

**Energetický a průmyslový holding, a.s.**  
**CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2019**

## **FINANCIAL HIGHLIGHTS OF THE YEAR**

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		2019	2018	2017
<b>INCOME STATEMENT</b>				
Sales	€ million	8,583	7,072	6,005
Gross profit	€ million	3,362	2,728	2,713
Earnings before interest, taxes, depreciation and amortization (EBITDA) <sup>1</sup>	€ million	2,051	1,743	1,801
Earnings before interest and tax (EBIT)	€ million	1,418	1,190	1,323
Net financial result	€ million	(431)	(256)	(230)
Profit before tax	€ million	1,163	926	1,200
Profit for the year	€ million	825	630	872
<b>BALANCE SHEET</b>				
Balance sheet total	€ million	16,689	13,329	12,791
Equity total	€ million	3,984	3,137	2,675
Net working capital	€ million	481	463	300
Net financial debt <sup>2</sup>	€ million	5,261	5,020	5,366
<b>CASH FLOW STATEMENT</b>				
Cash flow from operating activities	€ million	1,896	1,492	1,181
Cash flow from investing activities	€ million	(652)	(543)	139
Cash flow from financing activities	€ million	(1,004)	(776)	(1,648)
Change in cash and cash equivalents	€ million	240	183	(328)
Cash and cash equivalents	€ million	1,246	1,006	816
Capital expenditures (CAPEX)	€ million	375	379	441
Tax paid	€ million	248	361	383
<b>RATIOS</b>				
EBITDA margin <sup>3</sup>	%	23.90%	24.65%	29.99%
Leverage <sup>4</sup>	x	2.6x	2.9x	3.0x
Cash conversion <sup>5</sup>	%	69.62%	57.54%	54.25%
<b>Operating KPIs</b>				
Average number of employees	#	11,454	10,711	10,237
Net installed capacity	MW	13,312	11,572	11,512
Net power production	TWh	33.4	28.2	23.3
Emissions intensity	t CO <sub>2</sub> /GWh	468	532	567

<sup>1</sup> EBITDA has been prepared in accordance with the definition set out in the note 5 to the Consolidated financial statements.

<sup>2</sup> Net financial debt = Loans and borrowings + Issued bills of exchange – Cash and cash equivalents

<sup>3</sup> EBITDA margin = EBITDA / Sales

<sup>4</sup> Leverage = Net financial debt / EBITDA. Net financial debt used for calculation of Leverage in 2018 is impacted by the major investment project Lynemouth, whereas the 2018 EBITDA does not yet fully capture earnings associated with these business activities.

<sup>5</sup> Cash conversion = (EBITDA – CAPEX – Tax paid) / EBITDA

**INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS**

# INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear Stakeholders,

2019 was for EPH a year of further strong growth. Apart from robust operational and financial performance, we have finalized several strategic acquisitions such as underground gas storage facilities in Bavaria, biomass power plant Fusine, Kilroot and Ballylumford power plants in Northern Ireland, a portfolio of both conventional and renewable power plants in France from Uniper, and a Tynagh gas power plant in the Republic of Ireland.

The total consolidated sales of EPH reached EUR 8,6 billion, EUR 1,5 billion up compared to 7,1 billion in 2018; EBITDA reached EUR 2,1 billion, EUR 308 million up compared to EUR 1,7 billion in 2018. The cash generated from operations reached EUR 1,8 billion, EUR 284 million up compared to EUR 1,49 billion in 2018. Taking into account the high EBITDA to cash flow conversion and significant and increasing share of long-term contracted and regulated assets, the consolidated net debt ratio of 2.6x EBITDA (compared to 2.9x in 2018) represents a conservative level, placing EPH among the least indebted energy groups in Europe.

Both our operational pillars – EP Infrastructure (EPIF) and EP Power Europe (EPPE) contributed to this strong growth.

## 1. EP INFRASTRUCTURE

In 2019, EP Infrastructure affirmed its role of major energy infrastructure player in the Central European region. EPIF operations span from the transmission, distribution and storage of natural gas, the distribution of electricity to the heat distribution and supply. 2019 was also a year in which EPIF fully benefitted from a successfully completed acquisition of strategic gas storage facilities in Germany and new partnership in heat infrastructure in Pilsen in the Czech Republic.

The Gas Transmission has maintained full technical capacity and availability of services for its customers and continues to show positive development. The volume of natural gas transported by Eustream has substantially grown in 2019 as it has reached 69 billion cubic meters, 9 billion cubic meters up compared to 2018 (16%) whereas most of such increase has been attributable to the increased entry flows from Ukraine. The year 2019 has been marked with risks of a Russian-Ukrainian gas transit crisis as the previous underlying gas transit agreement was about to expire at the end of 2019 and the discussions about its prolongation have been uncertain. Ultimately, such risks did not materialize, and the parties have successfully reached a new gas transmission agreement in the last days of 2019. We have also substantially contributed to the avoidance of such crisis by timely conclusion and implementation of a new interconnection agreement based on European standards with the newly established Ukrainian gas transmission operator in December 2019. Our effective cooperation combined with prudent risk management has helped to secure reliable and continued natural gas transmission flow from Ukraine to Slovakia. At the end of 2019 we have completed the construction of the new compressor station CS05, which has resulted in a material entry capacity increase to our system from the Czech Republic, now reaching c. 55 billion cubic meters annually. This has made our network prepared to transport gas that is expected to enter our system from Germany and the Czech Republic upon completion of Nord Stream 2 as well as substantially contributed to the security of supply of Slovakia and the regions supplied across our system. With expected completion towards the end of 2021, we are also continuing our works on the strategic project of the Slovak-Polish Interconnector, which is part of the EU's Projects of Common Interest list and is co-financed by the European Union. Total capital expenditures in the Gas Transmission segment reached EUR 69 million.

2019 was also a successful year for the Gas and Power Distribution segment, primarily in terms of gas distribution. The annual volume of distributed natural gas reached 52 TWh, 1 TWh up compared to

2018, which is significantly above the long-term average. At the same time, we continued to increase the efficiency of operating activities and overhaul distribution networks to further reduce the number of leaks in the distribution network and ensure a high level of security when operating our facilities. We distributed over 6 TWh of electricity, which is at the same level as in the previous year. We also kept on renovating and reconstructing our backbone network to ensure the continuity of our traditional distribution services while reflecting modern trends in electricity distribution. Total capital expenditures in this segment reached EUR 82 million.

Companies operating within the Heat Infrastructure segment supplied 23 PJ of heat, which is roughly at the same level as in 2018. Key project this year was integration with Plzeňská teplárenská of which we through a merger with Plzeňská energetika acquired of 35% share associated with management control towards the end of 2018. The acquisition is the result of long-term strategic initiative that will bring to the EPIF Group access to new customers and a number of synergic effects for other operations within the Heat infrastructure segment. We also continue to be the key provider of ancillary services both in the Czech Republic and Hungary and significantly contribute to the transmission network's stability. Total capital expenditures in this segment reached EUR 58 million.

For Gas Storage segment, we keep fulfilling the role of the major player in the Central European region, making every endeavor to further strengthen our role. We provide our customers with an overall storage capacity of more than 61 TWh. In addition to our traditional assets in Slovakia, EPIF operated storage facilities in South-Eastern Bavaria with capacity of almost 20 TWh. These are currently contracted to a major extent until 2027 on a store-or-pay basis. In 2019, we also continued to invest in operational security, storage technology modernization, automation enhancement, and utilization of collected information to further optimize processes. Total capital expenditures in this segment reached EUR 11 million.

EPIF's EBITDA in 2019 reached EUR 1,61 billion, almost 200 million up compared to 2018. Allow me note that 89% of EPIF's EBITDA comes from gas transmission, gas and power distribution and gas storage activities, which are very marginal emitters of GHG emissions. As a key player in the Central European energy infrastructure, we are conscious of our substantial responsibility for enhancing energy security and sustainability.

Owing to this and other positive factors, in 2019, the EPIF Group's investment ratings previously awarded by renowned rating agencies Moody's Investors Service, Fitch Ratings and S&P Global Ratings were all affirmed.

## 2. EP POWER EUROPE

EP Power Europe continued to be one of the most important power producers in the EU with a mission to provide reliable and secure power supplies at affordable prices.

In 2019, the EPH subsidiaries (including the non-consolidated operations of LEAG<sup>1</sup>, Slovenské elektrárne, and Ergosud) produced in aggregate 104 TWh of power, 2 TWh less than in 2018. As regards our generation fleet increasing share is coming from either completely emission free power plants, or from plants with low carbon emissions. The transitional role of conventional sources in our portfolio is twofold: (a) to provide necessary capacity and guarantee the round-the-clock security of supply and (b) efficiently produce in any moment the electricity needed to close the gap between the electricity demand and production from renewables.

We continue focusing on growing share of zero or low carbon emission generation. In 2019, EPPE increased its net installed power capacity by 4.0 GW: added 2.0 GW in natural gas, 0.3 GW in renewables, and reduced coal capacity by 0.3 GW (1.7 GW acquired, and 2.0 GW decommissioned). In particular, we finalized acquisition of a biomass power plant Fusine that will be operated alongside with Biomasse Italia and Biomasse Crotone acquired the last year.

Further, we have acquired Kilroot and Ballylumford power plants in Northern Ireland, Tynagh Energy Limited, a 384 MW natural gas power plant in the Republic of Ireland, and a portfolio of both conventional and renewable power plants in France from Uniper. All these acquisitions help us extend

our generation capacity which will be vitally needed to provide much needed security of supply at the respective markets. In 2019, we have also established EP New Energies, a subsidiary specialized on renewables development in Germany recognizing gigawatts-scaled potential for wind, solar and hybrid projects that we have on our land plots in Germany. Moreover, we also finalized the conversion of 400 MW Lynemouth power plant in the UK from hard coal to pure biomass.

EPPE's EBITDA in 2019 reached EUR 427 million, 100 million up compared to 2018.

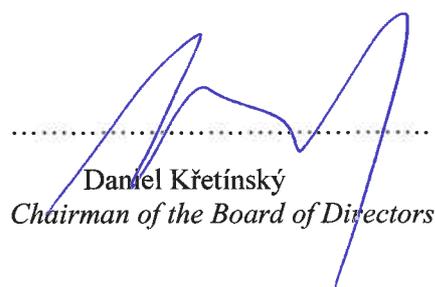
Our company and its employees implemented many other projects, optimizations, and smaller-scale improvements that led to EPH's performance in 2019 and that I cannot all list here. Let me, though, emphasize that we continue to pay high attention to social and environmental aspects of our operations and keep open and active dialogue with different stakeholders in regions in which we operate. We do carefully consider, apart from other aspect, the environmental, social and economic aspect relevant for our operations and do utmost to keep balanced approach, reflecting also the needs of the regions, countries and people living in regions and countries, we operate in.

To conclude, I would like to express my thanks to our employees across the segments and countries for their commitment and hard work as well as to our investors and business partners who have been participating in the implementation of our strategy, for placing their trust and support into our business activities. Our teams are the key asset and strength of our group. Their skills, expertise and personal and collective contributions lead to success we achieved this year. We look forward and remain totally committed to executing our strategy in the years to come reliably delivering energies and services to our customers.

These thanks have very special meaning in the difficult times of the coronavirus pandemic, which poses great challenges for many aspects of our society. Please allow me here to remind two of our colleagues from Lombardia in Italy, which we have lost during outbreak of coronavirus pandemic. Our thoughts go out to their families.

In terms of the continuity of our operations I can proudly confirm that we have avoided any negative impacts of the pandemic on our clients. The key implemented measures included distribution of adequate protective equipment to on-site employees and remote working staff when possible. Continuity of commodity supplies and other essential services for our customers is ensured through special separation regime for personnel working in critical infrastructure, such as dispatchers.

Sincerely,



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Daniel Křetínský  
*Chairman of the Board of Directors*

**1. COMBINED REVIEW OF OPERATIONS**

# 1. COMBINED REVIEW OF OPERATIONS

## 1.1 Market development

### Macroeconomic developments

According to the initial Eurostat estimate of annual growth in 2019, based on quarterly data, GDP grew by 1.4% in the EU28 and 1.2% in the Eurozone (“EA19”).

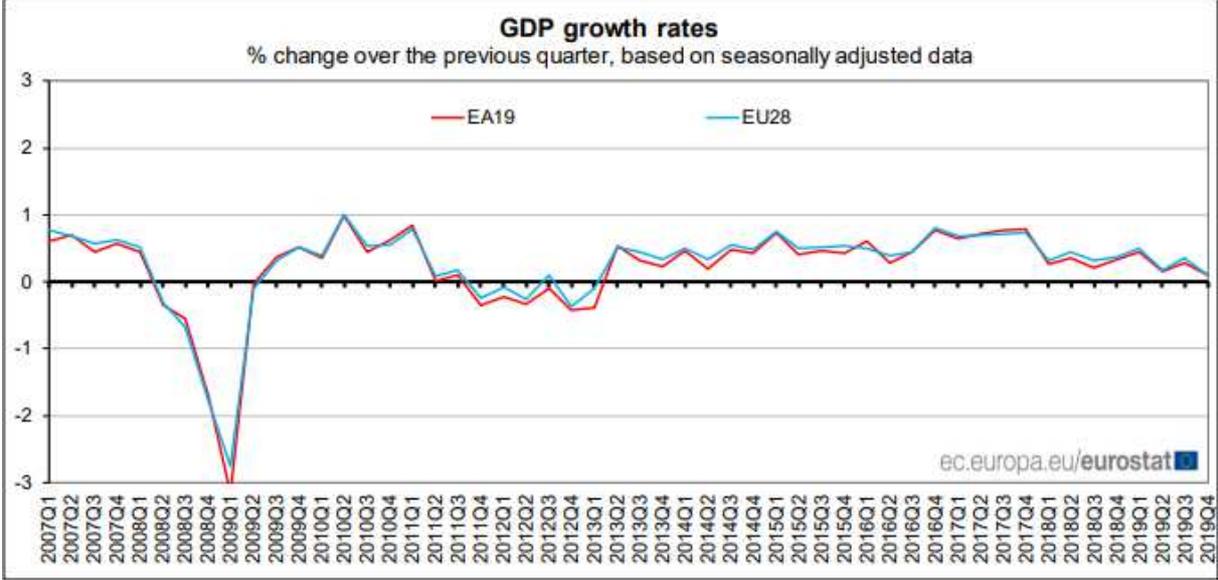


Figure 1.1: GDP growth rate in the EU. Source: Eurostat.

After a strong start to 2019, the Eurozone economy fell to a 6-year minimum in the 4<sup>th</sup> quarter, when the growth amounted to 1%, which is the weakest pace of expansion since the three months to December 2013, due to smaller increases in household consumption by 1.2% (1.5% in Q3) and government spending by 1.8% (2% in Q3), along with a negative contribution from net external demand. On the other hand, investment rose at 6.3%, higher than the previous Q3 with 3.2% increase. Considering the 2019 full year, the Eurozone economy grew by 1.2%, the slowest since 2013.

Germany’s economy showed no growth in the fourth quarter of 2019, following 0.2% expansion in the previous three-month period, as household consumption stagnated relative to the 0.5% growth in Q3 and net trade contributed negatively to the GDP due to 0.2% decline in exports (1% in Q3), and 1.3% rise in imports (0.4% reduction in Q3). However, government spending rose only slightly by 0.3% (1.3% in Q3) and fixed investment in construction increased by 0.6% (0.4% in Q3), in part due to the mild weather. Investment in machinery and equipment fell 2% (-1.4% in Q3).

The French economy shrank 0.1% in Q4 2019, in line with preliminary forecasts and after a 0.3% growth in the previous period, according to final estimates. This was the first contraction since Q2 2016, amid strikes over the government’s pension reforms. Changes in inventories subtracted 0.5 point, while local demand excluding inventory changes contributed by 0.3 point. There was also a slowdown in household consumption with 0.3% increase (0.4% in Q3), and investment almost stagnated with 0.2% increase (1.3% in Q3). In the meantime, government spending growth was unchanged (at 0.5%). Imports stepped back in Q4 by -0.4% (0.4% in Q3) while exports stagnated (-0.3% in Q3). For full 2019, the economy expanded 1.3%, faster than the preliminary estimates of 1.2% and slowing down from 1.7% advance in the previous year.

The UK GDP was flat during Q4 2019 according to estimates, closing the year with about 1% growth in 2019, a small decrease after the 1.4% growth in 2018. According to their National Office for Statistics, their public spending, private consumption, and net trade contributed positively to growth in the expenditure approach to GDP for Q4, while gross capital formation contributed negatively.

In Italy, Q4 returned a negative growth of -0.3%, the deepest contraction since 2013, with a decline in gross inventories weighting more than gains in net trade and an overall stagnation in services along with agricultural and industrial contraction. Considering full 2019, GDP in Italy grew by 0.3%, the smallest yearly figure since 2014, however it is still higher than the 0.1% forecasted by the Italian government.

At the end of the year, yields on AAA-rated Euro area government bonds remained negative for short-term maturities and positive for longer-term maturities, according to the European Central Bank data. With the exception of the shortest-term rates, euro interest rates finished 2019 below the levels at the beginning of the year: 2-year and 10-year yield curves closed at -0.618% (up by 0.04%) and -0.142% (down by 0.458%), respectively. German bonds performed similarly while retaining normal convexity between long- and short-term maturities.

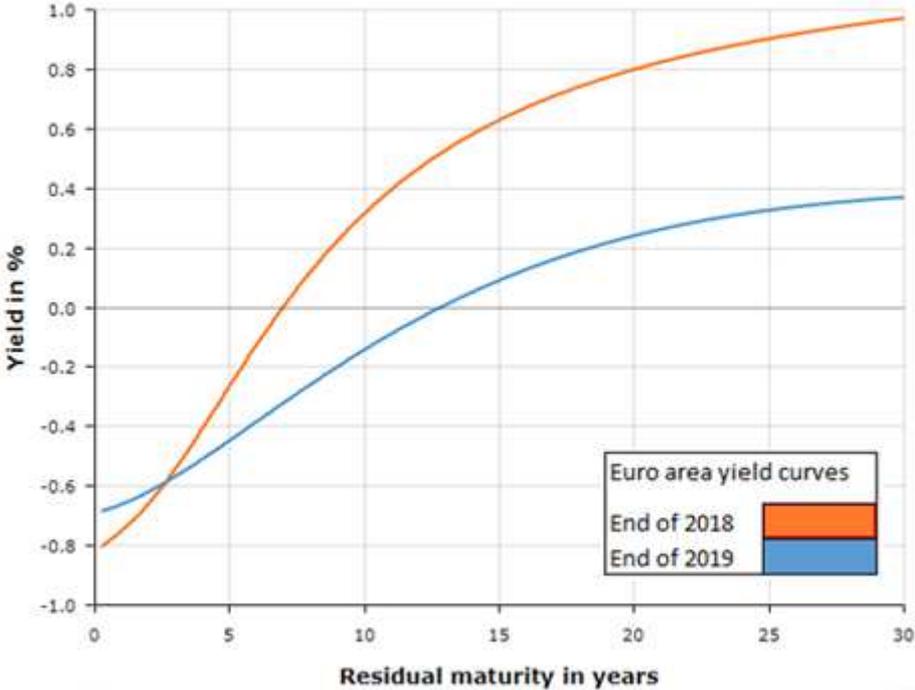


Figure 1.2: Euro area yield curves. Source: ECB.

On a global perspective, the US Treasury yield curve inverted at late August when the 2-year yield rose above the 10-year. After more than three years of US interest rates increases, the Federal Reserve kept the monetary policy stable during mid-2019, until the reversal cut in late July to the range of 2%-2.25%, the first reduction in over a decade, as growth slowed in the world’s largest economy. Jerome Powell, the Fed chairman, said weak global growth and the US-China trade war had been disruptive for the world economy and had an impact on growth in America, despite the US labour market remaining strong with the lowest unemployment rate since the late 1960s. Two further 0.25% cuts followed during the rest of 2019.

*Energy developments*

Electricity consumption.

The aggregate EU electricity consumption of 3,239 TWh in 2019 (Figure 1.3) was the lowest in a decade, down by 2% year-over-year and 4% compared to 2010. Demand decreased with respect to 2018 in most countries except for Cyprus (+2%), Greece (+1%) and Hungary, Ireland and Malta which were on par with 2018 levels. The biggest decline was recorded in Germany (-3%), Belgium (-3%) and Slovakia (-3%).

