently according to Moody´s data.

The Company provides a loan to the parent company up to a total amount of CZK 10,111 million. The loan is provided mainly from funds selected from already subscribed bonds. Based on the financial results of the debtor, which is the parent company, the Company evaluates on an annual basis its ability to meet its obligations.

As of 31 December 2020 and 31 December 2019, the Company did not have any overdue financial assets.

At the balance sheet date, the maximum credit risks, broken down by type of counterparty and by geographical area, are set out in the following tables.

Credit risk by type of counterparty

As of 31 December 2020

in thousands of CZK	**Corporate (non-financial institutions)**	**Banks**	**Total**
Assets			
Cash and cash equivalents	-	9,565	**9,565**
Trade receivables and other assets (including advances)		-	**-**
Financial instruments and other financial assets	10,103,746	-	**10,103,746**
Total	**10,103,746**	**9,565**	**10,113,311**

As of 31 December 2019

in thousands of CZK	**Corporate (non-financial institutions)**	**Banks**	**Total**
Assets			
Cash and cash equivalents	-	2,360	**2,360**
Trade receivables and other assets (including advances)	595	-	**595**
Financial instruments and other financial assets	5,649,672	-	**5,649,672**
Total	**5,650,267**	**2,360**	**5,652,627**

Credit risk by location of debtor

As of 31 December 2020

in thousands of CZK	**Czech Republic**	**Total**
Assets		
Cash and cash equivalents	9,565	**9,565**
Trade receivables and other assets (including advances)	-	**-**
Financial instruments and other financial assets	10,103,746	**10,103,746**
Total	**10,113,311**	**10,113,311**

As of 31 December 2019

in thousands of CZK	**Czech Republic**	**Total**
Assets		
Cash and cash equivalents	2,360	**2,360**
Trade receivables and other assets (including advances)	595	**595**
Financial instruments and other financial assets	5,649,672	**5,649,672**
Total	**5,652,627**	**5,652,627**

i. Impairment losses

Loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the balance sheet date, and
- Lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The ECL model is based on the principle of expected credit losses. For the purposes of designing the ECL model, the portfolio of financial assets is split into segments. Financial assets within each segment are allocated to three stages (Stage I – III) or to a group of financial assets that are impaired at the date of the first recognition purchase or originated credit-impaired financial assets ("POCI"). At the date of the initial recognition, the assets are included in Stage I or POCI.

Subsequent allocation to stages is as follows: assets with significant increase in credit risk since initial recognition (Stage II), respectively credit impaired assets (Stage III).

All financial assets of the Company are classified at Level I.

The Company has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs.

Information on the financial situation of the group and the company EPH (Energetický a průmyslový holding, a.s.) can be found on its website www.epholding.cz

The following table provides information about the changes in the loss allowance during the period

in thousands of CZK	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total
As of 1 January 2020	-	-	4,392	-	**4,392**
Impairment losses recognised during the yea	-	-	8,415	-	**8,415**
Reversal (settlement) of impairment losses recognized during the year	-	-	(1,427)	-	**(1,427)**
Depreciated items	-	-	-	-	**-**
As of 31 December 2020	**-**	**-**	**11,380**	**-**	**11,380**

in thousands of CZK	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total
As of 1 January 2019	-	-	6,117	-	**6,117**
Impairment losses recognised during the yea	-	-	-	-	**-**
Reversal (settlement) of impairment losses recognized during the year	-	-	(1,725)	-	**(1,725)**
Depreciated items	-	-	-	-	**-**
As of 31 December 2019	**-**	**-**	**4,392**	**-**	**4,392**

Age structure of financial assets, excluding cash and cash equivalents and derivates, at the balance sheet date:

Credit risk – impairment of financial assets

As of 31 December 2020

in thousands of CZK	Trade receivables and other assets (including advances)	Loans to other than credit institutions	Total
Before maturity (net)	-	10,103,746	**10,103,746**
After maturity (net)	-	-	-
Total	**-**	**10,103,746**	**10,103,746**
A – Assets (gross)			
- before maturity	-	10,115,126	**10,115,126**
- after maturity <30 days	-	-	**-**
- after maturity 31–180 days	-	-	**-**
- after maturity 181-365 days	-	-	**-**
- after maturity >365 days	-	-	-
Total assets (gross)	**-**	**10,115,126**	**10,115,126**