Since 2010, the combined EU electricity consumption has exhibited the opposite trend as the GDP growth which increased by 14% (+1.4% year-over-year in 2019). Regional differences remained high,

with the states of Central and Eastern Europe increasing their demand while most of the western countries consuming less. The highest demand growth occurred in Malta (+19%), Lithuania (+14%) and Poland (+11%) whereas UK (-10%), Luxembourg (-8%) and Germany (-7%) marked down the most significant decennial decrease. Contributing to the fact that electricity consumption diverges from the GDP is also the reducing role of industrial production in the EU economy. Despite the overall GDP growth, industrial production declined, which also translated into lower power demand. On the other hand, consumption becomes more driven by environment-friendly efforts observed in the increase of sales of electric cars (+50%) and heat pumps, for example.

The average temperature in 2019 was 0.59°C above the 1981-2010 average, making it the second warmest calendar year on record after 2016 (+0.63°C). The temperature in both summer and winter months was above normal; in particular, June and December were the hottest on record. As a result, the trend of recent years continued also in 2019 when the surging power demand due to air conditioning during summer heatwaves was compensated by consumption drop in winter months.

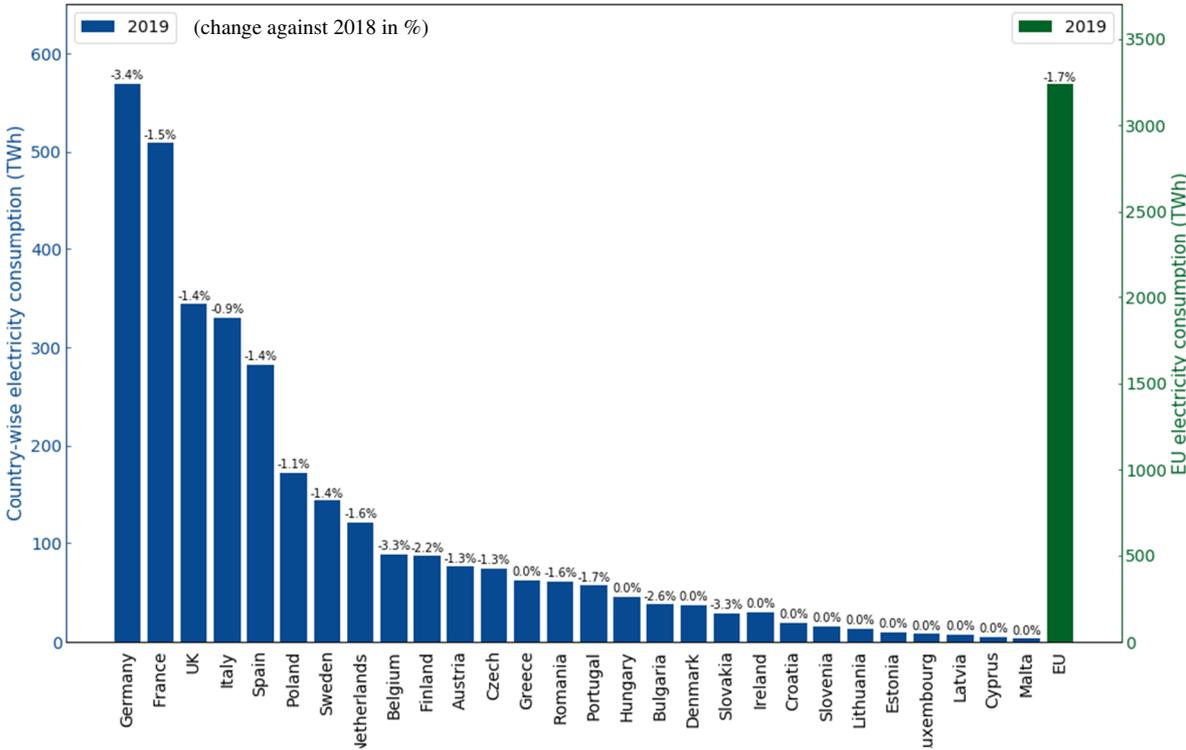


Figure 1.3: Electricity consumption in the EU. Source: Agora Energiewende

Conventional electricity production.

A total of 3,222 TWh of electricity was produced in the EU in 2019 (Figure 1.4), representing an annual decrease of 1.4% following the decline in consumption. Conventional power output dropped by 4% and comprised 65.4% of the electricity mix compared to 67.2% in 2018. The fall is attributed to the generation from hard coal and lignite which plummeted by 24% in 2019. In line with the national coal phase-outs and associated coal-to-gas switching, gas is the only conventional fuel on the rise in the power production with an increase of 242 TWh over the last 5 years. Meanwhile, nuclear share in the total production remained almost unchanged in 2019, down by just 6 TWh over the previous year.

Power generation from hard coal-fired plants, gradually being replaced by renewables and gas, was lower by 32% (-101 TWh) compared to 2018. A similar development was observed with lignite power plants, which output dropped by 16% (-49 TWh) in 2019. Contributing to the decrease was also the lower profitability of the hard coal plants due to the increased carbon allowances prices within the EU ETS, which are more favorable for the existing gas plants.

Gas-fired power generation grew annually by 12% (74 TWh) and reached market share of 22% in the EU electricity mix. The increase in gas compensated a half of the drop in the hard coal and lignite generation, the rest being offset by the rise of renewables. The most significant additions to the gas capacity were in Spain (+27 TWh), the Netherlands (+12 TWh), Germany (+9 TWh), Italy (+9 TWh) and France (+8 TWh). The only decrease was recorded in Romania (-1 TWh / -10%).

Nuclear production in the EU decreased by 0.7% in 2019. A series of EDF strikes and an earthquake in southern France contributed to the increase in outages of French reactors which produced 14 TWh less electricity than the year before. UK nuclear generation also fell (-9 TWh). These reductions were compensated by the restored availability of Belgian nuclear power plants (+14 TWh). At the end of 2019, German 1.4 GW power plant Philippsburg closed terminally, leaving the national nuclear capacity at 8.1 GW. Germany plans to completely close all domestic nuclear power plants by the end of 2022.

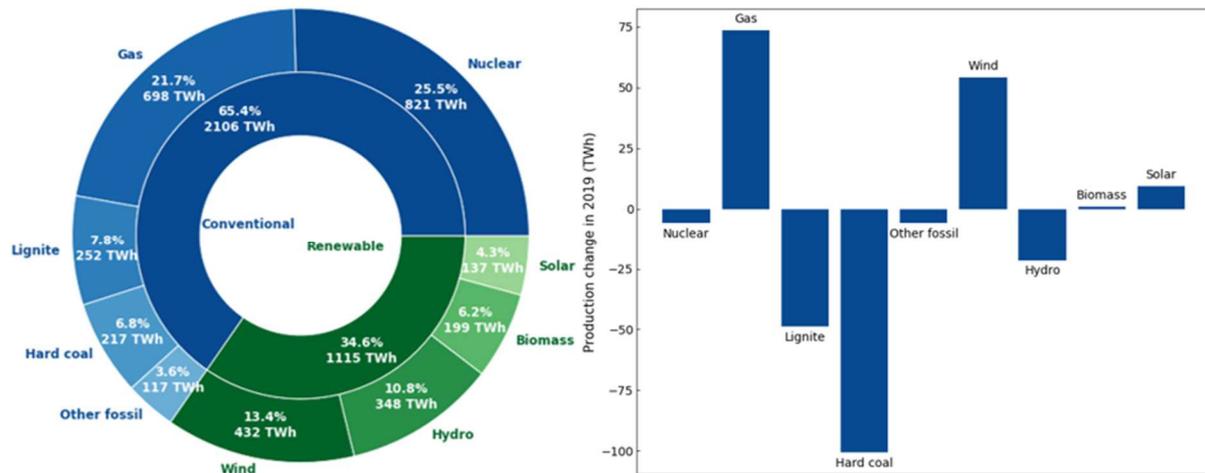


Figure 1.4: Left: shares of individual means of power generation in the electricity mix of the EU. Right: annual change in the generated amount of power per production type. Source: Agora Energiewende

### Renewable electricity production

Renewable power generation in the EU increased by 4% to 1,116 TWh in 2019 which represents 34.6% of the total production, up by 1.4% year-over-year. Rise in the wind (+14%) and solar (+7%) production overcompensated losses in hydro generation (-6%).

The absolute annual increase of 54 TWh in the wind power plant output was one of the highest in a decade, second only to 2017. As in the preceding year, the most significant additions were completed in Germany (+16 TWh), UK (+8 TWh) and France (+6 TWh), followed by Sweden (+5 TWh) and Spain (+4 TWh). The fleet of wind turbines expanded by 13.8 GW, of which 75% were onshore installations.

European solar power plants generated 9.5 TWh more electricity than in 2018, achieving a slightly larger share in the power mix, above 4%. Almost three quarters of the increase were achieved in the Netherlands (+3 TWh), Spain (+2 TWh) and France (+2 TWh). The differences in the geographical distribution of solar generation remain high, with the lowest production linked with the northern countries (Sweden, Finland, Poland, Ireland) but also some of the sunlit: Slovenia, Hungary and Croatia produce only around 1% of their electricity from photovoltaics. On the other hand, the solar share in the power generation of Malta, Italy, Germany, and Greece exceeded 8%. Last year's installations of 16.7 GW (+104%) were the highest since 2010 in the EU, benefiting mainly from low costs of solar power. The leaders in new additions were Spain (+4.7 GW) and Germany (+4 GW).

The heatwave during June-July 2019 and below normal precipitation significantly impaired the hydro generation but also caused problems for water-cooled nuclear power plants and coal plants that rely on river-borne deliveries. However, the drought did not affect all countries evenly; out of the top five hydro electricity producers in the EU, Sweden (+4 TWh) and Austria (+3 TWh) increased their output while Spain (-11 TWh), France (-7 TWh) and Italy (-5 TWh) struggled. Overall, 2019 with 348 TWh was the third worst year for hydro generation in the last decade.

## Power prices

In most European countries, year-averaged prices of electricity dropped in 2019. The fall is the result of a variety of factors: lower prices of coal (API2 average year-ahead down by 21%) and gas (TTF average month-ahead down by 34%), higher carbon allowances prices (+58%) and increased production from cheaper renewable sources (+4%). Higher CO<sub>2</sub> emission allowances prices sped up the coal-to-gas switching. In 2018, running costs of new gas power plants (efficiency 58%) were on par with old coal plants while old and less efficient (50%) gas plants were hardly competitive. However, gas plants became increasingly more profitable during 2019 when the running costs of old plants (<40 EUR/MWh) decreased below the less efficient coal sites (35%), with the new gas plants being even more advantageous than the new coal plants (45%).

Belgium at 39 (-17) EUR/MWh and UK at 49 (-16) EUR/MWh saw the biggest declines in average day-ahead wholesale electricity prices due to restored nuclear capacity and increased wind generation, respectively. Due to substantial amount of nuclear power coming back to operation, Belgium became a net exporter of electricity for the first time since 2009. French and German prices decreased to 39 (-11) EUR/MWh and 38 (-7) EUR/MWh, respectively. German net exports decreased year-over-year by -12 TWh due to the improved renewable capacity and more competitive gas-fired generation in neighboring countries compared to the German coal power plants. Except for Poland, prices in the Central European countries also decreased with the most prominent drops seen in Slovakia (to 42 (-7) EUR/MWh) and Czech Republic (to 40 (-6) EUR/MWh). Electricity prices rose only in countries with high shares of hard coal and lignite in their generation mix: Bulgaria (+7 EUR/MWh), Romania (+7 EUR/MWh), Greece (+4 EUR/MWh) and Poland (+1 EUR/MWh).

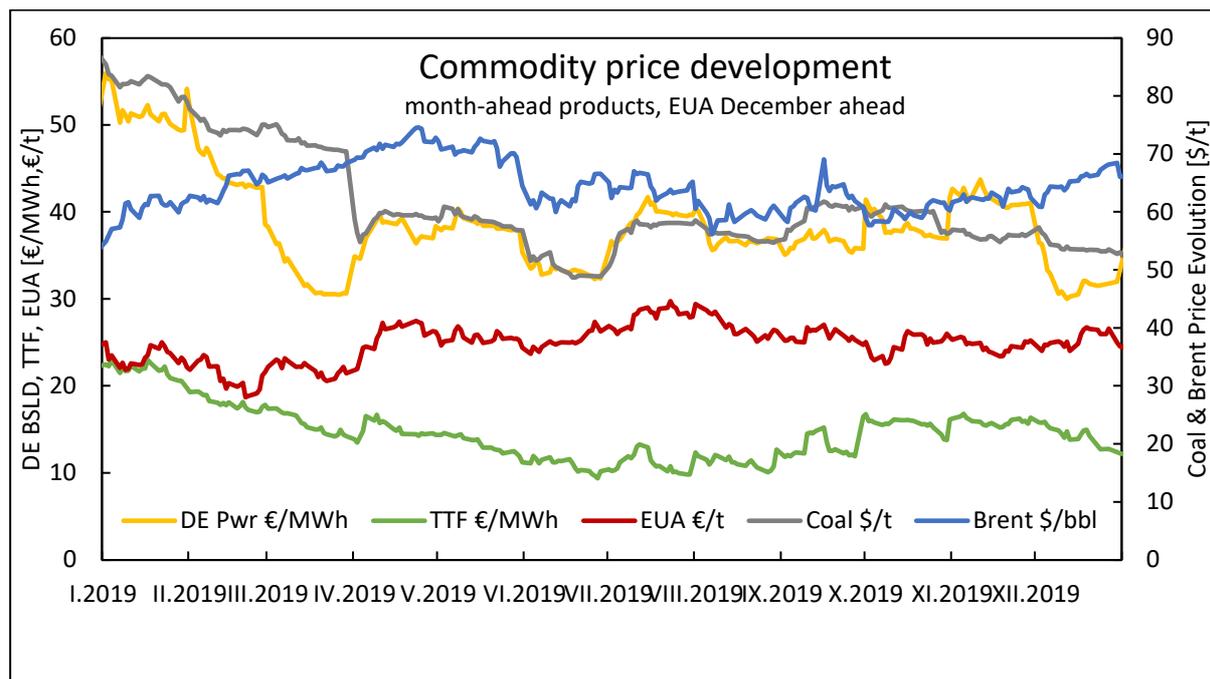


Figure 1.5: Prices development for most relevant commodities in Europe. Source: Reuters.

## Coal

Coal remains a major fuel in the global energy system, accounting for almost 40% of electricity generation and more than 40% of energy-related carbon dioxide emissions. EIA's December 2019 report estimates a global coal demand in 2019 at 5.437 megatons of coal equivalent (Mtce), 0.4% down from 2018 (5.458 Mtce). Electricity generation from coal fell 3% in 2019 (24% in EU28 in 2019), with plants operating at an average of 51% of their available operating hours, a record low. From January 2018 to June 2019, countries outside of China decreased their total coal power capacity by 8.1 gigawatts (GW), due to steady retirements and an ongoing decline in the commissioning of new coal plants. Yet over the same period, China increased its coal fleet by 42.9 GW, and as a result the global coal fleet overall grew

by 34.9 GW. China's coal use was still up 1% year-over-year as the country's total energy consumption rose by 3.3%.

EU coal power generation collapsed by 24% in 2019. The main driver of the coal-for-power decline was the CO<sub>2</sub> allowances price increase, deployment of renewables and above average temperatures. Coal-to-gas switching replaced around half of the coal, with solar and wind making up for the other half. Hard coal generation fell 32% (-101 TWh). The most significant cuts of coal generation were in Germany and Spain, down by 26 and 24 TWh, respectively. Most of the European countries have already pledged to shut down coal power production by 2030, while Germany, with the largest remaining capacity (46.4 GW), plans the complete the phase-out by 2038. Spain and the Czech Republic are currently discussing their respective phase-outs, amounting to a total of 19.3 GW. Greece and Hungary both made commitments in 2019 to phase out coal, bringing the total of member states phasing out coal to 15. So far, no cancellation plans have been proposed in Poland, Romania, Bulgaria, Slovenia, and Croatia which together comprise 36% of the remaining hard coal capacity in Europe. Out of these, Polish generation constitutes the biggest share, with the capacity of 30.4 GW. Poland expects to produce 56% of its electricity from hard coal and lignite in 2030 (75% in 2019), due to the unavailability of alternative sources of power.

European lignite power plant output dropped by 16% (-49 TWh) in 2019. The most prominent fall was in Germany (-22%) which nevertheless remains by far the biggest producer of lignite-fired power (114 TWh). Production also notably declined in Greece (-28% / 5 TWh) and Poland (-14% / 7 TWh). Lignite generation, too, was affected by higher CO<sub>2</sub> emission allowances prices, which in 2019 averaged 9.3 EUR/t higher than in 2018. To facilitate the coal and lignite phase-outs in favor of renewables, EU secretariat was established in 2019 to provide technical assistance in regions where mining and usage of coal is an essential part of the local economy. Under the proposal of the European Just Transition Mechanism, 100 billion Euros worth of support will be provided for these activities.

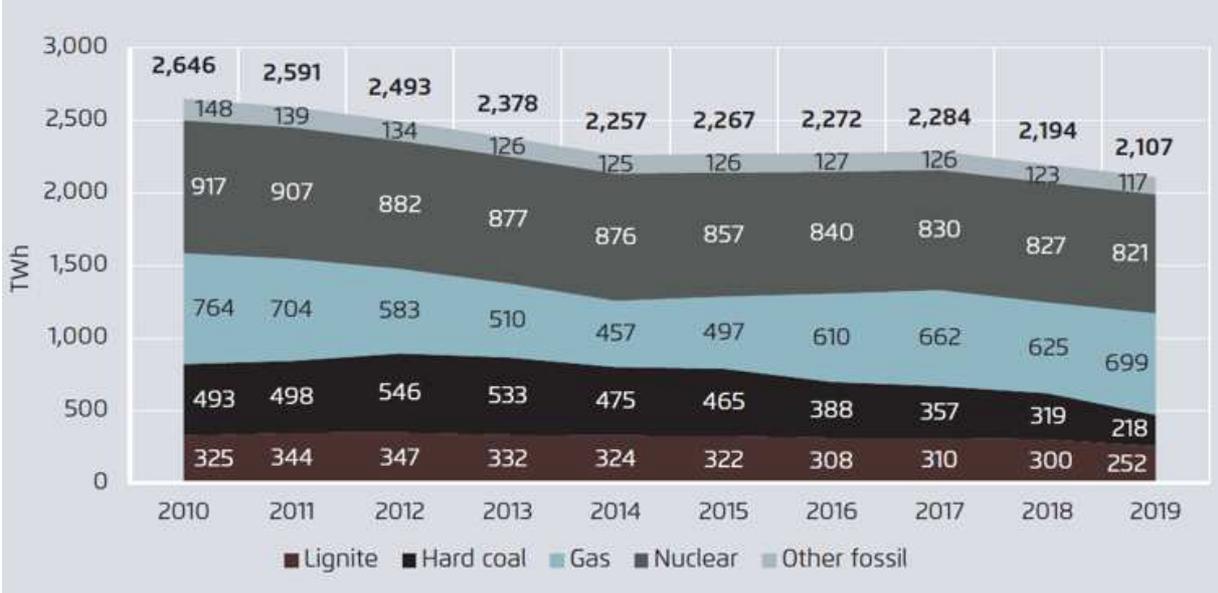


Figure 1.6: EU-28 conventional electricity generation. Source: Eurostat

Oil

According to the EIA observations, the price of Brent crude oil averaged 64 USD per barrel (b) in 2019, 7 USD/b lower than in 2018. The price of West Texas Intermediate (WTI) crude oil averaged 57 USD/b in 2019, 7 USD/b lower than in 2018. Compared with recent years, both crude oil prices traded within relatively narrow price ranges throughout the year. Brent prices reached the daily low of the year of 55 USD/b in early January, rising to a daily high of 75 USD/b in late April. The resulting range of 20 USD/b is the narrowest since 2003. WTI prices ranged from 47 USD/b to 66 USD/b.

## Natural gas

The consumption of natural gas in the EU was 482 bcm in 2019, an annual increase of 2%. The rise in demand was driven primarily by the higher amount of electricity generated from gas which increased by 12% (74 TWh) compared to 2018. A more significant increase in consumption was limited by milder-than-normal weather both in Q1 and Q4 which curtailed the gas demand for heating. Mild weather in winter months, unprecedented LNG inflows and decreasing spot prices throughout 2019 led to record-high levels of reserves at European gas storages. Storages were 97% full immediately prior to the start of the gas winter in October and depleted only slightly to inventories of 88% by the end of the year, the highest stocks in eight years.

Spot prices at the European gas hubs were mostly decreasing in the first three quarters, often reaching 10-year lows as was also the case for the Dutch TTF, the busiest European hub. In general, oversupply due to exceptionally high storage levels and increasing LNG imports weighed heavily on the price curve in 2019. Prices rebounded slightly in November, supported by the onset of colder weather and uncertainties around the continuity of Russian pipeline deliveries through Ukraine. However, gas prices mostly declined afterwards until the end of year when the expectations of a sustained period of colder weather did not materialize and Russia-Ukraine talks came to an agreement. The yearly spot average at the TTF was 13.6 EUR/MWh, down by 41% on year.

In late December 2019, Ukraine and Russia signed a five-year transit agreement which replaced a contract expired at the end of 2019. The new contract shall ensure supply of Russian gas to Europe for minimum guaranteed volume of 65 bcm/year in 2020 and 40 bcm/year between 2021-2024.

## EUA

The total capitalization of the global carbon markets grew by 34% in 2019, reaching 194 billion euros, according to Refinitiv, with the European Union Emission Trading System (EU ETS) making up almost 80% of 2019 yearly growth. This increase, however, is not exclusively European, as the two American carbon markets - the Regional Greenhouse Gas Initiative and the Western Climate Initiative- had value increases of 74% to 22 billion in 2019. Also, the Chinese national ETS is planned to start in 2020, which would initially cover all Chinese power production and could potentially expand to other sectors, like industrials.

The average price of the European Union Allowances (EUA) rose to just under 25 EUR/mt in 2019, 9 euros higher than in 2018. The main reason for this increase is likely the Market Stability Reserve, which came into effect in January 2019 and held a significant volume of allowances, cutting part of the supply and effectively increasing prices.

Prices, however, had other inputs, such as the development of Brexit and the uncertainty of the permanence of the United Kingdom within the EU ETS. As of December 2019, the UK was set to leave the European Union and the ETS by January 31<sup>st</sup>, which is also the end date of the Phase 3 of the EU ETS (2013-2020). The doubts about whether the United Kingdom would begin its own ETS or would continue under the regulation of the European Union system impacted on carbon volatility, and the possibility of a no-deal no-linked ETS system could cause a major disruption.

As of late 2019, European climate and energy discussions are set to continue during 2020, as the new European Commission, recently formed under the new mandate of Ursula von der Leyen, starts presenting draft legislation to adjust the 2030 target and implementing new legislation to achieve climate neutrality by 2050.

Carbon allowances seem to have had an environmental effect, as greenhouse gas emissions regulated under Europe's carbon market fell by 8.7% during 2019 according to preliminary data examined by carbon analysts at Refinitiv. This reduction is necessarily linked to the European policy, as around 45% of the greenhouse gasses output of the European Union is regulated by the EU ETS.

A big portion of this reduction in emissions came from the renewables side, with greater capacity installations in the EU28 during 2019 - solar installations increased by 16.7 GW and wind by 13.8 GW. Renewable power plant outputs were higher than usual during the year, especially in wind production,

with an increase of 55 TWh and with solar producing 10 TWh more than the previous year, displacing fossil power producers on the supply-side. Traditional power plants, however, also contributed to the decrease in the emission rate, with gas-fired generation replacing partially coal and lignite power generators due to the oversupply of gas in 2019 and high EUA prices that pushed the coal-to-gas switch further.

### *Political developments and global trends*

#### Brexit

Despite 29 March 2019 was the planned day for the United Kingdom to leave the European Union, Theresa May's plan withdrawal deal was not supported by the Members of Parliament -with the Irish border as one of the main issues discussed- and the UK requested a delay for Brexit. Following the failure of the UK Parliament to approve the Withdrawal Agreement by 29 March 2019, the UK was required to leave the EU on 12 April 2019. On 10 April 2019, late-night talks in Brussels resulted in a further extension, to 31 October 2019; Theresa May had again requested an extension only until 30 June 2019. Under the terms of this new extension, if the Withdrawal Agreement were to be passed before October, Brexit would occur on the first day of the next month. The UK would then be obligated to hold European Parliament elections in May or leave the EU on 1 June 2019 without a deal.

However, after Boris Johnson became prime minister on 24 July 2019 and met with EU leaders, the EU changed its stance. On 17 October 2019, following talks between the UK and the EU, a revised withdrawal agreement was agreed on the negotiators level, and endorsed by the UK government and the EU Commission. On 28 October 2019, the third extension was agreed to by the EU, with a new withdrawal deadline of 31 January 2020.

In October, the UK parliament passed the Early Parliamentary General Election Act that bypassed the Fixed-term Parliament Act 2011 and called a general election for 12 December 2019. In the election, Boris Johnson's campaign centred its message on promising to „get Brexit done”, and the Conservative Party won an 80-seat majority in the parliament. Subsequently, the government introduced a bill to ratify the withdrawal agreement. It passed its second reading in the House of Commons in a 358–234 vote on 20 December 2019 to become law in early January and end the United Kingdom's membership of the European Union 47 years after its union.

#### 2019–20 global coronavirus pandemic

In the early part of 2020, the global coronavirus pandemic sharply affected countries in all continents, forcing many of them to impose social distancing measures or even full lockdowns. This situation creates a difficult outlook for 2020 in all economic sectors, and energy is not an exception. The pandemic has many consequences on energy consumption, most notably due to transport restrictions and industrial activity reduction.

Some of the strictest lockdowns are found in Europe, especially in countries like Italy or Spain, while other regions like Poland or the Nordic countries have softer measures. This sharply impacts the power consumption, with countries with stronger measures facing electricity demand reductions of even 20–25% while others face losses greater than 10%. Of course, this situation correlates with immediate correction in the carbon allowances prices.

With gas being the marginal fuel in most Western European countries, the drop in power demand immediately impacted the gas demand, also in industrial demand, amounting to approximately 150–200 mcm/day, which is around 15–20% of the European demand. This global situation affects LNG as well, with not only Europe, but also other significant LNG consumers like India, China, South Korea, or Japan lowering their imports and pushing gas prices further down.

#### Coal phase out

Belgium was the first EU country which terminated using coal, in 2016. With the Swedish and Austrian coal phase-out in April 2020, there are now three EU countries that have officially closed their coal-fired powerplants. Following countries are expected to end coal by 2025: France (2022), Slovakia

(2023), Portugal (2023) and Italy (2025), according to Europe Beyond Coal. They are expected to be followed by Greece (2028), the Netherlands (2029), Finland (2029), Hungary (2030) and Denmark (2030). Discussions are currently underway in the Czech Republic, Spain, and North Macedonia about when to exit coal-fired electricity. No cancellation plans have been proposed in Poland, Romania, Bulgaria, Slovenia, and Croatia.

## 1.2 Major events

*Events in the reviewed fiscal year*

### Acquisition of Kilroot and Ballylumford power stations

On 12 June 2019, EP UK Investments Limited (“EPUKI”), the 100% subsidiary of EPPE, acquired 100% shares in EP Ballylumford Limited and EP Kilroot Limited from AES Corporation.

EP Kilroot Limited is a coal-fired power station located in Northern Ireland with the total capacity of 665 MW including 141 MW OCGT unit and 10 MW battery storage facility. Both coal units in the Kilroot plant are expected to be decommissioned in September 2024 in line with the UK’s deadline for the coal phase-out. The Kilroot brownfield site represents an opportunity to develop 400 MW of OCGT generation capacity and additional battery storage as both projects follow UK’s plan to decarbonise the power sector and strive for net zero by 2050.

EP Ballylumford Limited is a power station located in Northern Ireland with a total net capacity of 683 MW and operates a mix of flexible gas fired CCGT and distillate fired OCGT units. The highly flexible CCGT can operate in several different modes and has the lowest minimum generation load for CCGT on the Irish market. Currently, it is fully contracted under PPA (Power Purchase Agreement) with the Power Procurement Board until September 2023.

Acquisition of Kilroot and Ballylumford represents the first transaction of the Group in Northern Ireland leveraging on the Group’s increasing presence in the UK.

### Acquisition of French assets from Uniper

EPPE agreed on key terms to acquire Uniper’s French assets in December 2018. Following approvals from the European commission and French Ministry for the Economy and Finance, the Transaction was successfully closed on 9 July 2019. The acquired assets are operated under a new brand Gazel Energie, with a holding company called EP France S.A.S.

The generation portfolio is well diversified with a total capacity of 2,262 MW spread across CCGT, coal and biomass assets and solar and wind parks. The portfolio also includes a major sales platform named Gazel Energie Solutions S.A.S. focusing on B2B customers, providing electricity and gas to I&C and SME customers. Through this acquisition of well diversified French assets, EPPE has further expanded its presence in the European power generation segment.

### Acquisition of Tynagh power station

On 29 October 2019, EPUKI acquired 80% shares in Tynagh Energy Limited.

Tynagh Energy Limited is a power producer in the Republic of Ireland that owns 400 MW CCGT power plant (dual fuel natural gas and distillate) in east County Galway. The plant was commissioned in 2006 and its estimated life span is approximately 30 years. The power plant is in a unique position of being the only independent CCGT plant on the Irish market and provides a flexible daily electricity production to the wholesale electricity market.

Tynagh is the first acquisition in the Republic of Ireland, which complements Group’s existing portfolio in the UK, especially in connection with Kilroot and Ballylumford as the island of Ireland has its own Integrated Single Electricity Market (I-SEM) which is separate from the UK.

### Results of capacity auctions and reinstatement of the capacity market in the UK

In 2018, the UK introduced the Capacity market to ensure long-term security of electricity supply by providing a payment for reliable sources of capacity that shall maintain sufficient generation or load-management capacity in the system for periods when the network is under stress. During a delivery year, capacity providers receive fixed remuneration at price cleared through auction system. Following to a temporary postponement of Capacity market payments from fall 2018, the system was reinstated by the regulator in October 2019. The backdated payments for the period from October 2018 to September

2019 were made by the National Grid in January 2020. Accordingly, the Group recognised relevant Capacity market revenue for October till December 2018 period, as well as for full year 2019 into 2019 results.

#### Successful capacity auctions in Italy

In 2019, after years of discussions and preparations, the Italian capacity market was finally introduced and implemented. The process was originally initiated back in December 2003, when the Italian government approved a Decree defining the principles of the electricity generation capacity remuneration system, continued with necessary ARERA (Italian Regulatory Authority for Energy) resolution, European Commission approval and was accomplished in 2019 by a final approval of full regulatory framework by Italian Ministry of Economic Development. The main objective of the new mechanism is to develop and secure stability, reliability, and adequacy of the energy generation system for the present and the future. Awarded capacity will receive a fixed fee in exchange for its availability and price limitation (introduced for their generation and auxiliary service bids).

The Capacity market framework is valid for two years, 2022 and 2023, except for new generation capacity, where a 15 years contracts were available for the qualified participants, to promote delivery of a new capacity into the grid. Actual capacity payments were awarded to the participants based on the results of two capacity market auctions, that took place early November.

Results of the auctions proved current generation deficiency on the Italian market, therefore maximal price was awarded to all qualified capacity. EPP has bid and was awarded with 2,200 MW of generation capacity in both years, with 709 MW of 2023 volume related to the 15 years contract for the new generation capacity, which will be built within Tavazzano Plant grounds (Ergosud capacity has been bid separately). Current generation was awarded with a 33,000 EUR/MW a year and new build with a 75,000 EUR/MW per a year and for 15 years.

#### Other major events

In January 2019, NAFTA a.s. has extended maturity of its loan facilities comprising of EUR 175 million term loan and EUR 75 million revolving facility maturing until 2024.

On 7 February 2019, EPPE Group got stronger in the biomass sector. Through the subsidiary EP New Energy Italia, the Group completed the acquisition of the biomass power plant in Fusine, province of Sondrio, with an installed capacity of 7 MW.

In first quarter of 2019, EP Produzione S.P.A. utilized term loans in total amount of EUR 100 million based on Facilities Agreements dated 28 January 2019 and 5 February 2019.

On 11 March 2019, EP Energy, a.s. offered to purchase up to EUR 41,503,059 aggregate principal amount of its EUR 498,650,000 5.875% Senior Secured Notes due 2019 (the “Notes”) to comply with its obligation to make “Collateral Sale Offers” under the indenture governing the Notes. The Collateral Sale Offer related to net proceeds from the sale of 100% of the shares in Plzeňská energetika a.s. to its parent company, EPIF. As result of collateral sale offer EP Energy purchased Notes in nominal value of EUR 2.75 million which was settled on 11 April 2019. Following the collateral sale offer completion, EP Energy shall be using the proceeds for its general corporate purposes like, but not limited to, repayment of the indebtedness, capital expenditures, etc.

On 8 April 2019, EPIF issued 8-Year Floating Rate Notes due 8 April 2027 in the total nominal volume of EUR 70 million, which have been admitted to trading on the Third Market operated by Vienna Stock Exchange (the “Issue”). Banca IMI acted as a Sole Dealer on the Issue. EPIF will use the proceeds of the Issue for general corporate purposes.

On 24 April 2019, EPIF drawn two new Schuldschein loans amounting together EUR 183 million with 5-years and 7-years term.

On 20 June 2019, EPPE sold its residual 15% share in Matra Energy Holding (MEH) to a third party. EPPE held 11% indirect share in Mátrai Erömü via MEH.

On 23 July EPIF issued new 7-years bond amounting EUR 600 million where proceeds were used to refinance EPIF bank loan originally due in 2022.

On 31 July 2019, as part of internal reorganization completed in 2019, EPPE sold its 100% share in Nadurene 2 a.s., which owns 49% stake in Italian biomass assets, to Lausitz Energie Bergbau AG, an associated company in which the Group owns 50% interest. EPPE maintained the management control and effectively holds 75.5% stake in the Italian biomass assets.

On 1 October, EPIF issued its longest international bond amounting EUR 500 million with term 9-years. Proceeds were used to temporarily repay EPIF bank financing, which was latter drawn again to refinance EPE Notes repaid at the end of October 2019.

In 2019, EPPE established EP Resources AG as its commodity trading house based in Switzerland.

#### *Events that occurred after the reporting date*

##### Acquisition of Humbly Grove gas storage

On 20 March 2020, EP UK Investments Limited acquired 100% shares in Humbly Grove Energy Limited and its subsidiary Humbly Grove Energy Service Limited in the United Kingdom from Petronas.

Humbly Grove owns and operates underground gas storage facilities (the Humbly Grove Oil Field) near Alton, Hampshire. The business operations are to be run in cooperation with EPUKI providing a long-term storage contract, NAFTA, a.s. (part of EPIF Group) acting as a technical advisor and EP Commodities, a.s. (part of EPPE Group) being the end customer of the gas storage trading on the market.

##### Successful placing of EPH bond

On 17 March 2020, EPH Financing CZ, a.s. has issued 5-year bonds with a nominal value of CZK 10,000 each in an aggregate amount of CZK 5 billion with a fixed interest rate of 4.50 % p.a. The bonds have been offered since the middle of this February. According to the terms of issue, EPH Financing CZ, a.s. may increase the bond issue by additional CZK 2.5 billion.

##### Other major events

On 14 January 2020, the EPIF signed a new bank financing agreement for the total amount of EUR 800 million. The funds comprise a term loan of EUR 400 million and a committed revolving credit facility of up to EUR 400 million; both are unsecured and have a five-year term. The Group used the funds to fully refinance the existing EPIF's bank debt which was due in 2023 in full (EUR 500 million).

The draft law presented by the German federal government in January 2020 for the phase-out of lignite currently calls for the end of operations of the power plants Schkopau and Lippendorf, which receive lignite from Mibrag, in 2034 respectively 2035. For the lignite strip mine Schleenhain, which supplies the Lippendorf power plant, this leads to a maximum term through the end of 2035, thereby a further three-year reduction of operations as compared with the recommendations of the "Growth, Structural change and Employment" commission (KWSB) dated 26 January 2019. As a consequence of the shorter period for accumulation as well as changes in the terminal positions of the strip mines, the future use of these parameters will result in the need to record additional expenses, primarily for increase in the provision for the reclamation of the Schleenhain strip mine. The draft law is also expected to lead to an increase in expenses recognized by the equity accounted investee LEAG for the same reasons.

In February 2020, EPPE as owner of 42% stake in Schkopau power plant agreed with Uniper to acquire the remaining stake and take it over in October 2021. Completion of the transaction is still subject to the approval by the German Federal Cartel Office. Schkopau is a 900 MW lignite-fired power plant in Saxony-Anhalt, which is an important component of Central Germany's energy supply sourced primarily by lignite produced in the Profen open-cast mine belonging to Mibrag.

In the first quarter of 2020, EP Produzione S.P.A. extended repayment dates of its bilateral facilities in total amount of EUR 125 million.

On 29 April 2020, Cabinet of Ministers of Ukraine approved EP Ukraine, 90% subsidiary of EPPE, as a winner of PSAs (profit sharing agreements) for Grunivska and Okhtyrka field in Ukraine representing an opportunity to participate in dynamic development of Ukraine energy sector.

During the first quarter of 2020, in the UK, the capacity market auction three years ahead of delivery ("T-3 auction") for the 2022/2023 delivery year and the T-4 auction for the 2023/2024 delivery year were held. Both EP Langage and South Humber Bank secured capacity agreements at higher than expected clearing prices, which shall enable success operation of both power plants in future. Further, on 7 May 2020, power plants Ballylumford, Kilroot and Tynagh succeeded also in the T-4 capacity market auction securing the extension of their contracts for the energy supplies into the transmission grid across the island of Ireland. Lastly, the Group gained a 10-year capacity contract for Kilroot enabling the decommissioning of the current coal-fired block and replacing it with a low-emission gas-fired unit with installed capacity of more than 300 MW.

Except for the matters described above and elsewhere in the Annual Report or Notes to the Financial Statements, the Company's management is not aware of any other material subsequent events that could have an effect on the Statutory and Consolidated Financial Statements as at 31 December 2019.

## 1.3 Business performance

### *Operational performance*

#### Performance of infrastructure assets

Majority of EPH critical energy infrastructure assets are bundled under umbrella of EPIF. These assets represent key pillar of EPH business with stable financial performance and minimal carbon footprint.

Operational performance of infrastructure assets is driven namely by development of economic activity as well as weather conditions in Central Europe. Additionally, Gas Transmission is influenced by the gas market development in Europe. These factors positively influenced all segments of the infrastructure business.

Gas transmission capacity in 2019 was 84.3 bcm (entry bookings). The volume of transited gas was 69.1 bcm, representing an increase of 16% (59.7 bcm in 2018).

In segment of Gas and Power Distribution, operating performance was very similar in comparison with previous year in both commodities, where the EPH Group distributed 4.8 bcm of gas (4.8 bcm in 2018) and 6.2 TWh of power (6.3 TWh in 2018).

The Group supplied 22.7 PJ of heat (23.1 PJ in 2018). Majority of supply volumes belong to our highly efficient CHP plants in the Czech Republic and Hungary under EPIF Group, with minor supply volumes provided also by our German operations under EPPE Group.

KPI	Unit	2019	2018	2019-2018	%
<b>Performance of EPH infrastructure assets</b>					
Gas Transmission Capacity*	bcm	84.3	80.0	4.3	5%
Gas Transmission	bcm	69.1	59.7	9.4	16%
Gas Storage Capacity	bcm	5.7	5.6	0.1	2%
Gas Storage Sales**	bcm	6.2	3.6	2.6	(72%)
Gas Distribution	bcm	4.8	4.8	-	-%
Power Distribution	TWh	6.2	6.3	(0.1)	(2%)
Heat Supply	PJ	22.7	23.1	(0.4)	(2%)

\* Represents entry capacity bookings.

\*\* Presented Gas Storage Sales figures are higher than Gas Storage Capacity, due to interruptible and other structured products contracted and given the geological and technical parameters of the Storage facility in the specific periods.

#### Performance of power generation assets

Power generation assets represent younger part of EPH portfolio and majority of these are bundled under EPPE Group. EPH Group consolidates 13.3 GW of net installed power capacity (11.6 GW in 2018). The capacities generated 33.4 TWh of power (28.2 TWh in 2018).

EPIF Group consolidates 1.5 GW of net installed power capacity, same as in 2018. The highly efficient CHP plants, with minor renewable wind, solar and biogas generation capacities, represent majority of this. EPIF Group generated net power volume of 3.3 TWh of power (3.8 TWh in 2018). This 13% decrease is driven mainly by less favourable power spreads towards the end of 2019.

EPPE Group consolidates 11.8 GW of net installed power capacity in Germany, the UK, Ireland, France, and Italy (10.1 GW in 2018). These assets generated 30.1 TWh power (24.4 TWh in 2018). The 23% increase is driven by acquisitions, full year operation of Lynemouth biomass power plant and improved performance of gas assets on the UK and Italian market. On the other hand, decrease of generation in the German market was driven by market dynamics impacting production from conventional power plants.