B – Loss allowances for assets			
- before maturity	**-**	(11,380)	**(11,380)**
- after maturity <30 days	**-**	**-**	**-**
- after maturity 31–180 days	**-**	**-**	**-**
- after maturity 181-365 days	**-**	**-**	**-**
- after maturity >365 days	-	-	-
Total provisions	**-**	**(11,380)**	**(11,380)**
Total assets (net)	**-**	**10,103,746**	**10,103,746**

Credit risk – impairment of financial assets

As of 31 December 2019

in thousands of CZK	**Trade receivables and other assets (including advances)**	**Loans to other than credit institutions**	**Total**
Before maturity (net)	595	5,649,672	**5,650,267**
After maturity (net)	-	-	-
Total	**595**	**5,649,672**	**5,650,267**
B – Provisions for assets			
- before maturity	595	5,654,064	**5,654,659**
- after maturity <30 days	-	-	**-**
- after maturity 31–180 days	-	-	**-**
- after maturity 181-365 days	-	-	**-**
- after maturity >365 days	-	-	-
Total assets (gross)	**595**	**5,654,064**	**5,654,659**
B – Loss allowances for assets			
- before maturity	**-**	(4,392)	**(4,392)**
- after maturity <30 days	**-**	**-**	**-**
- after maturity 31–180 days	**-**	**-**	**-**
- after maturity 181-365 days	**-**	**-**	**-**
- after maturity >365 days	-	-	-
Total provisions	**-**	**(4,392)**	**(4,392)**
Total assets (net)	**595**	**5,649,672**	**5,650,267**

The allowance for impairment in respect of financial assets is used to record impairment losses unless the Group is satisfied that no recovery of the amount owed is possible; at that point the amounts are considered irrecoverable and are written off against the financial asset directly.

The following movements were reported for allowances for impairment of financial assets:

in thousands of CZK	**Loans to other than credit institutions**	**Total**
As of 31 December 2018	**6,117**	**6,117**
Creation/(release) of provisions for expected losses during the year	(1,725)	**(1,725)**
As of 31 December 2019	**4,392**	**4,392**
Creation/(release) of provisions for expected losses during the year	6,988	**6,988**
As of 31 December 2020	**11,380**	**11,380**

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

By default, the Company ensures that it has sufficient cash on demand and assets within short-term maturity to meet expected operational expenses for a period of 90 days, including servicing financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters.

The table below provides an analysis of financial liabilities by relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. For cases where there is a possibility of earlier repayment, the Company chooses the most prudent method of assessment. For this reason, liabilities are expected to be repaid as soon as possible and for assets they are expected to be repaid as soon as possible. Liabilities that do not have a contractual maturity are grouped into the "Undefined" category.

Maturities of financial liabilities

As of 31 December 2020

in thousands of CZK	**Carrying amount**	**Contractual cash flows(1)**	**Up to 3 months**	**3 months to 1 year**	**1–5 years**	**Undefined**
Liabilities						
Financial instruments and financial liabilities	**10,110,933**	11,624,706	125,379	398,884	11,100,443	-
Trade payables and other liabilities	**435**	435	322	**-**	**-**	113
Total	**10,111,368**	**11,625,141**	**125,701**	**398,884**	**11,100,443**	**113**

(1) *Contractual cash flows disregarding discounting to net present value and including potential interest.*

Maturities of financial liabilities

As of 31 December 2019

in thousands of CZK	Carrying amount	Contractual cash flows[1]	Up to 3 months	3 months to 1 year	1–5 years	Undefined
Liabilities						
Financial instruments and financial liabilities	**5,643,865**	5,864,262	53,141	3,114,920	2,696,201	-
Trade payables and other liabilities	**335**	335	309	-	-	26
Total	**5,644,200**	**5,864,597**	**53,450**	**3,114,920**	**2,696,201**	**26**

[1] *Contractual cash flows disregarding discounting to net present value and including potential interest.*

(c) Foreign exchange risk

The Company does not face the risk of change in exchange rates, as all transactions are carried out in the functional currency of the Company (CZK).

(d) Interest rate risk

The Company is exposed to a low risk on interest rate fluctuations in its operations because interest-bearing assets and interest-bearing liabilities have almost the same maturity date and are due in the same amount, while reflecting the form of interest rates, whether fixed interest rates or variable interest rates. The table below provides information on the extent of the Issuer´s interest rate risk according to the contractual maturity of financial instruments. Assets and liabilities that do not have a contractual maturity or are not interest-bearing are grouped in the "Undefined" category.