KPI	Unit	2019	2018	2019-2018	%
<b>Net installed capacity - Electricity – Total</b>					
<b>EPIF Group</b>					
Czech Republic	MW	1,031	1,031	-	-%
Slovakia		68	67	1	1%
Hungary		396	396	-	-%
<b>Total – EPIF Group</b>		<b>1,495</b>	<b>1,494</b>	<b>1</b>	<b>-%</b>
<b>EPPE Group</b>					
Germany		1,157	1,157	-	-%
France		2,262	-	2,262	-%
Ireland		384		384	-%
UK		4,025	4,637	(612)	(13%)
Italy		3,989	4,284	(295)	(7%)
<b>Total – EPPE Group</b>		<b>11,817</b>	<b>10,078</b>	<b>1,739</b>	<b>(17%)</b>
<b>Total – EPH Group</b>		<b>13,312</b>	<b>11,572</b>	<b>1,740</b>	<b>15%</b>
KPI	Unit	2019	2018	2019-2018	%
<b>Net power production – Total</b>					
<b>EPIF Group</b>					
Czech Republic	TWh	1.9	2.6	(0.7)	(27%)
Slovakia		0.0	0.0	0.0	-%
Hungary		1.4	1.2	0.2	17%
<b>Total – EPIF Group</b>		<b>3.3</b>	<b>3.8</b>	<b>(0.5)</b>	<b>(13%)</b>
<b>EPPE Group</b>					
Germany		1.4	3.2	(1.8)	(56%)
France		2.4	-	2.4	-
Ireland		0.3	-	0.3	-
UK		11.0	7.9	3.1	39%
Italy		15.0	13.3	1.7	13%
<b>Total – EPPE Group</b>		<b>30.1</b>	<b>24.4</b>	<b>5.7</b>	<b>23%</b>
<b>Total - EPH Group</b>		<b>33.4</b>	<b>28.2</b>	<b>5.2</b>	<b>18%</b>

Significant power generation assets are owned by equity accounted investees. Companies belonging to this group disposed with 12.8 GW of net installed power capacity (12.8 GW in 2018) and generated 70.2 TWh power (77.2 TWh in 2018). Major share of this is represented by LEAG Group and Slovenské elektrárne Group.

## Sustainability performance

### Emissions and environmental protection activities

EPH Group produced 18.0 million tons of CO<sub>2</sub> emissions (17.8 million tons in 2018) with intensity of 468 ton CO<sub>2</sub> / GWh (532 ton CO<sub>2</sub> / GWh in 2017). GHG Emissions volume and intensity follow power and heat generation volumes as well as generation fuel mix. Emissions intensity is calculated including heat component, as without these the performance of our highly efficient CHP plants would be distorted.

EPIF Group produced 4.0 million tons of CO<sub>2</sub> emissions (4.8 million tons in 2018) with intensity of 474 ton CO<sub>2</sub> / GWh (544 ton CO<sub>2</sub> / GWh in 2018). The reduction of 0.8 million tons is a result of lower power generation but also a growing share of renewable fuels such as biomass in the energy mix.

EPPE Group produced 14.0 million tons of CO<sub>2</sub> emissions (13.0 million tons in 2018) with intensity of 466 ton CO<sub>2</sub> / GWh (527 ton CO<sub>2</sub> / GWh in 2018). The overall increase in CO<sub>2</sub> emissions volume is partially driven by the acquisition of generation assets in France, the UK and Ireland and by higher power production in Italy and the UK, which was partially compensated by a decline in power produced by German conventional assets. Further, the Group fuel mix was positively impacted by the fact that Lynemouth biomass power plant was operational for full year in 2019, while it commenced its operations in course of 2018 following to successful conversion from hard coal. In 2019, Lynemouth generated 2.6 TWh in its zero-emissions generation facility.

KPI	Unit	2019	2018	2019-2018	%
<b>Direct GHG Emissions (Scope 1)</b>					
<b>EPIF Group</b>					
Czech Republic	million tons CO <sub>2</sub> eq.	2.8	3.8	(1.0)	(26%)
Slovakia		0.4	0.3	0.1	33%
Hungary		0.8	0.7	0.1	14%
<b>Total – EPIF Group</b>		<b>4.0</b>	<b>4.8</b>	<b>(0.8)</b>	<b>(17%)</b>
<b>EPPE Group</b>					
Germany		1.8	3.3	(1.5)	(45%)
France		0.8	-	0.8	-%
Ireland		0.1	-	0.1	-%
UK		3.7	2.9	0.8	28%
Italy		7.6	6.8	0.8	12%
<b>Total – EPPE Group</b>		<b>14.0</b>	<b>13.0</b>	<b>1.0</b>	<b>8%</b>
<b>Total – EPH Group</b>		<b>18.0</b>	<b>17.8</b>	<b>0.2</b>	<b>1%</b>
KPI	Unit	2019	2018	2019-2018	%
Emissions intensity - Including heat component					
<b>EPIF Group</b>					
Czech Republic	ton CO <sub>2</sub> eq./GWh	625	714	(89)	(12%)
Slovakia		9	10	(1)	(10%)
Hungary		258	247	11	4%
<b>Total – EPIF Group</b>		<b>474</b>	<b>544</b>	<b>(70)</b>	<b>(13%)</b>
<b>EPPE Group</b>					
Germany		1,285	949	336	(35%)
France		352	-	352	-%
Ireland		392	-	392	-%
UK		339	368	(29)	(8%)
Italy		505	510	(5)	(1%)
<b>Total – EPPE Group</b>		<b>466</b>	<b>527</b>	<b>(61)</b>	<b>(12%)</b>
<b>Total – EPH Group</b>		<b>468</b>	<b>532</b>	<b>(64)</b>	<b>(12%)</b>

Note: Calculation of Emissions intensity indicators excludes emissions from non-energy producing operations, namely eustream, a.s., SPP – distribúcia, a.s. and NAFTA a.s. in Slovakia and SPP Storage, s.r.o. in the Czech Republic and in respective summary indicators, in the amount of 0.5 mil ton CO<sub>2</sub> in 2019 and 0.3 mil in 2018.

In 2019, the EPH Group continued to be very active in terms of environmental protection. The companies within the EPH Group continued to be operated in a manner ensuring their failure-free operation and high efficiency in producing electricity, which has direct impact on the volume of produced emissions.

Several environmental regulations in the Germany, Italy, United Kingdom, and the European Union regulates the EPH Group activities. These include regulations governing the discharge and emission of pollutants, the handling of hazardous substances and their disposal, cleaning of contaminated sites and health and safety of employees. For example, EPH Group is subject to regulations that impose strict limits on emissions of carbon dioxide (CO<sub>2</sub>), sulphur oxides (SO<sub>x</sub>), nitrogen oxides (NO<sub>x</sub>), carbon monoxide (CO) and solid dust particles emissions (SDP).

EPH Group currently employ an environmental policy at the respective subsidiaries implement their own policies focused on meeting the legislative requirements and on mitigating the environmental footprint of EPH Group. This affects not only the investment activities but also the activities for which EPH Group seeks to minimise their impact on the environment.

EPH Group will continue to maintain its compliance with the environmental legislative requirements. In 2019, the Group invested considerable amounts into the restructuring of several plants. For example:

In 2019, United Energy, a.s. continued to focus on its development plans aimed to enhance production efficiency and the production of main commodities (heat and electricity) and preparations for new legislation related to greenhouse gas emissions. At the same time, work continued e.g. to optimise the operation of another boiler (K10) by installing an air ventilator control at the boiler using a high-voltage converter; TG4 modernisation was completed and TG5 modernisation continued. Mid-term plan for decarbonisation commenced.

In 2019, during a supervisory audit, Elektrárny Opatovce, a.s. passed the inspection of the environmental management system under the ISO 14001 international standard aimed to minimise impact of its activities on the environment. The ISO 14001 certificate holders are Pražská teplárenská a.s., eustream, a.s., Stredoslovenská distribučná, a.s., Plzeňská teplárenská, a.s., POZAGAS a.s., TERMONTA PRAHA a.s. or NAFTA a.s.

Plzeňská teplárenská, a.s. is concerned about using fly ash and slag from the combustion of lignite and biomass as secondary energy products used for the reclamation and adjustment of terrains or for construction purposes. The company therefore made sure that the above secondary energy products were certified and continues to explore other options for their use. In 2019, regular audits were carried out over the management system and production and other certification was started for the products to be used in a new location and for another construction purposes.

In 2019, NAFTA a.s. carried out 3D seismic measurements which resulted into three geologic projects for superficial drilling and two for deep drilling. At the same time, NAFTA enhanced cooperation with a partner in the area adjacent to this exploration area and acquired a new 1,190 square kilometres Topolčany exploration area. NAFTA carried out a successful exploration drill Trakovice 13 in the Trnava region, where hydrocarbon mining has been successfully operated for several tens of years.

NAFTA acquired new exploration areas for exploration. In East Slovakia, the exploration area Beša with 770 square kilometres, and in the Vienna Basin the exploration area Vienna Basin – North of 146 square kilometres. In October 2019, NAFTA acquired the exploration area Pavlovce nad Uhom (1,069 square kilometres) where NAFTA plan to verify the potential exploration and mining of hydrocarbon in other parts of the region.

In Western Ukraine, under the Uzhhorod licence NAFTA implemented our first exploration drill with its partner, Cub Energy Inc. The Uzhhorod licence represents a geological continuation of intense exploration of East Slovakia regions and copies the trend of discovered deposits in Slovakia. NAFTA have been actively present in the Ukraine since 2016, and successfully continue its planned expansion. At the end of 2019, NAFTA participated in a tender procedure and obtained the Vatazhkivska licence (181 square kilometres) near Poltava town in Eastern Ukraine. The Vatazhkivska licence represents another opportunity to utilise its know-how from long-term experience in research and mining of hydrocarbon.

Other NAFTA foreign activities included the assessment of hydrocarbon potential and its development in Croatia. NAFTA identified areas they want to explore further and decided to establish a local subsidiary.

In the area of technical underground well repairs, NAFTA used its experience both to develop own activities, repairing 28 production and storage wells, and to carry out another 15 repairs for external parties in Slovakia and abroad. NAFTA's attention has been focused on the environment and biological reclamation. In 2019, NAFTA concluded the closure of the Moravany sludge bed in East Slovakia and continued its work in liquidating the centre in West Slovakia.

An important air protection project carried out by eustream a.s. was the modification of the Nuovo Pignone gas turbines to use Dry Low Emissions (DLE) technology to comply with Directive of the European Parliament and of the Council No. 2010/75/EU on Industrial Emissions.

In 2019 eustream, a.s. completed projects focused on the transmission system development with total investment costs of more than €65 million, including progressing with the Polish-Slovakian Gas Interconnection (expected to be commissioned in 2021) and expansion of the splitting junction at Lakšárska Nová Ves with an installation of natural gas transmission compressor station. By the end of 2019, the project successfully entered the final testing phase.

The companies of the EPIF Group have a municipal waste collection system established. Recycling, reuse of material, composting is preferred over landfilling, which greatly contributes to reducing the production of waste. For example, United Energy, a.s. is entitled to use the label of Ecological firm for its responsible approach to the environment, used product take-back and waste sorting. Plzeňská teplárenská, a.s. operates a waste-to-energy facility ZEVO Plzeň, ecological source that can use a wide range of waste and convert it into energy. Heat energy occurring during the combustion process is subsequently used to supply heat to the territory of Pilsen city and to produce electrical energy.

EPIF Group enjoys a positive image in the market and significant level of political and public support resulting from the fact that several of its production facilities operate in a highly efficient combined cogeneration mode that has much lower CO<sub>2</sub> emissions than a typical power plant. As a result, EPIF saves energy, avoids network losses, and improves the security of Europe's internal energy supply.

The EPPE Group is an environmentally and socially responsible operator of our power plants. This is a result of an expansion of its fleet comprising renewable or low-emission sources and a gradual decommissioning of coal-fired power plants (e.g. EGGBOROUGH, Buschhaus). Recently, EPPE, for example, acquired solid biomass-fired power plants Biomasse Italia and Biomasse Crotone based in Italy, finished the final phase of the project of converting the coal-fired power plant Lynemouth into a biomass-fired power plant and invested in gas-fired power plants Langage and South Humber Bank in the UK. As a result, EPPE saves energy, avoids network losses, and improves the security of Europe's internal energy supply.

In 2019, no reportable damage or harm was caused to the environment during the performance of the EPH Group business activities.

## Environmental, Social and Governance matters

In 2019, the EPIF Group obtained an ESG rating “Average Performer” from the renowned ESG rating agency Sustainalytics. EPIF is committed to further improve its awareness of the ESG areas, incl. implementation of new ESG policies and disclosures which should lead to an ESG rating upgrade as well. These new ESG policies were approved on the EPIF level on 10 March 2020 and are being rolled out to the Group entities for implementation.

These policies are:

- EPIF Group ESG Master Policy
- EPIF Group Environmental Policy
- EPIF Group Procurement Policy
- EPIF Group Operational Policy
- EPIF Group Code of Conduct

## Employment relations and employees

The main strengths of the EPH Group include good relations with employees and their loyalty. The Group maintain good and fair relations with the trade unions within the entities of Group through regular meetings and discussions on labour, social and wage related issues. Safety and quality management covers health protection at work, safety management system, technology, and human resources all of which are an integral part of the management of the Group.

The management believes that that the Group, its companies and equipment comply with all legislative requirements and best practice methods. Moreover, they are constantly striving to improve the safety level of the Group’s activities by introducing measures focused on risk assessment, elimination, mitigation, and prevention. The Group also provides general training programs on employee safety and when selecting or assessing potential suppliers, the Group also considers their approach and attitude towards security issues.

EPH employees are interested in overall EPH economic performance. As internal stakeholders, they are engaged in business issues at the local level, being especially interested in the performance of the subsidiary they work for.

The average number of employees in EPH Group during 2019 was 11,454 (10,711 in 2018), of which 244 were executives (246 in 2018). Male employees covered for 82% of EPH employees, the same share as in 2018. The overall higher number of employees in the current year is mainly attributable to increase in EPIF Group and EPPE Group, while EPH Other remained almost stable.

The average number of employees in EPIF Group during 2019 was 6,459 (6,593 in 2018), of which 127 were executives (128 in 2018).

The average number of employees in EPPE Group during 2019 was 4,225 (3,622 in 2018), of which 65 were executives (68 in 2018). The increase in employees is attributable to acquisition of new assets in France, Ireland and in the UK.

The average number of employees in EPH Other during 2019 was 770 (496 in 2018), of which 52 were executives (50 in 2018).

KPI	Unit	2019	2018	2019-2018	%
<b>Headcount</b>					
<b>EPIF Group</b>					
Czech Republic	#	1,982	2,111	(129)	(6%)
Slovakia		4,209	4,217	(8)	-%
Hungary		208	203	5	2%
Germany		58	60	(2)	(3%)
Netherlands		2	2	-	-%
<b>Total – EPIF Group</b>		<b>6,459</b>	<b>6,593</b>	<b>(134)</b>	<b>(2%)</b>

<b>EPPE Group</b>					
Czech Republic		88	72	16	22%
France		518	-	518	-%
Ireland		11	-	11	-%
Germany		2,516	2,591	(75)	(3%)
UK		506	393	113	29%
Switzerland		4	-	4	-%
Italy		582	566	16	3%
<b>Total – EPPE Group</b>		<b>4,225</b>	<b>3,622</b>	<b>603</b>	<b>17%</b>
<b>EPH Other</b>					
Czech Republic		459	334	125	37%
Poland		153	153	-	-%
Other		158	9	149	1,656%
<b>Total – EPH Other</b>		<b>770</b>	<b>496</b>	<b>274</b>	<b>55%</b>
<b>Total – EPH Group</b>		<b>11,454</b>	<b>10,711</b>	<b>743</b>	<b>7%</b>
<b>KPI</b>					
<b>KPI</b>	<b>Unit</b>	<b>2019</b>	<b>2018</b>	<b>2019-2018</b>	<b>%</b>
<b>Headcount</b>					
<b>EPIF Group</b>					
Executives	#	127	128	(1)	(1%)
Other Employees		6,331	6,465	(134)	(2%)
<b>Total – EPIF Group</b>		<b>6,458</b>	<b>6,593</b>	<b>(135)</b>	<b>(3%)</b>
<b>EPPE Group</b>					
Executives		65	68	(3)	(4%)
Other Employees		4,160	3,554	606	17%
<b>Total – EPPE Group</b>		<b>4,225</b>	<b>3,622</b>	<b>603</b>	<b>17%</b>
<b>EPH Other</b>					
Executives		52	50	2	4%
Other Employees		719	446	273	61%
<b>Total – EPH Other</b>		<b>771</b>	<b>496</b>	<b>275</b>	<b>55%</b>
<b>EPH Group</b>					
Executives		244	246	(2)	(1%)
Other Employees		11,210	10,465	745	7%
<b>Total - EPH Group</b>		<b>11,454</b>	<b>10,711</b>	<b>743</b>	<b>7%</b>

### Corruption and breaches

EPH maintains consistently high standards in ethics throughout its operations and supply chain and does not tolerate corruption at any level. Any breaches of this could result in major and serious reputational damage to the Company. Compliance requirements are factored into all decisions when entering business relations with suppliers or business partners. While these principles were adhered to in the past, their importance is increasing in today's environment and as such, EPH has decided to formalise those into an overall policy applicable across the EPH, including all subsidiaries.

EPH always strives to operate all its facilities safely and in compliance with licensing regulations. The compliance with such systems is ensured with regular on-site checks. In addition, the Company regularly undertake analyses and evaluations of environmental issues to assess their relevance for its companies. The focus of our internal compliance management is to raise the level of awareness among its employees to prevent any possible breaches.

## Financial performance

EPH achieved impressive financial results in the year under the review. This positive development was driven by both our main sub-holdings, EPIF as well as EPPE. Results reflect positive market development on the revenue side as well as cautious approach towards expenses, with further enhancement coming from the impact of new acquisitions.

### Sales

Total sales amounted to EUR 8,583 million (EUR 7,072 million in 2018). The 21% increase in sales is attributable largely to EPPE Group.

Sales of EPIF Group reached EUR 3,405 million (EUR 2,974 million in 2018). Increase by 14% was driven by all segments. Gas transmission revenue increase mainly by afore mentioned front-loading of gas transmission from 2020 due to expected but not materialized crises due to new transmission contract negotiation between Russia and Ukraine. While Heat Infra and Gas Storage segments were driven by 2018 acquisitions that fully materialized in 2019. Gas and Power distribution segment was than mainly driven by higher power prices.

Sales of EPPE Group reached EUR 4,933 million (EUR 3,844 million in 2018). The extensive increase is attributable to Renewable Energy segment as well as Generation and Mining segment. Generation and Mining segment increased by EUR 981 million, or 28%, due to increased power and gas trading sales of in-house trading entity EP Commodities, improved performance of South Humber Bank and effect of acquisitions in 2019. On the other hand, lower sales were recorded at JTSD Group and EP Mehrum. Renewable Energy segment increased by EUR 107 million, or 26%, primarily since Lynemouth biomass power plant was fully operational for whole year.

External Sales	Unit	2019	2018	2019-2018	%
<b>EPIF Group</b>					
Gas Transmission	million EUR	790	658	132	20%
Gas and Power Distribution		1,820	1,648	172	10%
Gas Storage		220	159	61	38%
Heat Infra		565	499	66	13%
EPIF Other		10	10	-	-%
<b>Total EPIF Group</b>		<b>3,405</b>	<b>2,974</b>	<b>431</b>	<b>14%</b>
<b>EPPE Group</b>					
Generation and Mining		4,420	3,438	982	29%
Renewable Energy		513	406	107	26%
EPPE Other		-	-	-	-%
<b>Total EPPE Group</b>		<b>4,933</b>	<b>3,844</b>	<b>1,089</b>	<b>28%</b>
<b>EPH Other</b>		247	251	-4	(2%)
Holding Entities		1	2	-1	(50%)
<b>Total EPH Group</b>		<b>8,583</b>	<b>7,072</b>	<b>1,511</b>	<b>21%</b>

### EBITDA

EBITDA of EPH Group reached EUR 2,051 million (EUR 1,743 million in 2018). The presented EBITDA is defined as profit from operations plus depreciation and amortisation and is further netted for eventual impact of negative goodwill. Apart from this, the EBITDA calculation does not include any further adjustments.

EBITDA of the EPIF Group amounted EUR 1,618 million (EUR 1,418 million in 2018). The 14% increase in EBITDA is largely attributable to increased volumes of transited gas which was partly attributable to front-loading of volumes from 2020 to prepare for a potential Russian – Ukrainian crisis

which has however not materialized as a new gas transit agreement was closed between respective parties in December 2019.

EBITDA of EPPE Group reached EUR 441 million (EUR 340 million in 2018). Generation and Mining segment increased by EUR 19 million, or 6%, due to resumption of capacity market in the UK improving performance of South Humber Bank and EP Langage. Further, EBITDA was positively impacted by the effect of acquisitions, which was partially offset by lower performance of JTSD Group. Renewable Energy segment increased by EUR 82 million, or 222%, primarily since Lynemouth biomass power plant was fully operational for whole year.

EBITDA	Unit	2019	2018	2019-2018	%
<b>EPIF Group</b>					
Gas Transmission	million EUR	735	663	72	11%
Gas and Power Distribution		528	461	67	15%
Gas Storage		175	140	35	25%
Heat Infra		176	148	28	19%
EPIF Other		4	6	(2)	(33%)
<b>Total EPIF Group</b>		<b>1,618</b>	<b>1,418</b>	<b>200</b>	<b>14%</b>
<b>EPPE Group</b>					
Generation and Mining		322	303	19	6%
Renewable Energy		119	37	82	222%
EPPE Other		-	-	-	
<b>Total EPPE Group</b>		<b>441</b>	<b>340</b>	<b>101</b>	<b>30%</b>
<b>EPH Other</b>					
		<b>25</b>	<b>19</b>	<b>6</b>	<b>32%</b>
Holding Entities		(32)	(26)	(6)	
Inter-segment eliminations		(1)	(8)	7	
<b>Total EPH Group</b>		<b>2,051</b>	<b>1,743</b>	<b>308</b>	<b>18%</b>

## CAPEX

CAPEX of EPH Group reached EUR 375 million (EUR 379 million in 2018). The presented CAPEX is defined as additions to tangible and intangible assets excluding any potential impact of expenses for emissions rights, which might be categorized as CAPEX under the IFRS rules.

CAPEX of EPIF Group reached EUR 222 million (EUR 191 million in 2018). The 16% increase in CAPEX is attributable mainly to significant progress both by increasing gas transmission capacities from the Czech Republic to Slovakia owing to the construction of a CS05 compressor station, planned to be completed in 2019, and by commencing works on a strategic project of the Slovak-Polish Interconnector, which is on a list of critical EU infrastructural projects and is supported from the EU.

CAPEX of EPPE Group reached EUR 143 million (EUR 180 million in 2018). The 21% decrease in CAPEX is mainly driven by Renewable Energy segment where the LYNEMOUTH biomass conversion project was substantially completed in 2018. The largest part of Generation and Mining segment was represented by a development of new mining fields in Germany.

CAPEX	Unit	2019	2018	2019-2018	%
<b>EPIF Group</b>					
Gas Transmission	million EUR	69	51	18	35%
Gas and Power Distribution		85	81	4	5%
Gas Storage		11	6	5	83%
Heat Infra		57	52	5	10%
EPIF Other		-	1	(1)	(100%)
<b>Total EPIF Group</b>		<b>222</b>	<b>191</b>	<b>31</b>	<b>16%</b>
<b>EPPE Group</b>					
Generation and Mining		122	114	8	7%
Renewable Energy		21	66	(45)	(68%)
EPPE Other		-	-	-	-%
<b>Total EPPE Group</b>		<b>143</b>	<b>180</b>	<b>(37)</b>	<b>(21%)</b>
<b>EPH Other</b>		<b>10</b>	<b>8</b>	<b>2</b>	<b>25%</b>
Holding Entities		-	-	-	-%
Inter-segment eliminations		-	-	-	-%
<b>Total EPH Group</b>		<b>375</b>	<b>379</b>	<b>(4)</b>	<b>(1%)</b>

### Net financial debt, Leverage and Cash conversion

Net financial debt stood at EUR 5,261 million at the end of the year under review (EUR 5,020 million in 2018). The presented figure is calculated summing up Loans and borrowings together with Issued bills of exchange (presented as part of Financial instruments and financial liabilities), netted for Cash and cash equivalents.

The key drivers behind 5% increase in Net financial debt was application of new standards IFRS 16 Leasing, while the Group has applied the modified retrospective approach and the comparative information presented for 2018 has not been restated.

Leverage decreased to 2,6x (2.9x in 2018), on the back of the strong EBITDA growth.

Net financial debt and Leverage	Unit	2019	2018	2019-2018	%
Loans and borrowings	million EUR	6,391	5,943	448	8%
Issued bills of exchange		116	83	33	40%
Cash and cash equivalents		1,246	1,006	240	24%
<b>Net financial debt</b>		<b>5,261</b>	<b>5,020</b>	<b>241</b>	<b>5%</b>
EBITDA		2,051	1,743	308	18%
<b>Leverage</b>		<b>2,6</b>	<b>2,9</b>	<b>(0.3)</b>	<b>(11%)</b>

Cash conversion was 69.62% (57.54% in 2018). The high ratio of EBITDA conversion to cash flows further reinforces very good positioning of EPH Group in terms of leverage within the industry peer group.

Cash conversion	Unit	2019	2018	2019-2018	%
EBITDA	million EUR	2,051	1,743	308	18%
CAPEX		(375)	(379)	5	(1%)
Tax paid		(248)	(361)	113	(31%)
<b>Cash conversion</b>	<b>%</b>	<b>69.62%</b>	<b>57.54%</b>		

## 1.4 Other Information

### *Description of the diversity policy applied to the statutory body, supervisory body or other similar body*

The Company does not apply a diversity policy; however, when taking positions in its bodies, it treats all candidates impartially, irrespective of their age, gender, religion, ethnic origin, nationality, sexual orientation, disability, belief or worldview, and considers solely the candidate's skills and expertise. The Company believes that a dynamic approach, unbounded on fixed quotas, leads to the selection of the highest-quality candidates and best ensures the fulfilment of its business goals. The Company consistently complies with all the requirements of Act No. 198/2009 Coll., on equal treatment and legal means of protection against discrimination.

### *Rights and obligations associated with shares*

Act No. 90/2012 Coll., Commercial Companies, as amended, and the Company's Articles of Association govern the rights and obligations associated with the Company's shares. The current version of Articles of Association is placed into the collection of documents of the Commercial Register maintained by the Municipal Court in Prague.

### *LEI code*

The company Energetický a průmyslový holding, a.s. was registered with LEI (Legal Entity Identifier) code No. 31570010000000090208 CDCP (Centrální depozitář cenných papírů). LEI code of other companies within the EPH Group can be found on <http://www.lei-lookup.com/>.

### *Branches*

The EPH Group has the following organizational units abroad:

- AISE, s.r.o., organizačná zložka located in Slovakia;
- NAFTA a.s. – organizační složka located in the Czech Republic;
- EP ENERGY TRADING, a.s. – organizačná zložka located in Slovakia;
- Slovenské elektrárne, a.s. – organizační složka located in the Czech Republic;
- ÚJV Řež a.s. – organizačná zložka Slovensko located in Slovakia;
- LokoTrain s.r.o. – organizačná zložka located in Slovakia;
- LokoTrain s.r.o oddział w Polsce located in Poland; and
- Spedica, s.r.o., organizačná zložka Slovensko located in Slovakia.

### *Research and development activities*

In 2019, the EPH Group did not carry out any significant research and development activities and as a result did not incur any material research and development costs.

### *Acquisition of own shares or own ownership interests*

During the 2019, EPH Group did not acquire any own shares or ownership interests within the Group.

### *Risks and risk management policies*

The EPH Group is exposed to a variety of financial and market risks. The risk management policies are set out in the notes to the consolidated financial statements.

### *Impact of Brexit*

The exact conditions of post-Brexit cooperation between United Kingdom and European Union after expiry of transition period are not yet known. Impact of Brexit on EPPE Group therefore cannot be comprehensively evaluated. We expect following chapters to be of the highest relevance:

- (i) rules concerning power and gas flows between United Kingdom and European Union;
- (ii) rules related to state aid issue which impacts various subsidy programmes;
- (iii) impact on decarbonisation policy.

In the previous years, we have experienced high volatility of British sterling and its depreciation compared to other major currencies.

### *Sustainability report*

EPH plans to issue its Sustainability report for 2019 during summer 2020. The Sustainability report is expected to cover a wide spectrum of economic, environmental, social and governance related topics and will enable report users to obtain a comprehensive understanding of the EPH Group's business and the links between EPH's strategy and commitment to a sustainable global economy.

### *Outlook for 2020*

Even this Annual Report is issued at difficult times in the light of the coronavirus pandemic posing great challenges for many aspects of our society including business matters of EPH Group, EPH Group intends to continue to develop its activities across its both key sub-holdings EPIF Group and EPPE Group.

From the very beginning of the outbreak, the Group has been fully aligned with the provisions endorsed by the authorities to combat the virus emergency and also has been continuously identifying potential risks and implemented appropriate measures to mitigate or decrease the impact on the business as well as on the Group's stakeholders. The EPH Group has two central objectives: guaranteeing the health and safety of its employees, which remains the Group's top priority, and safeguarding the continuity of the essential energy security service in the countries where the Group operates. In terms of maintaining operations of run critical infrastructure assets, on every critical infrastructure and power generation asset a special team has been set up to manage the situation, being constantly in contact with the relevant authorities and public officials.

Also, EPH Group together with J&T donated personal protective equipment and medical goods worth approximately CZK 215 million (EUR 8 million) to fight coronavirus in Slovakia and the Czech Republic. Half of the aid is intended for the Czech Republic, the other half for Slovakia. In Slovakia, EPH will liaise with Nadácia EPH, while in the Czech Republic the donation will go directly to municipalities, which the company distributes heat to. These include especially Prague, Hradec Králové, Pardubice, Chrudim, Most and Litvínov. Both J&T and EPH owners were ready to direct the remaining part of the allocated amount into areas and forms of help which the crisis teams of both countries will prioritize. While today these are primarily protective equipment, in a few days there may be missing hospital beds or life-saving medical equipment. The owners of both groups therefore clearly declare their readiness to help where both countries need it most.

Despite potential temporary short-term operational limitations, EPH Group believes its medium- to long-term market position stays resilient, primarily as i) group operates the critical infrastructure in gas and power distribution, gas transportation and storage and power generation, and ii) major part of by it operated assets are regulated and/or long-term contracted with high quality counterparties. At the same time EPH Group maintains robust counterparty and liquidity risk management system which underpin EPH Group's financial stability.

## 2. MANAGEMENT STATEMENT

The Board of Directors and the Executive Board have today considered and adopted the Annual Report of Energetický a průmyslový holding, a.s. (further “the Company”) for the year ended 31 December 2019, which is prepared in accordance with the Czech accounting legislation.

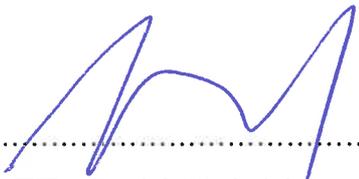
The Statutory Financial Statements of the Company have been prepared in compliance with Act No. 563/1991 Coll., on Accounting, as amended, and relevant regulations and decrees applicable to entrepreneurs, in particular Decree No. 500/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting.

The Consolidated Financial Statements of the EPH Group 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.

In our opinion, the both accompanying financial statements give true and fair view of the assets, liabilities, financial position, profit or loss as well as cash flows for the financial year 2019. In addition, the Group’s review of operations includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

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

Prague, 11 June 2020



.....  
JUDr. Daniel Křetínský  
*Chairman of the Board of Directors*



.....  
Mgr. Pavel Horský  
*Member of the Board of Directors*

### **3. REPORT ON RELATIONS**

## **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 **Energetický a průmyslový holding, a.s.** (“the Company”), with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 283 56 250, in accordance with Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended)

(the “**Report**”)

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### **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 2019 accounting period.

### **II. Structure of relations between the entities**

#### **CONTROLLED ENTITY**

The controlled entity is Energetický a průmyslový holding, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 283 56 250, recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, file 21747.

#### **CONTROLLING ENTITY**

EP Investment S.à r.l.

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

#### **OTHER CONTROLLED ENTITIES**

The companies controlled by the same controlling entities are disclosed in note 39 to the consolidated financial statements of the controlled entity.

### **III.**

#### **Role of the controlled entity; method and means of control**

##### **Role of the controlled entity**

- strategic management of the development of a group of directly or indirectly controlled entities
- providing financing and developing financing systems for group entities
- optimising the services utilised/provided to improve the entire group's performance
- managing, acquiring, and disposing of the Company's ownership interests and other assets

##### **Method and means of control**

The controlling entity hold a majority share of voting rights in Energetický a průmyslový holding, 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**

During the 2019 accounting period, no act was carried out in the interest or at the initiative of the controlling entity or entities controlled by the controlling entity that would relate to assets exceeding 10% of the controlled entity's equity as presented in the latest financial statements.

## V.

### **Agreements concluded between Energetický a průmyslový holding, a.s. and other related entities**

#### V.1.1

##### **In 2019, the following loan agreements were in place:**

On 27 October 2010, a loan agreement, including valid amendments, was signed between NIKARA EQUITY LIMITED as the creditor and Przedsiębiorstwo Górnictwo "SILESIA" Sp. z o.o. as the debtor. In 2013, Energetický a průmyslový holding, a.s. became the legal successor of NIKARA EQUITY LIMITED.

On 27 December 2011, a loan agreement, including valid amendments, was signed between a third party as the creditor and ABS PROPERTY LIMITED as the debtor. On 31 May 2016, the receivable was assigned by virtue of an agreement on assignment of receivable to Energetický a průmyslový holding, a.s.

On 25 September 2012, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the debtor and SEDILAS ENTERPRISES LIMITED as the creditor.

On 11 December 2013, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and Mining Services and Engineering Sp. z o.o. as the debtor.

On 27 July 2015, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPPE Italy N.V. (formerly Czech Gas Holding N.V.) as the creditor. In December 2019, EP Power Europe, a.s. became the legal successor of EPPE Italy N.V.

On 1 December 2015, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Coal Trading, a.s. as the debtor.

On 9 December 2016, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPH Financing CZ, a.s. as the creditor.

On 26 January 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Logistics International, a.s. as the debtor.

On 13 February 2017, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 28 February 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPH Financing SK, a. s. as the creditor.

On 1 August 2017, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 28 November 2017, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Properties, a.s. as the debtor. On 28 February 2019, the receivable was assigned by virtue of an agreement on assignment of loan to EP Real Estate, a.s.

On 28 February 2018, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EP Mehrum GmbH as the creditor.

On 22 May 2018, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and RUBY Equity Investment S.à r.l. as the creditor.

On 26 July 2018, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and DCR INVESTMENT a.s., v likvidaci (formerly DCR INVESTMENT a.s.) as the creditor.

On 16 July 2018, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPH Financing CZ, a.s. as the creditor.

On 20 August 2018, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EP Commodities, a.s. as the creditor.

On 27 September 2018, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EP Power Europe, a.s. as the creditor.

On 23 October 2018, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the debtor and WOOGEL LIMITED as the creditor.

On 19 November 2018, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Logistics International, a.s. as the debtor.

On 20 November 2018, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EP Investment Advisors, s.r.o. as the creditor.

On 5 December 2018, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Hagibor a.s. as the debtor. On 7 February 2019, the receivable was assigned by virtue of an agreement on assignment of loan agreement to EP Real Estate, a.s.

On 20 December 2018, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 27 December 2018, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding as the debtor and EP Real Estate, a.s. (formerly PT Real Estate, a.s.) as the creditor.

On 31 December 2018, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 18 January 2019, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and RUBY Equity Investment S.à r.l. as the debtor.

On 5 March 2019, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPIF Investments a.s. as the creditor.

On 14 March 2019, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPH Financing SK, a. s. as the creditor.

On 24 April 2019, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPH Financing CZ, a.s. as the creditor.

On 18 June 2019, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and RUBY Equity Investment S.à r.l. as the creditor.

On 20 June 2019, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPIF Investments a.s. as the creditor.

On 24 June 2019, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Global Commerce a.s. as the debtor. On 26 June 2019, the receivable was assigned by virtue of an agreement on assignment of receivable to EP Investment S.à r.l.

On 24 June 2019, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Global Commerce a.s. as the debtor. On 26 June 2019, the receivable was assigned by virtue of an agreement on assignment of receivable to EP Investment II S.à r.l.

On 3 July 2019, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and VESA EQUITY INVESTMENT S.à r.l. as the debtor.

On 18 July 2019, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Logistics International, a.s. as the debtor.

On 27 August 2019, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and RUBY Equity Investment S.à r.l. as the debtor.

On 6 September 2019, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

#### **V.1.2**

**In 2019, the following agreements on the set-off of receivables and payables were concluded:**

On 18 January 2019, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EPPE Italy N.V.

On 7 February 2019, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Real Estate, a.s.

On 5 April 2019, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EPIF Investments a.s.

On 2 May 2019, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EPIF Investments a.s.

On 4 June 2019, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EPIF Investments a.s.

On 20 June 2019, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EPPE Italy N.V.

On 26 June 2019, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Investment S.à r.l.

On 26 June 2019, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Investment II S.à r.l.

On 16 August 2019, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EPIF Investments a.s.

On 1 November 2019, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Coal Trading, a.s.

### V.1.3

**In 2019, the following guarantee issuance agreements and guarantee fee agreements were valid between Energetický a průmyslový holding, a.s. and the related entities:**

Lausitz Energie Kraftwerke AG  
EP UK Investments Ltd  
Eggborough Power Ltd  
EP UK Power Development Ltd  
EP Commodities, a.s.  
Mining Services and Engineering Sp. z o.o.  
Przedsiębiorstwo Górnicze 'SILESIA' Sp. z o.o.  
EP Coal Trading, a.s.  
EP COAL TRADING POLSKA S.A.  
EP Cargo Invest, a.s.  
EP Cargo Deutschland GmbH  
Gazel Energie Generation S.A.S.  
Gazel Energie Solutions S.A.S.  
EP Resources AG  
EP Mehrum GmbH  
JTSD Braunkohlebergbau GmbH  
EP Power Europe, a.s.

#### V.1.4

##### **Other contracts valid in 2019:**

On 1 August 2013, a framework agreement ISDA 2002 Master Agreement and a supplement Schedule to the 2002 Master Agreement was signed by and between Energetický a průmyslový holding, a.s. and EP Energy, a.s.

On 7 February 2019, an agreement on assignment of loan agreement was signed by and between byla Energetický a průmyslový holding, a.s. as the assignor, EP Real Estate, a.s. as the assignee and EP Hagibor a.s. as the debtor.

On 28 February 2019, an agreement on assignment of loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the assignor, EP Real Estate, a.s. as the assignee and EP Properties, a.s. as the debtor.

On 28 February 2019, an agreement on transfer of security certificates for consideration was signed by and between Energetický a průmyslový holding, a.s. as the seller and EP Real Estate, a.s. as the buyer vis-à-vis EP Properties, a.s.

On 26 June 2019, an agreement on assignment of receivable was signed by and between Energetický a průmyslový holding, a.s. as the assignor and EP Investment S. à r.l. as the assignee vis-à-vis EP Global Commerce a.s.

On 26 June 2019, an agreement on assignment of receivable was signed by and between Energetický a průmyslový holding, a.s. as the assignor and EP Investment II S. à r.l. as the assignee vis-à-vis EP Global Commerce a.s.

#### V.1.5

##### **In 2019, the following operating agreements were in place:**

An agreement on the provision of support and advisory on acquisition projects was signed by and between EP Investment Advisors, s.r.o. as the provider and Energetický a průmyslový holding, a.s. as the party interested on 10 December 2014.

A technical assistance agreement, including valid amendments, concluded between EP Investment Advisors, s.r.o. as the provider and Energetický a průmyslový holding, a.s. as the interested party on 2 January 2015.

Financial debt guarantees of EPH Financing SK, a.s. issued by Energetický a průmyslový holding, a.s. on 8 June 2015.

Financial debt guarantees of EPH Financing CZ, a.s. issued by Energetický a průmyslový holding, a.s. on 18 September 2015.

A mediation agreement was signed by and between EP Investment Advisors, s.r.o. as the mediator, and Energetický a průmyslový holding, a.s. as the customer on 4 January 2016.

An agreement on assignment of receivable and a loan agreement concluded between EP Logistics International, a.s. as the assignee and Energetický a průmyslový holding, a.s. as the assignor on 20 April 2016.

An agreement on the transfer of rights to the SAP software concluded between Lausitz Energie Kraftwerke AG, Lausitz Energie Bergbau AG and Energetický a průmyslový holding, a.s. as the supplier on 30 September 2016.