Financial information concerning interest-bearing and non-interest-bearing assets and liabilities and their contractual maturity or revaluation dates are:

As of 31 December 2020

in thousands of CZK	Up to 1 year	1 year to 5 years	Undefined	Total
Assets				
Cash and cash equivalents	9,565	-	-	**9,565**
Trade receivables and other assets (including advances)	-	-	-	**-**
Financial instruments and other financial asset	125,379	9,978,367	-	**10,103,746**
Total	**134,944**	**9,978,367**	**-**	**10,113,311**
Liabilities				
Trade payables and other liabilities	435			**435**
Financial instruments and financial liabilities	131,737	9,979,196		**10,110,933**
Total	**132,172**	**9,979,196**	**-**	**10,111,368**
Net interest rate risk	**2,772**	**(829)**	**-**	**1,943**

As of 31 December 2019

in thousands of CZK	Up to 1 year	1 year to 5 years	Undefined	Total
Assets				
Cash and cash equivalents	2,360	-	-	**2,360**
Trade receivables and other assets (including advances)	595	-	-	**595**
Financial instruments and other financial asset	3,050,252	2,599,420	-	**5,649,672**
Total	**3,053,207**	**2,599,420**	**-**	**5,652,627**
Liabilities				
Trade payables and other liabilities	335		-	**335**

Financial instruments and financial liabilities	3,051,659	2,592,206	-	**5,643,865**
Total	**3,051,994**	**2,592,206**	**-**	**5,644,200**
Net interest rate risk	**1,213**	**7,214**	**-**	**8,427**

The nominal amounts of financial instruments are disclosed in Notes 7 and 9 – Financial instruments and other financial assets and Financial instruments and other financial liabilities.

Sensitivity analysis

The Company performs stress testing using a standardized interest rate shock, which means that an immediate reduction/increase in interest rates by 100 basis points is applied to the portfolio´s interest rate positions along the entire length of the yield curve.

As of the balance sheet date and 31 December 2019, a change in interest rates of 100 basis points would not affect the overall position of the portfolio.

(e) Information about internal control policies and procedures and rules of approach to potential risks arising in connection with the financial reporting process

The internal control system includes control mechanisms created within the Company. It ensures, evaluates and minimizes operational, financial, legal and other risks of the Company. Work procedures are stipulated and powers and responsibilities are allocated within the control system. Results of the internal control are objectively and regularly evaluated. In case of any findings, appropriate measures for rectification of the identified defects are determined.

Financial control of the financial reporting process is provided for by responsible employees as a part of internal management in the preparation of operations before their approval and in their course until their settlement.

The bookkeeping system is governed by the relevant provisions of the following laws, decrees and internal regulations:

- Act No. 563/1991 Coll. on accounting, as amended;
- International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and their interpretations (SIC and IFRIC) (jointly "IFRS") issued by the International Accounting Standards Board (IASB) and adopted by the European Union;
- Decree No. 500/2002 Coll. implementing some provisions of Act No. 563/1991 Coll. for accounting entities which are businessmen using the double-entry accounting system;
- Czech Accounting Standards for accounting entities keeping their books in accordance with Decree No. 500/2002 Coll., as amended;
- Act No. 586/1991 Coll. on income taxes, as amended;
- Act No. 235/2004 Coll. on value added tax, as amended;
- Act No. 593/1992 Coll. on reserves for the identification of the income tax base, as amended; and
- internal bookkeeping policies and procedures

EPH Financing CZ, a.s. uses the double-entry accounting system for the accounting entity in accordance with binding IFRS issued by the International Accounting Standards Board (IASB) and adopted by the European Union, and keeps also another accounting system for tax purposes under the Czech Accounting Standards (CAS). Any changes in charts of account may be made solely by the responsible department. Both accounting systems are processed by Microsoft Dynamics AX. Balances of all accounts are checked at the cut-off date.

The Company is also managed by controlling tools. These tools are focused on the evaluation of key financial and non-financial performance indicators with the aim of achieving the Company's business plan.

Financial accounting is controlled once a year by external auditors (a preliminary and final audit). Balances of all accounts are duly evidenced in the process of documentary inventory and physical stock-taking. The financial section and the controlling department check as of the cut-off date of each month the balances of accounts which contain records of tax payments, balances of cash and bank accounts, as well as accounts where there were any significant movements. The financial sectors check the balancers of all accounts twice a year at the cut-off dates.

The Company's auditor for 2020 is Deloitte Audit s.r.o., with its seat at Italská 2581/67, 120 00 Prague 2.

(f) Operational risk

The operational risk consists of the risk of loss from embezzlement, unauthorized activities, errors, omissions or system failure. The risk of this time occurs in all activities and threatens all business entities. The operational risk also includes legal risk.