An agreement on the transfer of rights to the Oracle software concluded between Lausitz Energie Kraftwerke AG, Lausitz Energie Bergbau AG and Energetický a průmyslový holding, a.s. as the supplier on 30 September 2016.

Financial debt guarantees of EPH Financing CZ, a.s. issued by Energetický a průmyslový holding, a.s. on 6 December 2016.

An agreement on providing professional assistance concluded between EP Industries, a.s. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2017.

An agreement on providing professional assistance concluded between EP Industries, a.s. as the provider and Energetický a průmyslový holding, a.s. as the interested party on 2 January 2017.

An agreement on providing professional assistance concluded between EP Infrastructure, a.s. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2017.

An agreement on providing professional assistance concluded between EP Investment Advisors, s.r.o. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2017.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2017.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the provider and Energetický a průmyslový holding, a.s. as the interested party on 2 January 2017.

An agreement on providing professional assistance concluded between LEAG Holding, a.s. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2017.

An agreement on providing professional assistance concluded between Mitteldeutsche Braunkohlengesellschaft mbH as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2017.

Financial debt guarantees of EPH Financing SK, a.s. issued by Energetický a průmyslový holding, a.s. on 10 February 2017.

A sublease agreement concluded between EP Investment Advisors, s.r.o. as the tenant and Energetický a průmyslový holding, a.s. as the subtenant on 15 June 2017.

A sublease agreement concluded between EP Investment Advisors, s.r.o. as the tenant and Energetický a průmyslový holding, a.s. as the subtenant on 15 June 2017.

An agreement on the transfer of rights to SAP software concluded between EP UK Investments Ltd. and Energetický a průmyslový holding, a.s. as the supplier on 10 November 2017.

An agreement on providing professional assistance concluded between EP Coal Trading, a.s. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2018.

An agreement on providing professional assistance concluded between EP Infrastructure, a.s. as the provider and Energetický a průmyslový holding, a.s. as the interested party on 2 January 2018.

An agreement on providing professional assistance concluded between EP Logistics International, a.s. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2018.

An agreement on providing professional assistance concluded between EP Slovakia B.V. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2018.

An agreement on providing professional assistance concluded between SPRITER, a.s. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2018.

Financial debt guarantees of EPH Financing CZ, a.s. issued by Energetický a průmyslový holding, a.s. on 28 June 2018.

An agreement on the transfer of rights and obligations concluded between Slovenské elektrárne, a.s. and Energetický a průmyslový holding, a.s. as the supplier on 11 July 2018.

An agreement on providing professional assistance concluded between RUBY Equity Investment S.á r.l. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 1 January 2019.

An agreement on providing professional assistance concluded between PT Real Estate, a.s. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2019.

An agreement on providing professional assistance concluded between Offside marketing investment, a.s. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2019.

An agreement on providing professional assistance concluded between EPIF Investments a.s. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2019.

An agreement on providing professional assistance concluded between ABS PROPERTY LIMITED as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2019.

An agreement on providing professional assistance concluded between PT Real Estate, a.s. as the provider and Energetický a průmyslový holding, a.s. as the interested party on 2 January 2019.

All the above contracts were concluded at arm's length. Energetický a průmyslový holding, a.s. incurred no harm based on these contracts.

## V.2.

### **Other juridical acts made between Energetický a průmyslový holding, a.s. and other related parties**

Except for the above, no other agreements were concluded by and between Energetický a průmyslový holding, a.s. and the related entities, and no supplies or considerations were provided between Energetický a průmyslový holding, a.s. and the related entities.

Energetický a průmyslový holding, 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 Energetický a průmyslový holding, a.s. vis-à-vis related entities**

The receivables and payables of Energetický a průmyslový holding, a.s. from/to related entities as at 31 December 2019 are disclosed in the notes to the financial statements, which form part of the consolidated annual report.

## VI.

We hereby confirm that we have included in this Report on relations between related entities of Energetický a průmyslový holding, 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 2019 to 31 December 2019, 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 at the date of this Report.

In addition, the Board of Directors of Energetický a průmyslový holding, a.s. declares that Energetický a průmyslový holding, a.s. incurred no damage because 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 Energetický a průmyslový holding, a.s.

In Prague, on 31 March 2020

.....  
JUDr. Daniel Křetínský  
Chairman of the Board of Directors

.....  
Mgr. Pavel Horský  
Member of the Board of Directors

## **4. CONSOLIDATED FINANCIAL STATEMENTS**



**KPMG Česká republika Audit, s.r.o.**

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This document is an English translation of the Czech auditor's report.  
Only the Czech version of the report is legally binding.

**Independent Auditor's Report to the Shareholders of  
Energetický a průmyslový holding, a.s.**

**Report on the Audit of the Financial Statements**

***Opinion***

We have audited the accompanying consolidated financial statements of Energetický a průmyslový holding, a.s. ("the Company") and its subsidiaries ("the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

***Basis for Opinion***

We conducted our audit in accordance with the Act on Auditors and Auditing 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 Audit of the Consolidated Financial Statements section of our report. We are independent of the Group 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.



### ***Other Information***

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the separate and the consolidated financial statements and our auditor's report. The statutory body 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and the consolidated 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 consolidated financial statements is, in all material respects, consistent with the separate and the consolidated financial statements; and
- 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 Group 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 Statutory Body and Supervisory Board for the Consolidated Financial Statements***

The statutory body is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union 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 consolidated financial statements, the statutory body is responsible for assessing the Group'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 statutory body either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Group's financial reporting process.



### ***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements***

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body'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 Group'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 consolidated 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 Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.



**Statutory Auditor Responsible for the Engagement**

Mr. Karel Charvát is the statutory auditor responsible for the audit of the consolidated financial statements of Energetický a průmyslový holding, a.s as at 31 December 2019 based on which this independent auditor's report has been prepared.

Prague  
11 June 2020

*KPMG Česká republika Audit*

KPMG Česká republika Audit, s.r.o.  
Registration number 71

A handwritten signature in blue ink, reading 'Karel Charvát'.

Karel Charvát  
Partner  
Registration number 2032

**Energetický a průmyslový holding, a.s.**

**Consolidated Financial Statements**  
**as of and for the year ended 31 December 2019**

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

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## Consolidated statement of comprehensive income

For the year ended 31 December 2019

In millions of EUR ("MEUR")

	Note	2019	2018
Sales: Energy	7	8,145	6,704
<i>of which: Electricity</i>		5,152	3,805
Gas		2,342	2,203
Heat		395	354
Coal		250	337
Other energy products		6	5
Sales: Other	7	428	404
Gain (loss) from commodity derivatives for trading with electricity and gas, net	7	10	(36)
<b>Total sales</b>		<b>8,583</b>	<b>7,072</b>
Cost of sales: Energy	8	(4,935)	(3,988)
Cost of sales: Other	8	(286)	(356)
<b>Total cost of sales</b>		<b>(5,221)</b>	<b>(4,344)</b>
<b>Subtotal</b>		<b>3,362</b>	<b>2,728</b>
Personnel expenses	9	(561)	(506)
Depreciation and amortisation	16, 17	(694)	(558)
Repairs and maintenance		(76)	(65)
Emission rights, net	10	(346)	(156)
Negative goodwill	6	61	5
Taxes and charges	11	(102)	(82)
Other operating income	12	136	138
Other operating expenses	13	(401)	(358)
Own work, capitalized		39	44
<b>Profit (loss) from operations</b>		<b>1,418</b>	<b>1,190</b>
Finance income	14	89	46
Finance expense	14	(211)	(234)
Profit (loss) from financial instruments	14	(309)	(68)
<b>Net finance income (expense)</b>		<b>(431)</b>	<b>(256)</b>
Share of profit (loss) of equity accounted investees, net of tax	19	175	(9)
Gain (loss) on disposal of subsidiaries	6	1	1
<b>Profit (loss) before income tax</b>		<b>1,163</b>	<b>926</b>
Income tax expenses	15	(338)	(296)
<b>Profit (loss) for the year</b>		<b>825</b>	<b>630</b>
<b>Items that are not reclassified subsequently to profit or loss:</b>			
Revaluation of property, plant and equipment	3(a)	1,615	-
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Foreign currency translation differences from foreign operations	15	(59)	24
Foreign currency translation differences from presentation currency	15	51	(38)
Effective portion of changes in fair value of cash-flow hedges, net of tax	15	(239)	336
Fair value reserve included in other comprehensive income, net of tax	15	(24)	21
<b>Other comprehensive income for the year, net of tax</b>		<b>1,344</b>	<b>343</b>
<b>Total comprehensive income for the year</b>		<b>2,169</b>	<b>973</b>
<b>Profit (loss) attributable to:</b>			
Owners of the Company		309	186
Non-controlling interest	29	516	444
<b>Profit (loss) for the year</b>		<b>825</b>	<b>630</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		585	557
Non-controlling interest	29	1,584	416
<b>Total comprehensive income for the year</b>		<b>2,169</b>	<b>973</b>
<b>Total basic and diluted earnings per share in EUR</b>	28	<b>0.09</b>	<b>0.05</b>

The notes presented on pages 9 to 169 form an integral part of these consolidated financial statements.

## Consolidated statement of financial position

As at 31 December 2019

In millions of EUR ("MEUR")

	Note	2019	2018
<b>Assets</b>			
Property, plant and equipment	16	11,218	8,532
Intangible assets	17	320	213
Goodwill	17	156	149
Investment property	18	3	3
Equity accounted investees	19	957	1,061
Restricted cash	24	1	1
Financial instruments and other financial assets	33	108	149
Trade receivables and other assets	22	147	190
Deferred tax assets	20	85	67
<b>Total non-current assets</b>		<b>12,995</b>	<b>10,365</b>
Inventories	21	378	251
Extracted minerals and mineral products		153	155
Trade receivables and other assets	22	1,227	907
Contract assets	7	59	37
Financial instruments and other financial assets	33	370	365
Prepayments and other deferrals		33	50
Tax receivables	25	181	163
Restricted cash	24	46	29
Cash and cash equivalents	23	1,246	1,006
Assets/disposal groups held for sale	26	1	1
<b>Total current assets</b>		<b>3,694</b>	<b>2,964</b>
<b>Total assets</b>		<b>16,689</b>	<b>13,329</b>
<b>Equity</b>			
Share capital	27	152	152
Share premium	27	64	64
Other reserves	27	606	337
Retained earnings		558	1,080
<b>Total equity attributable to equity holders</b>		<b>1,380</b>	<b>1,633</b>
Non-controlling interest	29	2,604	1,504
<b>Total equity</b>		<b>3,984</b>	<b>3,137</b>
<b>Liabilities</b>			
Loans and borrowings	30	4,666	4,915
Financial instruments and financial liabilities	33	237	154
Provisions	31	1,514	968
Deferred income	32	88	112
Contract liabilities	7	105	94
Deferred tax liabilities	20	1,570	1,009
Trade payables and other liabilities	34	145	149
<b>Total non-current liabilities</b>		<b>8,325</b>	<b>7,401</b>
Trade payables and other liabilities	34	1,331	1,080
Contract liabilities	7	182	74
Loans and borrowings	30	1,725	1,028
Financial instruments and financial liabilities	33	410	201
Provisions	31	585	374
Deferred income	32	26	10
Current income tax liability	15	121	24
<b>Total current liabilities</b>		<b>4,380</b>	<b>2,791</b>
<b>Total liabilities</b>		<b>12,705</b>	<b>10,192</b>
<b>Total equity and liabilities</b>		<b>16,689</b>	<b>13,329</b>

The notes presented on pages 9 to 169 form an integral part of these consolidated financial statements.

## Consolidated statement of changes in equity

For the year ended 31 December 2019

In millions of EUR ("MEUR")

	Share capital	Share premium	Other capital funds from capital contributions	Attributable to owners of the Company Non-distributable reserves	Translation reserve	Fair value reserve	Revaluation reserve	Other capital reserves	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total Equity
<b>Balance as at 1 January 2019</b>	152	64	23	12	(102)	(17)	-	(54)	475	1,080	1,633	1,504	3,137
Adjustment on initial application of IFRS 16 (net of tax)	-	-	-	-	-	-	-	-	-	(1)	(1)	(1)	(2)
<b>Adjusted balance as at 1 January 2019 (A)</b>	152	64	23	12	(102)	(17)	-	(54)	475	1,079	1,632	1,503	3,135
<i>Total comprehensive income for the year:</i>													
Profit or loss (B)	-	-	-	-	-	-	-	-	-	309	309	516	825
<i>Other comprehensive income:</i>													
Foreign currency translation differences for foreign operations	-	-	-	-	(29)	-	-	-	-	-	(29)	(30)	(59)
Foreign currency translation differences from presentation currency	-	-	-	-	22	-	-	-	-	-	22	29	51
Fair value reserve included in other comprehensive income, net of tax	-	-	-	-	-	(24)	-	-	-	-	(24)	-	(24)
Revaluation reserve included in other comprehensive income, net of tax	-	-	-	-	-	-	545	-	-	-	545	1,070	1,615
Effective portion of changes in fair value of cash-flow hedges, net of tax	-	-	-	-	-	-	-	-	(238)	-	(238)	(1)	(239)
<b>Total other comprehensive income (C)</b>	-	-	-	-	(7)	(24)	545	-	(238)	-	276	1,068	1,344
<b>Total comprehensive income for the year (D) = (B + C)</b>	-	-	-	-	(7)	(24)	545	-	(238)	309	585	1,584	2,169
<i>Contributions by and distributions to owners:</i>													
Dividends to equity holders	-	-	-	-	-	-	-	-	-	(867)	(867)	(498)	(1,365)
Transfer to retained earnings	-	-	-	-	-	-	(11)	-	-	11	-	-	-
Transfer to non-distributable reserves – creation of legal fund	-	-	-	4	-	-	-	-	-	(4)	-	-	-
<b>Total contributions by and distributions to owners (E)</b>	-	-	-	4	-	-	(11)	-	-	(860)	(867)	(498)	(1,365)
<i>Changes in ownership interests in subsidiaries:</i>													
Effect of changes in shareholding on non-controlling interests	-	-	-	-	-	-	-	-	-	30	30	3	33
Effect of acquisitions through business combinations	-	-	-	-	-	-	-	-	-	-	-	12	12
<b>Total changes in ownership interests in subsidiaries (F)</b>	-	-	-	-	-	-	-	-	-	30	30	15	45
<b>Total transactions with owners (G) = (E + F)</b>	-	-	-	4	-	-	(11)	-	-	(830)	(837)	(483)	(1,320)
<b>Balance as at 31 December 2019 (H) = (A + D + G)</b>	152	64	23	16	(109)	(41)	534	(54)	237	558	1,380	2,604	3,984

The notes presented on pages 9 to 169 form an integral part of these consolidated financial statements.

**For the year ended 31 December 2018**

*In millions of EUR ("MEUR")*

	Attributable to owners of the Company										Total	Non-controlling interest	Total Equity
	Share capital	Share premium	Reserve for own shares	Other capital funds from capital contributions	Non-distributable reserves	Translation reserve	Fair value reserve	Other capital reserves	Hedging reserve	Retained earnings			
<b>Balance as at 1 January 2018</b>	<b>152</b>	<b>64</b>	<b>(1,444)</b>	<b>23</b>	<b>8</b>	<b>(94)</b>	<b>(38)</b>	<b>(54)</b>	<b>117</b>	<b>2,426</b>	<b>1,160</b>	<b>1,515</b>	<b>2,675</b>
Adjustment on initial application of IFRS 9 (net of tax)	-	-	-	-	-	-	-	-	-	(7)	(7)	(2)	(9)
<b>Adjusted balance as at 1 January 2018 (A)</b>	<b>152</b>	<b>64</b>	<b>(1,444)</b>	<b>23</b>	<b>8</b>	<b>(94)</b>	<b>(38)</b>	<b>(54)</b>	<b>117</b>	<b>2,419</b>	<b>1,153</b>	<b>1,513</b>	<b>2,666</b>
<i>Total comprehensive income for the year:</i>													
Profit or loss (B)	-	-	-	-	-	-	-	-	-	186	186	444	630
<i>Other comprehensive income:</i>													
Foreign currency translation differences for foreign operations	-	-	-	-	-	4	-	-	-	-	4	20	24
Foreign currency translation differences from presentation currency	-	-	-	-	-	(12)	-	-	-	-	(12)	(26)	(38)
Revaluation reserve included in other comprehensive income, net of tax	-	-	-	-	-	-	21	-	-	-	21	-	21
Effective portion of changes in fair value of cash-flow hedges, net of tax	-	-	-	-	-	-	-	-	358	-	358	(22)	336
<b>Total other comprehensive income (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8)</b>	<b>21</b>	<b>-</b>	<b>358</b>	<b>-</b>	<b>371</b>	<b>(28)</b>	<b>343</b>
<b>Total comprehensive income for the year (D) = (B + C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(8)</b>	<b>21</b>	<b>-</b>	<b>358</b>	<b>186</b>	<b>557</b>	<b>416</b>	<b>973</b>
<i>Contributions by and distributions to owners:</i>													
Transfer from reserve for own shares – release of reserve for own shares	-	-	1,444	-	-	-	-	-	-	(1,444)	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-	(90)	(90)	(526)	(616)
Transfer to non-distributable reserves – creation of legal fund	-	-	-	-	4	-	-	-	-	(4)	-	-	-
<b>Total contributions by and distributions to owners (E)</b>	<b>-</b>	<b>-</b>	<b>1,444</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,538)</b>	<b>(90)</b>	<b>(526)</b>	<b>(616)</b>
<i>Changes in ownership interests in subsidiaries:</i>													
Effect of changes in shareholding on non-controlling interests	-	-	-	-	-	-	-	-	-	13	13	(23)	(10)
Effect of acquisitions through business combinations	-	-	-	-	-	-	-	-	-	-	-	125	125
Effect of disposed entities	-	-	-	-	-	-	-	-	-	-	-	(1)	(1)
<b>Total changes in ownership interests in subsidiaries (F)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>13</b>	<b>101</b>	<b>114</b>
<b>Total transactions with owners (G) = (E + F)</b>	<b>-</b>	<b>-</b>	<b>1,444</b>	<b>-</b>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,525)</b>	<b>(77)</b>	<b>(425)</b>	<b>(502)</b>
<b>Balance as at 31 December 2018 (H) = (A + D + G)</b>	<b>152</b>	<b>64</b>	<b>-</b>	<b>23</b>	<b>12</b>	<b>(102)</b>	<b>(17)</b>	<b>(54)</b>	<b>475</b>	<b>1,080</b>	<b>1,633</b>	<b>1,504</b>	<b>3,137</b>

The notes presented on pages 9 to 169 form an integral part of these consolidated financial statements.

## Consolidated statement of cash flows

For the year ended 31 December 2019

In millions of EUR ("MEUR")

	Note	2019	2018
<b>OPERATING ACTIVITIES</b>			
Profit (loss) for the year		825	630
<i>Adjustments for:</i>			
Income taxes	15	338	296
Depreciation and amortisation	16, 17	694	558
Dividend income	14	(2)	(18)
Impairment losses on property, plant and equipment, intangible assets and financial assets	13, 14	45	21
Impairment losses of other financial assets	14	327	74
Non-cash (gain) loss from commodity derivatives for trading with electricity, gas and emission rights, net	7, 10	(10)	86
(Gain) loss on disposal of property, plant and equipment, investment property and intangible assets	12	(4)	6
Emission rights	10	346	156
(Gain) loss on disposal of subsidiaries	6	(1)	(1)
Share of (profit) loss of equity accounted investees	19	(175)	9
(Gain) loss on financial instruments	14	(18)	(6)
Net interest expense	14	163	185
Change in allowance for impairment to trade receivables and other assets, write-offs	13	(14)	12
Change in provisions		(32)	(50)
Negative goodwill	6	(61)	(5)
Other finance fees	14	-	(9)
Foreign exchange (gains) losses, net		(18)	41
<b>Operating profit before changes in working capital</b>		<b>2,403</b>	<b>1,961</b>
Change in trade receivables and other assets		286	(56)
Change in inventories (including proceeds from sale)		(35)	(1)
Change in extracted minerals and mineral products		2	17
Change in trade payables and other liabilities		(321)	94
Change in restricted cash		(10)	1
<b>Cash generated from (used in) operations</b>		<b>2,325</b>	<b>2,040</b>
Interest paid		(181)	(187)
Income taxes paid		(248)	(361)
<b>Cash flows generated from (used in) operating activities</b>		<b>1,896</b>	<b>1,492</b>

## Consolidated statement of cash flows (continued)

For the year ended 31 December 2019

In millions of EUR ("MEUR")

	Note	2019	2018
<b>INVESTING ACTIVITIES</b>			
Dividends received, other		1	18
Change in financial instruments		-	15
Loans provided to the other entities		(1,201)	(131)
Repayment of loans provided to other entities		1,194	35
Proceeds (outflows) from sale (settlement) of financial instruments		(140)	(6)
Acquisition of property, plant and equipment, investment property and intangible assets	16, 17, 18	(343)	(379)
Purchase of emission rights	17	(281)	(120)
Proceeds from sale of emission rights		16	21
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		21	36
Acquisition of subsidiaries, net of cash acquired	6	(24)	(45)
Net cash inflow from disposal of subsidiaries	6	27	1
(Increase) decrease in participation in existing subsidiaries, joint-ventures and associates		69	(6)
Interest received		9	18
<b>Cash flows from (used in) investing activities</b>		<b>(652)</b>	<b>(543)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from loans received	30	1,509	2,603
Repayment of borrowings	30	(1,969)	(2,882)
Proceeds from bonds issued, net of transaction fees	30	1,261	862
Repayments of bonds issued	30	(499)	(790)
Finance fees paid from repayment of borrowings		(22)	(13)
Payment of lease liability	36	(28)	(5)
Loans provided to non-controlling shareholders as a prepayment for a dividend		(340)	(318)
Dividends paid		(916)	(223)
<b>Cash flows from (used in) financing activities</b>		<b>(1,004)</b>	<b>(776)</b>
<i>Net increase (decrease) in cash and cash equivalents</i>		<i>240</i>	<i>183</i>
<b>Cash and cash equivalents at beginning of the year</b>		<b>1,006</b>	<b>816</b>
Effect of exchange rate fluctuations on cash held		-	7
<b>Cash and cash equivalents at end of the year</b>		<b>1,246</b>	<b>1,006</b>

The notes presented on pages 9 to 169 form an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

### 1. Background

Energetický a průmyslový holding, a.s. (the “Parent Company” or “the Company” or “EPH”) is a joint-stock company, with its registered office at Pařížská 130/26, 110 00 Praha 1, Czech Republic. The Company was founded on 7 August 2009 and entered in the Commercial Register on 10 August 2009.

The main activities of the Company are corporate investments in the energy and mining sectors. Besides power generation and mining activities the Group also operates in logistics and as a trading house.

The consolidated financial statements of the Company for the year ended 31 December 2019 comprise the statements of the Parent Company and its subsidiaries (together referred to as the “Group” or “EPH Group”) and the Group’s interests in associates and joint ventures. The Group entities are listed in Note 39 – Group entities.

The shareholders of the Company as at 31 December 2019 were as follows:

<i>In millions of EUR</i>	Interest in share capital		Voting rights
	MEUR	%	%
EP Investment S.à.r.l.	81	53.00	53.00
EP Investment II S.à.r.l. (owned by Daniel Křetínský)	71	47.00	47.00
<b>Total</b>	<b>152</b>	<b>100.00</b>	<b>100.00</b>

The shareholders of the Company as at 31 December 2018 were as follows:

<i>In millions of EUR</i>	Interest in share capital		Voting rights
	MEUR	%	%
EP Investment S.à.r.l.	81	53.00	53.00
EP Investment II S.à.r.l. (owned by Daniel Křetínský)	71	47.00	47.00
<b>Total</b>	<b>152</b>	<b>100.00</b>	<b>100.00</b>

The members of the Board of Directors as at 31 December 2019 were:

- 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)
- Ing. Jan Špringl (Member of the Board of Directors)

### Transaction overview related to the shareholder structure of EPH Group

#### Changes in 2018

On 19 September 2018, own shares were cancelled and the difference between the nominal value and purchase price in excess over the nominal value of EUR 1,444 million originally presented as a reserve for own shares was released to retained earnings.

In 2018, the Company carried out several acquisitions and sold several subsidiaries. The transactions are described in Note 6 – Acquisition and disposals of subsidiaries.

#### Changes in 2019

In 2019, no change in shareholder structure occurred.

In 2019, the Company carried out several acquisitions and sold several subsidiaries. The transactions are described in Note 6 – Acquisition and disposals of subsidiaries.

## 2. Basis of preparation

### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with international accounting standards (International Accounting Standards – IAS and International Financial Reporting Standards – IFRS) issued by International Accounting Standards Board (IASB), as adopted by the European Union.

The consolidated financial statements were approved by the Board of Directors on 11 June 2020.

### (b) Basis of measurement

This is the first set of Group's financial statements where IFRS 16 has been applied. Changes to significant accounting policies are described in Note 2(e) – Recently issued accounting standards.

The consolidated financial statements have been prepared on a going-concern basis using the historical cost method, except for the following material items in the statement of financial position, which are measured at fair value:

- gas transmission pipelines at revalued amounts;
- derivative financial instruments;
- financial instruments at fair value through profit or loss;
- financial instruments at fair value through other comprehensive income.

Non-current assets and disposal groups held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

The accounting policies described in the following paragraphs have been consistently applied by the Group entities and between accounting periods.

### (c) Functional and presentation currency

The consolidated financial statements are presented in Euro ("EUR"). The Company's functional currency is the Czech crown ("CZK"). All financial information presented in Euros has been rounded to the nearest million. The reason for the presentation currency is that by currency, EPH Group revenues and operating profit generated in Euro represent a significant share of the total revenues and operating profit.

### (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 amounts 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.

Estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### *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:

- Notes 6 and 17 – accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill;
- Note 7 – revenues;
- Note 16 – measurement of gas transmission pipelines at revalued amounts;
- Note 31 – measurement of defined benefit obligations, recognition and measurement of provisions;
- Notes 30, 33 and 37 – valuation of loans and borrowings and financial instruments;
- Note 40 – litigations.

### *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 Group 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 inputs 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 inputs used in the valuation techniques as follows:

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

Level 2: inputs other than quoted prices included in Level 1 that are observable on the market for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs 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 Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

### *ii. Judgements*

Information about judgements made in the application of accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Notes 6 and 17 – accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill;
- Note 7 – judgements relating to recognition of revenues from customers;
- Note 16 – assessment that IFRIC 12 and IFRS 16 is not applicable to the gas pipeline, transportation and distribution networks;
- Note 6 and 29 – information relating to assessment of the control over the subsidiaries;
- Note 31 – measurement of defined benefit obligations, recognition and measurement of provisions;
- Note 33 – own use exemption application for forward contracts on power and CO2 emission allowances;
- Note 33 and 37 – hedge accounting application.

### **(e) Recently issued accounting standards**

#### *i. Newly adopted Standards, Amendments to standards and Interpretations effective for the year ended 31 December 2019 that have been applied in preparing the Group's financial statements*

The following paragraphs provide a summary of the key requirements of IFRSs that are effective for annual periods beginning on or after 1 January 2019 and that have thus been applied by the Group for the first time.

#### **IFRS 16 Leases**

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease

liabilities under representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are described below.

#### *Definition of a lease*

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IAS 17 Leases and IFRIC 4 Determining Whether an Arrangement Contains a Lease. The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. An agreement is or contains a leasing arrangement if it gives the customer the right to control the use of an identified asset in a time period in exchange for consideration. Control exists if the customer has the right to obtain substantially all economic benefits from the use of the asset and also the right to direct its use.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed.

The Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets and short-term leases (lease term 12 months or shorter). The Group recognises the lease payments associated with these leases as an expense.

An accounting unit uses this standard for all rentals, including a rental with a right of use as a part of sub-leasing, with the exception of rental for the purpose of investigating or using minerals, oil, natural gas and similar renewable resources; rental of biological assets as a part of the IAS 41 Agriculture standard held by the lessee; concessions for services as a part of IFRIC 12 Service Concession Arrangements; licences for intellectual property provided by the lessor to the extent of IFRS 15 Revenue from Contracts with Customers; and intangible assets in scope of IAS 38 Intangible Assets.

#### *Lessor accounting*

Lessor classifies leasing as either financial or operating. Lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

In the case of financial leasing the lessor reports in its statement of financial position a receivable in an amount equal to the net financial investment in the leasing. In the statement of comprehensive income then during the leasing term it reports financial revenues.

In the case of operating leasing the lessor recognises an underlying asset in the report on financial position. In the income statement then during the leasing term it reports leasing payments as revenues on a straight-line basis over the lease term and depreciation of the underlying asset as an expense.

#### *Lessee accounting*

IFRS 16 removes the lessee's duty to classify leasing as operating or financial. Exception option applies for short-term leases (lease term 12 months or shorter) and leases of low value assets (lower than 5 thousand EUR). The Group has elected not to recognize right-of-use assets for these leases. Lease payments are recognised as an expense on a straight-line basis over lease period.

Upon the commencement of a leasing arrangement, the lessee recognises a right-of-use asset against a lease liability, which is valued at the present value of the leasing payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Incremental borrowing rate is determined based on interest rates from selected external financial sources and adjustments made to reflect the terms of the lease.

The lease liability is subsequently measured at amortized cost under the effective interest rate method. Lease liability is remeasured if there is a change in:

- future lease payments arising from change in an index or rate;
- estimated future amounts payable under a residual guaranteed value;
- the assessment of the exercise of purchase, extension or termination option; or
- in-substance fixed lease payments.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use assets. In case the right-of-use assets has been reduced to zero, the adjustment is recognized in profit or loss.

The Group presents right-of-use assets in property, plant and equipment, the same line item as it presents underlying assets of the same nature that it owns. The right-of-use assets is initially measured at cost and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

The gross amounts of right-of-use assets are as below.

<i>In millions of EUR</i>	<b>Land and buildings</b>	<b>Technical equipment, plant and machinery</b>
Balance at 1 January 2019	45	80
Balance at 31 December 2019	43	96

In a statement of comprehensive income, the lessee reports interest expense and (straight-line) depreciation of a right-of-use asset. A company (lessee) depreciates an asset in accordance with the requirements of the IAS 16. The asset is depreciated from the commencement date to the end of the lease term. If the underlying asset is transferred to the Group at the end of the lease term, the right-of-use asset is depreciated over the useful life of the underlying asset.

#### *Service part of a lease payment*

Companies within the Group accounting for leases of vehicles do not separate the service fee from the lease payments. Total lease payments are used to calculate the lease liability. For other leasing contracts the service fee is separated from the lease payments. Service fee is recognised as a current expense in statement of comprehensive income, remaining part is used to calculate the leasing liability.

#### *Lease term*

The term of a leasing arrangement is determined as of the leasing arrangement commencement date based on the non-cancellable leasing arrangement.

Leasing agreements where the lease term is set as an unfixed term (or with a set notice term more than 12 months) cannot be regarded as short-term leasing arrangements benefiting from an exception from application. The non-cancellable term is set for the determination of the value of an asset as the notice term. In the event the non-cancellable term is set as shorter than 12 months, a company applies the exception and assesses the transaction as a short-term leasing arrangement.

#### *Lease of land or lease of land and building*

In the event of the lease of land that is not covered by IAS 41 or IAS 2, it is always a lease. In the case of the lease of a building and land, the total rent is divided proportionately into rent for the building and rent for the land in accordance with the fair value.

#### *Subleasing*

The classification of subleasing into financial and operating is governed primarily by the original agreement, where, if the primary agreement is short-term, it is always an operating leasing arrangement and then the properties of the actual sublease are assessed. When assessing the classification, the value of an asset for use, not the value of the underlying asset, is taken into consideration. If the lessee provides or assumes that it will provide subleasing of an asset, the main leasing arrangement does not meet the conditions for leasing of small assets.

### *Sale and lease back*

If the accounting unit (seller-lessee) transfers an asset to another accounting unit (buyer-lessor) and re-leases the asset from the buyer-lessor, then the seller-lessee and the buyer-lessor recognise the agreement on transfer and leasing based on evaluation whether the transfer of the asset is a sale or is not a sale.

### *Renewal options*

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

### *Transition*

On transition to IFRS 16 the Group recognised additional right-of-use assets and additional lease liabilities, recognising the difference in retained earnings which was immaterial. The detail of impact on transition is summarised below.

The weighted average incremental borrowing rate applied to discount lease liabilities as at 1 January 2019 was 2.39%.

*In millions of EUR*

	<b>1 January 2019</b>
Additional right-of-use assets presented in property, plant and equipment	123
Deferred tax asset	-
Lease liabilities presented in loans and borrowings	125
Retained earnings	(1)
Non-controlling interest	(1)

### **IFRIC 23 Uncertainty over Income Tax Treatments (Effective for annual periods beginning on or after 1 January 2019)**

The Interpretation provides a framework to consider, recognise and measure the accounting impact of taxable profit (tax loss), tax bases, unused tax losses, unused tax credit and tax rates, when there is uncertainty over income tax treatments under IAS 12. The Interpretation also explains when to reconsider the accounting for tax uncertainties.

The adoption of IFRIC 23 had no material impact on the Group financial statements.

### **Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures (Effective for annual periods beginning on or after 1 January 2019)**

The amendment clarifies that companies account for long-term interests in an associate or joint venture to which equity method is not applied using IFRS 9.

The amendment had no material impact on the Group's financial statements.

### **Amendment to IAS 19 – Plan Amendments, Curtailment or Settlement (Effective for annual periods beginning on or after 1 January 2019)**

The amendments clarify that on amendment, curtailment or settlement of a defined benefit plan, a company now uses updated actuarial assumptions to determine its current service cost and net interest for the period and that the effect of the asset ceiling is disregarded when calculating the gain or loss on any settlement of the plan and is dealt with separately in other comprehensive income (OCI).

The amendment had no material impact on the Group's financial statements.

### **Amendment to IFRS 9 – Prepayment Features with Negative Compensation (Effective for annual periods beginning on or after 1 January 2019)**

The narrow-scope amendment to IFRS 9 enables companies to measure at amortised cost some prepayable financial assets with negative compensation. The assets affected, that include some loans and debt securities, would otherwise have been measured at fair value through profit or loss (FVTPL).

Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation must be “reasonable compensation for early termination of the contract”.

The amendment had no material impact on the Group’s financial statements.

**Amendments from the 2015 - 2017 cycle of annual improvements (Effective for annual periods beginning on or after 1 January 2019)**

The amendments affect the following standards: IFRS 3 and IFRS 11 (clarified that when obtaining control of a business that is joint operation, previously held interest in that business is remeasured; when obtaining joint control of a business that is joint operation, previously held interest is not remeasured), IAS 12 (clarified how tax consequences of dividends are treated) and IAS 23 (clarified that is specific borrowing remains outstanding after the related asset is ready for use or sale, that borrowing becomes part of the funds that are generally borrowed when calculating the capitalisation rate on general borrowings).

The amendments had no material impact on the Group’s financial statements.

*ii. Standards not yet effective*

At the date of authorisation of these consolidated financial statements, the following significant Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for the period ended 31 December 2019 and thus have not been adopted by the Group:

**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.

The amendments are not expected to have any material impact on the Group’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.

The amendments are not expected to have any material impact on the Group’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.

The amendments are not expected to have any material impact on the Group’s financial statements.

**IFRS 17 Insurance Contracts (effective for annual reporting periods beginning on or after 1 January 2021 (not adopted by EU yet))**

Insurance contracts combine features of both a financial instrument and a service contract. In addition, many insurance contracts generate cash flows with substantial variability over a long period. To provide useful information about these features, IFRS 17 combines current measurement of the future cash flows with the recognition of profit over the period that services are provided under the contract; presents insurance service results separately from insurance finance income or expenses; and requires an entity to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income.

Because of the nature of the Group's main business it is expected that the Standard will have no impact on the Group's financial statements.

**Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest Rate Benchmark Reform (effective for annual periods beginning on or after 1 January 2020)**

The amendments modify some specific hedge accounting requirements to provide relief from potential effects of the uncertainty caused by the IBOR reform (interest-rate benchmarks such as interbank offered rates). In addition, the amendments require companies to provide additional information to investors about their hedging relationship which are directly affected by these uncertainties.

The Group is currently reviewing the effect on the amendment on its accounting policies.

The Group has not early adopted any IFRS standards where adoption is not mandatory at the reporting date. Where transition provisions in adopted IFRS give an entity the choice of whether to apply new standards prospectively or retrospectively, the Group elects to apply the Standards prospectively from the date of transition.

### 3. Significant accounting policies

The EPH Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements, except as described in Note 2(e) and 3(a).

Certain comparative amounts in the consolidated statement of financial position have been regrouped or reclassified, where necessary, on a basis consistent with the current period.

#### (a) Changes in accounting policies

##### Revaluation model for property, plant and equipment

The Group decided to change its accounting policy relating to reporting of gas transmission pipelines of eustream, a.s. starting 1 January 2019. Per the new accounting policy, the gas transmission pipelines shall be following the IAS 16 Revaluation model where the relevant fixed assets are carried at a revalued amount, being its fair value at the date of revaluation less subsequent depreciation and impairment. Under the old accounting policy, the gas transmission pipelines were reported using the IAS 16 Cost model where the relevant fixed assets were carried at cost less accumulated depreciation and impairment. The Group has decided to change its accounting policy because it believes that it will result in consolidated financial statements providing reliable and more relevant information about the gas transmission pipelines, which is one of the major fixed asset groups in the EPIF Group. The gas transmission pipeline generates revenue by charging tariffs for the transmission of gas through its pipelines and by the sale of gas in-kind which it receives from shippers and which remains in the network of eustream after serving the network's technological needs. Transmission tariffs in the Slovak Republic, for the current regulatory period (2017-2021), are based purely on direct comparison of tariffs (also known as benchmarking) with other transmission system operators, primarily competitors across Europe and are directly set by the regulator and are not directly impacted by natural gas prices. However, from the beginning of the next regulatory period in 2022, benchmarking of tariffs will be used only as the secondary adjustment of the reference prices calculated on the cost base principles. As such, fair value of eustream's gas transmission assets will be of a primary importance in order to assess recoverability of costs, therefore we believe that presentation of revalued amounts of these assets is more relevant than reporting these assets at depreciated historical costs.

Gas transmission pipelines create a separate class of assets with distinct characteristics which differentiate the transmission network from other gas networks (such as gas distribution network) the Group operates. These characteristics among others are:

- transmission pipelines are all made of steel and operate under high pressure whereas the gas distribution network pipelines are made of combination of steel and polyethylene while the vast majority of the gas networks runs under low pressure;
- eustream's transmission pipeline system mainly consists of four to five parallel pipelines mostly 1200 or 1400 mm in diameter with an operating pressure of 7.35 MPa. The total length of the pipeline is app. 2,332 kilometres. In comparison, SPP Distribúcia, a.s. ("SPPD") owns over 33 thousand kilometres of gas distribution network. The difference is also in the number of pressure regulation stations – eustream operates just 5 while SPPD needs 1,732 to keep the gas distribution network functioning;

- the gas transmission pipeline is circumscribed by entry and exit points which are as follows:
  - Veľké Kapušany (entry/exit point to/from the gas transmission system in Ukraine);
  - Baumgarten (entry/exit point to/from the gas transmission system in Austria);
  - Lanžhot (entry/exit point to/from the gas transmission system in the Czech Republic);
  - Budince (entry/exit point to/from the gas transmission system in Ukraine);
  - Veľké Zlievce (entry/exit point to/from the gas transmission system in Hungary);
  - Domestic point (entry/exit point to/from the distribution systems and storage facilities in Slovakia);
- due to its nature of operations eustream's gas transmission network is primarily characterized by high volume of gas transmitted. Whereas in 2019 eustream transmitted nearly 70 bcm of gas, SPPD distributed less than 10% of that volume, i.e. app.4.9 bcm;
- on the other hand, SPPD provides gas distribution to end-consumers under standard framework distribution agreements (with tariffs established by the regulator based on standard RAB based regulatory formula) entered into with natural gas suppliers.

It is to note that the gas transmission assets have already been reported in the local statutory accounts of eustream using the IAS 16 Revaluation model. The other fixed assets of the EPH Group (incl. eustream's fixed assets other than transmission pipeline assets) will be still reported using IAS 16 Cost model, but the Group cannot exclude that it will in the future change the accounting policy for other critical fixed assets as well.

As of 1 January 2019, eustream's transmission pipeline system had a carrying value of EUR 1,686 million under the Cost model and EUR 3,477 million under the Revaluation model (values derived from valuation report as of 1 January 2016 prepared by expert for revaluation of assets by eustream in 2016). Revaluation of assets was recorded without effect on prior periods. The difference of EUR 1,791 million with a corresponding deferred tax impact of EUR 454 million was recognized as a current period revaluation under IAS 16 and reported in other comprehensive income for the period. On 1 August 2019 the Group obtained external valuation report that sets the fair value of the eustream's transmission pipeline system to EUR 3,803 million under the Revaluation model. The carrying amount of transmission pipeline as of 1 August 2019 was EUR 3,428 million. The difference of EUR 375 million with a corresponding deferred tax impact of EUR 97 million was recognized as a current period revaluation under IAS 16 and reported in other comprehensive income for the period.