The primary responsibility for the application of controlling mechanisms for the management of operational risks rests with the Company's management. Generally applied standard cover the following areas:

- requirement regarding reconciliation and monitoring of transactions,
- identification of operational risks in the control system,
- by gaining an overview of operational risks, the Company creates prerequisites for the determination and focusing of processes and measures which will lead to a reduction of operational risks and to the adoption of decisions on:
  - the recognition of each existing risk;
  - the initiation of processes leading to mitigation of potential impacts; or
  - narrowing the space for or total termination of risky activities.

15. Related parties

Identification of related parties

Relationships with related parties include relationships with shareholders and other persons, as set out in the following table.

(a) The summary of outstanding balances with related parties as of 31 December 2020 and 31 December 2019:

in thousands of CZK	Receivables and other financial assets	Liabilities and other financial liabilities	Receivables and other financial assets	Liabilities and other financial liabilities
	As of 31 December 2020	As of 31 December 2020	As of 31 December 2019	As of 31 December 2019
To the parent company				
Due to the provided loan	10,103,746	-	5,649,672	-
Due to recharging of expenses	-	-	555	-
Due to payment outside the registered capital	-	-	-	-
Companies controlled by end shareholders				
Due to invoicing of costs	-	265	-	277
Total	**10,103,746**	**265**	**5,650,227**	**277**

(b) Overview of transactions with related parties in 2020 and 2019:

in thousands of CZK	Income 2020	Expense 2020	Income 2019	Expense 2019
To the parent company				
Due to interest accrued on the loan	378,594	-	225,336	-
Due to recharging of expenses	2,033	-	1,156	-
Companies controlled by end shareholders	-	283	-	295
Total	**380,627**	**283**	**226,492**	**295**

All transactions were carried out under normal business conditions.

Transactions with the key management personnel

Members of the Board of Directors and the Supervisory Board of EPH Financing CZ, a.s. did not receive any significant monetary or non-monetary benefits for the period from 1 January 2020 to 31 December 2020. At the same time, these members were employees of other companies within the EPH Group.

16. COVID-19 pandemic

The SARS-CoV-2 coronavirus epidemic was declared by the World Health Organization on 11 March 2020 as a pandemic. Due to the danger to health due to proven existence of the coronavirus in the territory of the Czech Republic, the Government of the Czech Republic approved on the following day, based on a proposal of the minister of the interior, the declaration of the state of emergency in the entire territory of the Czech Republic and adopted extraordinary measures in various areas, such as travels abroad, border procedures, measures adopted in retail stores, with respect to school attendance and educational events, in transport, social services, health care, activities of the authorities and self-administration units, ensuring security and prison guards and last but not least also restrictions of free movement.

As the Company was established for the purpose of issue and administration of bonds and provision of credit/loans to the companies of the EPH Group (the "Group") and has no other business activities, the above-mentioned measures do not directly affect it. The key source of the Company's income consists of instalments of loans provided to the parent company, Energetický a průmyslový holding, a.s. (hereinafter "EPH"). Beside the bonds and related contractual obligations, the Company does not carry on its accounts any other material liabilities.

Current evaluation of impacts of the coronavirus epidemic on the Group indicates that there is no Group company endangered by the epidemic and its impact on the Group is expected to be limited and temporary. On the other hand, the reliability of estimates of the long-term impact on the Group is rather limited due to the uncertainty regarding the extent of impacts of the coronavirus epidemic on the economies of the European states and of the impact of measures adopted by those states on their economic growth.

The COVID-19 pandemic is considered as an indicator of a potential decrease of the value of the Company's assets; therefore, the Company updated the test of recoverable value, using the best available estimates. Results of the completed analyses do not indicate that the pandemic has caused any decrease of the value of assets of both the Company and the EPH Group. The primary reasons for creation of the provision (referred to in Note 14(a) of the Notes to the Financial Statements) were not related to the coronavirus pandemic. The pandemic impact in the following years will depend particularly on the overall economic development in Europe. The EPH Group adopted a number of appropriate measures for the elimination of risk and mitigation of impacts of the current situation on the key segments and on the health of its employees.

The Company's management assessed potential impacts of the coronavirus epidemic on its activities and business and concluded that they have no impact on the going concern assumption. Hence, the Company did not apply and does not intend to apply for public aid. Due to the foregoing, this Annual Report and the Financial Statements as of 31 December 2020 were prepared under the assumption that the Company would continue to be able to carry on its activities.

17. Significant subsequent event

The management of the Company is not aware of any significant subsequent events that could affect the Financial Statements as of 31 December 2020.