In subsequent revaluation, the changes will be recognised as follows:

- an increase in revalued amount is recognised in other comprehensive income. The increase is recognised in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss;
- a decrease in revalued amount primarily decreases amount accumulated as revaluation surplus in equity; eventual remaining part of decrease in revalued amount is recognised in profit or loss;
- accumulated depreciation is eliminated against gross carrying amount of the asset.

Deferred tax asset or liability is recognised from the difference between revalued amount and tax base of an asset. Deferred tax is recognized in equity or in profit or loss, in the same manner as the revaluation itself.

Revalued asset is depreciated on a straight-line basis, revaluation surplus is released to retained earnings as the asset is depreciated. If the revalued asset is derecognised or sold, the revaluation surplus as a whole is transferred to retained earnings. These transfers are made directly in equity and do not affect other comprehensive income.

## **(b) Basis of consolidation**

### *i. Subsidiaries*

Subsidiaries are entities controlled by the Company. Control exists when the Company has power over the investee, exposure to variable returns from its involvement with the investee and is able to use its power over investee to affect the amount of its returns. The existence and effect of potential voting rights that are substantive is considered when assessing whether the Group controls another entity. The consolidated financial statements include the Group's interests in other entities based on the Group's ability to control such entities regardless of whether control is actually exercised or not. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

### *ii. Equity accounted investees*

Associates are enterprises in which the Group has significant influence, but not control, over financial and operating policies. Investments in associates are accounted for under the equity method and are initially recognised at cost (goodwill relating to an associate or a joint venture is included in the carrying amount of the investment). The consolidated financial statements include the Group's share of the total profit or loss and other comprehensive income of associates from the date that the significant influence commences until the date that the significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of or has made payments on behalf of the associate.

### *iii. Accounting for business combinations*

The Group acquired its subsidiaries in two ways:

- as a business combination transaction within the scope of IFRS 3 which requires initial measurement of assets and liabilities at fair value;
- as a business combination under common control which is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Such acquisitions are excluded from the scope of IFRS 3. The assets and liabilities acquired were recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements (i.e. value at cost as at the date of acquisition less accumulated depreciation and/or potential impairment). No new goodwill or negative goodwill was recognised on these acquisitions.

### *iv. Non-controlling interests*

Acquisitions of non-controlling interest are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill and no gain or loss is recognised as a result of such transactions.

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in subsidiary that do not result in a loss of control are accounted for as equity transaction.

### *v. Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated against the investment to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*vi. Unification of accounting policies*

The accounting policies and procedures applied by the consolidated companies in their financial statements were unified in the consolidation and agree with the accounting policies applied by the Parent Company.

*vii. Pricing differences*

The Group accounted for pricing differences which arose from establishment of the Group and acquisition of certain new subsidiaries in the subsequent period. Such subsidiaries were acquired under common control of J&T Finance Group (which held controlling interest in the Group at the time of acquisition of the subsidiaries), and therefore excluded from the scope of IFRS 3, which defines recognition of goodwill raised from a business combination as the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Acquirees under common control are treated under the net book value presented in the consolidated financial statements of J&T Finance Group, a.s. (i.e. including historical goodwill less potential impairment). The difference between the cost of acquisition and carrying values of net assets of the acquiree and original goodwill carried forward as at the acquisition date were recorded to consolidated equity as pricing differences presented within other capital reserves.

*viii. Reversal of accumulated amortisation, depreciation and bad debt allowances in common control acquisitions*

Accumulated amortisation and depreciation of intangible and tangible assets acquired as part of a common control transaction were reversed against the gross carrying amount of the underlying intangible and tangible assets, i.e. the intangible and tangible assets were recognised at their net book values as at the acquisition date.

Similarly, in acquisitions involving common control transactions, any bad debt allowances were reversed against gross amounts of purchased receivables as at the acquisition date.

*ix. Disposal of subsidiaries and equity accounted investees*

Gain or loss from the sale of investments in subsidiaries and equity accounted investees is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

If the assets and liabilities are sold by selling the interest in a subsidiary or an associate the profit or loss on sale is recognised in total under Gain (loss) on disposal of subsidiaries, special purpose entities, joint-ventures and associates in the statement of comprehensive income.

If the Group disposes of a subsidiary that was acquired under a common control transaction and pricing differences were recognised on the acquisition (refer to Note 3(b) vii – Pricing differences), the pricing differences are reclassified from other capital reserves to retained earnings at the date of the subsidiary's disposal.

**(c) Foreign currency**

*i. Foreign currency transactions*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Euro, which is the Group's presentation currency. Company's functional currency is Czech crown. Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are retranslated to the respective functional currencies of Group entities at the exchange rate at the reporting date; where the functional currency is Czech crowns, at the exchange rate of the Czech National Bank.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the respective functional currencies of Group entities at the foreign exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the respective functional currencies at the foreign exchange rates at the dates the fair values are determined.

Foreign exchange differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of FVOCI equity instruments, a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges to the extent that the hedge is effective, in which case foreign exchange differences arising on retranslation are recognised in other comprehensive income.

A summary of the main foreign exchange rates applicable for the reporting period is presented in Note 37 – Risk management policies and disclosures.

*ii. Translation to presentation currency*

These consolidated financial statements are presented in Euro which is the Group's presentation currency. The process of translation into presentation currency is performed into two steps.

Consolidated financial statements are first prepared in Czech crowns. The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into Czech crowns at foreign exchange rates at the reporting date. The income and expenses of foreign operations are translated into Czech crowns using a foreign exchange rate that approximates the foreign exchange rate at the date of the transaction.

The consolidated financial statements are then translated into Euros. The assets and liabilities, including goodwill and fair value adjustments arising on consolidation, are translated from Czech crowns into Euros at foreign exchange rate at the reporting date. The income and expenses are translated from Czech crowns into Euros using a foreign exchange rate that approximates the foreign exchange rate at the date of the transaction.

Foreign exchange differences arising on translation are recognised in other comprehensive income and presented in the translation reserve in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests. At disposal relevant part of translation reserve is recycled to financial income or expense in the statement of comprehensive income.

**(d) 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 or fair value through profit or loss. 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 consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. Loans and receivables which meet SPPI test and business model test are normally classified by the Group as financial asset at amortised 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 Group 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 Group has equity securities classified as financial assets *at fair value through other comprehensive income*.

All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may be the case if insufficient recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represent the best estimate of fair value within that range. The Group uses all information about the performance and operations of the investee that becomes available after the date of initial recognition. To the extent that any such relevant factors exist, they may indicate that cost might not be representative of fair value. In such cases, the Group must use fair value. Cost is never the best estimate of fair value for investments in quoted instruments.

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 key type of financial assets measured at fair value through profit or loss by the Group are derivatives and certain equity instruments held for trading.

The Group 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 doing so 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 Group 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 at amortized cost are subsequently measured at amortized cost using effective interest rate method. Interest income, foreign exchange gains and losses, impairment and any gain or loss on derecognition are recognised in profit or loss.

#### **iv. Derecognition**

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 Group has a legally enforceable right to offset the recognised amounts and the transactions are intended to be settled on a net basis.

(e) **Non-derivative financial liabilities**

The Group has the following non-derivative financial liabilities: loans and borrowings, debt securities issued, bank overdrafts, and trade and other payables. Such financial liabilities are initially recognised at the settlement date at fair value plus any directly attributable transaction costs except for financial liabilities at fair value through profit and loss, where transaction costs are recognised in profit or loss as incurred. Financial liabilities are subsequently measured at amortised cost using the effective interest rate, except for financial liabilities at fair value through profit or loss. For the methods used to estimate fair value, refer to Note 4 – Determination of fair values.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(f) **Derivative financial instruments**

The Group holds derivative financial instruments to hedge its foreign currency, interest rate and commodity risk exposures.

Derivatives are recognised initially at fair value, with attributable transaction costs recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

***Other non-trading derivatives***

When a derivative financial instrument is not held for trading and is not designated in a qualifying hedge relationship, all changes in its fair value are recognised immediately in profit or loss.

***Separable embedded derivatives***

Financial and non-financial contracts that are financial liabilities within the scope of IFRS 9 (where they have not already been measured at fair value through profit or loss) are assessed to determine whether they contain any embedded derivatives.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. In the case of hybrid contracts that are financial assets, the whole contract is assessed with respect to SPPI criteria.

Changes in the fair value of separable embedded derivatives are recognised immediately in profit or loss.

***Cash flow hedges and fair value hedges***

The majority of financial derivatives are held for hedging purposes but do not meet the criteria for hedge accounting as stated by IFRS 9. These derivatives are designated for trading, and related profit and loss from changes in fair value is recognised in profit and loss.

Hedging instruments which consist of derivatives associated with a currency risk are classified either as cash-flow hedges or fair value hedges.

From the inception of the hedge, the Group maintains a formal documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. The Group also periodically assesses the hedging instrument's effectiveness in offsetting exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

In the case of a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then the hedge

accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss. In case the future transaction is still expected to occur then the balance remains in equity and is recycled to profit or loss when the transaction occurs.

The hedged item is remeasured for changes in fair value attributable to the hedged risk during the period of the hedging relationship. Any resulting adjustment to the carrying amount of the hedged item related to the hedged risk is recognised in profit or loss, except for the financial asset – equity instrument at FVOCI, for which the gain or loss is recognised in other comprehensive income.

In the case of a fair value hedge, the gain or loss from re-measuring the hedging instrument at fair value is recognised in profit or loss.

#### ***Transactions with emission rights and energy***

According to IFRS 9, certain contracts for emission rights and energy fall into the scope of the standard. Most purchase and sales contracts entered into by the Group provide for physical delivery of quantities intended for consumption or sale as part of its ordinary business. Such contracts are thus excluded from the scope of IFRS 9.

In particular, forward purchases and sales settled by delivery of the underlying are considered to fall outside the scope of application of IFRS 9, when the contract concerned is considered to have been entered into as part of the Group's normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

- delivery of the underlying takes place under such contracts;
- the volumes purchased or sold under the contracts correspond to the Group's operating requirements;
- the Group does not have a practice of settling similar contracts net in cash or another financial instrument or by exchanging financial instrument;
- the Group does not have a practice of taking delivery of the underlying and selling it within a short period after delivery for the purpose of generating a profit from short-term fluctuation in price or dealer's margin.

Contracts which do not meet above mentioned conditions fall under the scope of IFRS 9 and are accounted for in line with the requirements of IFRS 9.

For each contract where own-use exemption applies, the Group determines whether the contract leads to physical settlement in accordance with Group's expected purchase, sale or usage requirements. The Group considers all relevant factors including the quantities delivered under the contract and the corresponding requirements of the entity, the delivery locations, the duration between contract signing and delivery and the existing procedure followed by the entity with respect to contracts of this kind.

Contracts which fall under the scope of IFRS 9 are carried at fair value with changes in the fair value recognised in profit or loss.

#### **(g) 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.

#### **(h) Inventories**

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Purchased inventory and inventory in transit are initially stated at cost, which includes the purchase price and other directly attributable expenses incurred in acquiring the inventories and bringing them to their current location and condition. Inventories of a similar nature are valued using the weighted average method except for the energy production segment, where the first-in, first-out principle is used.

Internally manufactured inventory and work in progress are initially stated at production costs. Production costs include direct costs (direct material, direct labour and other direct costs) and part of overhead directly

attributable to inventory production (production overhead). The valuation is written down to net realisable value if the net realisable value is lower than production costs.

## (i) Impairment

### *i. Non-financial assets*

The carrying amounts of the Group's assets, other than inventories (refer to accounting policy (h) – Inventories), investment properties (refer to accounting policy (l) – Investment property) and deferred tax assets (refer to accounting policy (q) – Income taxes) are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have an indefinite useful life or that are not yet available for use, the recoverable amount is estimated at least each year at the same time.

The recoverable amount of an asset or cash-generating unit ("CGU") is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU or CGUs, and then to reduce the carrying amounts of the other assets in the CGU (or group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

### *ii. Financial assets (including trade and other receivables and contract assets)*

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

- 12-month ECLs: ECLs that result from possible default events within the 12 months after the reporting date;
- lifetime ECLs: ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances 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 Group has elected to measure loss allowances at an amount equal to lifetime ECLs.

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 of the financial asset has been credit-impaired.

The Group 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 Group 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 external ratings of sovereign credit risk).

At each reporting date, the Group assesses whether financial assets carried at amortised cost and investments to debt 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 Group 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 (not relevant condition in ECL model for intercorporate loans and receivables); or
- (e) other material events occur which require individual assessment (e.g. development of external ratings of sovereign credit risk).

For the purposes of ECL calculation, the Group uses components needed for the calculation, namely probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”). 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 loss allowances*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. For debt securities at FVOCI, the loss allowance is recognised in OCI, instead of reducing the carrying amount of the asset.

*iii. Equity accounted investees*

An impairment loss in respect of an equity accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

**(j) Property, plant and equipment**

*i. Owned assets*

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (refer to accounting policy (i) – Impairment). Opening balances are presented at net book values, which include adjustments from revaluation within the Purchase Price Allocation process.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and capitalised borrowing costs (refer to accounting policy (p) – Finance income and costs). The cost also includes costs of dismantling and removing the items and restoring the site on which they are located.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at fair value until construction or development is complete, at which time it is reclassified as investment property.

When parts of an item of property, plant and equipment have different useful lives, those components are accounted for as separate items (major components) of property, plant and equipment.

*ii. Leased assets*

*Policy applicable before 1 January 2019*

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Under finance leases, leased assets are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (refer to accounting policy (i) – Impairment).

Minimum lease payments for finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and, except for investment property, the leased assets are not recognised in the Group's statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

In identifying lease agreements, the Group also considers the additional criteria defined in IFRIC 4 – Determining Whether an Arrangement Contains a Lease, as to whether an agreement that conveys a right to use an asset meets the definition of a lease. Certain purchase and supply contracts in the energy business (electricity and gas) may be classified as leases if the criteria are met.

*Policy applicable from 1 January 2019*

For policy applicable after 1 January 2019 refer to accounting policy (n) – Leases.

*iii. Free-of-charge received property*

Several items of gas and electricity equipment (typically connection terminals) were obtained “free of charge” from developers and from local authorities (this does not represent a grant because in such cases the local authorities act in the role of a developer). This equipment was recorded as property, plant and equipment at the costs incurred by the municipal and local authorities with a corresponding amount recorded as contract liability as receipt of the free of charge property is related to obligation to connect the customers to the grid. These costs approximate the fair value of the obtained assets. This contract liability is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets acquired free of charge.

*iv. Subsequent costs*

Subsequent costs are capitalised only if it is probable that the future economic benefits embodied in an item of property, plant and equipment will flow to the Group and its cost can be measured reliably. All other expenditures, including the costs of the day-to-day servicing of property, plant and equipment, are recognised in profit or loss as incurred.

*v. Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives are as follows:

• Power plant buildings and structures	7 – 100 years
• Buildings and structures	7 – 80 years
• Gas pipelines	30 – 70 years
• Machinery, electric generators, gas producers, turbines and boilers	7 – 50 years
• Mines and mine property	15 – 30 years
• Distribution network	10 – 30 years
• Machinery and equipment	4 – 40 years
• Fixtures, fittings and others	3 – 20 years

Depreciation methods and useful lives, as well as residual values, are reassessed annually at the reporting date. For companies acquired under IFRS 3 for which a purchase price allocation was prepared, the useful lives are reassessed based on the purchase price allocation process.

**(k) Intangible assets**

*i. Goodwill and intangible assets acquired in a business combination*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/joint-venture at the date of acquisition. Goodwill on acquisitions of subsidiaries/joint-ventures is included under intangible assets. Goodwill on acquisitions of associates is included in the carrying amount of investments in associates.

If the Group's share in the fair value of identifiable assets and liabilities of a subsidiary or equity accounted investees as at the acquisition date exceeds the acquisition cost, the Group shall reconsider identification and measurement of identifiable assets and liabilities, and the acquisition cost. Any excess arising on the re-measurement (negative goodwill) is recognised in profit and loss account in the period of acquisition.

Upon acquisition of non-controlling interests (while maintaining control), no goodwill is recognised.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses (refer to accounting policy (i) – Impairment) and is tested annually for impairment.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Intangible assets acquired in a business combination are recorded at fair value on the acquisition date if the intangible asset is separable or arises from contractual or other legal rights. Intangible assets with an indefinite useful life are not subject to amortisation and are recorded at cost less any impairment losses (refer to accounting policy (i) – Impairment). Intangible assets with a definite useful life are amortised over their useful lives and are recorded at cost less accumulated amortisation (see below) and impairment losses (refer to accounting policy (i) – Impairment).

*ii. Research and development*

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset.

In 2019 and 2018, expenditures incurred by the Group did not meet these recognition criteria. Development expenditure has thus been recognised in profit or loss.

*iii. Emission rights*

*Recognition and measurement*

Emission rights issued by a government are initially recognised at fair values. Where an active market exists fair value should be based on the market price in accordance with IFRS 13. The fair value for allocated emission rights is determined as the price at the date of allocation. Emission rights that are purchased are initially recognised at cost.

Internally generated emission allowances (in form of green certificates) obtained from qualifying generation assets are recognized as generation occurs, when it is probable that the expected future economic benefits attributable to them will flow to the Group and their cost can be measured reliably.

Subsequently, emission rights are accounted for under the cost method under intangible assets.

The Group's accounting policy is to use the first-in, first-out principle ("FIFO") for emission rights disposal (consumption or sale).

*Impairment of emission rights*

At each reporting date, the Group assesses whether there is any indication that emission rights may be impaired.

Where an impairment indicator exists, the Group reviews the recoverable amounts of the cash generating unit, to which the emission rights were allocated, to determine whether such amounts continue to exceed the assets' carrying values. In case the carrying value of a cash generating unit is greater than its recoverable value, impairment exists.

Any identified emission rights impairment is recognised directly as a debit to a profit or loss account and a credit to a valuation adjustment.

*Recognition of grants*

A grant is initially recognised as deferred income and recognised in profit on a systematic basis over the compliance period, which is the relevant calendar year, regardless of whether the allowance received continues to be held by the entity. The pattern for the systematic recognition of the deferred income in profit is assessed based on estimated pollutants emitted in the current month, taking into account the estimated coverage of the estimated total annually emitted pollutants by allocated emission allowances. The release of deferred income to a profit and loss account is performed on a quarterly basis; any subsequent update to the estimate of total annual pollutants is taken into account during the following monthly or quarterly assessment. Any disposals of certificates or changes in their carrying amount do not affect the manner in which grant income is recognised.

*Recognition, measurement of provision*

A provision is recognised regularly during the year based on the estimated number of tonnes of CO<sub>2</sub> emitted.

It is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. It means that the provision is measured based on the current carrying amount of the certificates on hand if sufficient certificates are owned to settle the current obligation, by using a FIFO

method. The group companies identify (in each provision measurement period) which of the certificates are “marked for settling” the provision and this allocation is consistently applied.

Otherwise, if a shortfall of emission allowances on hand as compared to the estimated need exists at the reporting date, then the provision for the shortfall is recorded based on the current market value of the emission certificates at the end of the reporting period.

*iv. Software and other intangible assets*

Software and other intangible assets acquired by the Group that have definite useful lives are stated at cost less accumulated amortisation (see below) and impairment losses (refer to accounting policy (i) – Impairment).

Intangible assets that have an indefinite useful life are not amortised and are instead tested annually for impairment. Their useful life is reviewed at each period-end to assess whether events and circumstances continue to support an indefinite useful life.

*v. Amortisation*

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets other than goodwill, from the date the asset is available for use. The estimated useful lives are as follows:

- Software 2 – 7 years
- Other intangible assets 2 – 20 years

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

**(l) Investment property**

Investment property is property held by the Group either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes.

Investment property is measured at fair value, as determined by an independent registered valuer. Fair value is assessed based on current prices in an active market for similar properties in the same location and condition, or where not available, by applying generally applicable valuation methodologies. Any gain or loss arising from a change in fair value is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Rental income from investment property is accounted for as described in the accounting policy (o) – Revenue.

**(m) Provisions**

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of economic benefits will be required to settle the obligation and when a reliable estimate of the amount can be made.

Provisions are recognised at the expected settlement amount. Long-term obligations are reported as liabilities at the present value of their expected settlement amounts, if the effect of discount is material, using as a discount rate the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The periodic unwinding of the discount is recognised in profit or loss in finance costs.

The effects of changes in interest rates, inflation rates and other factors are recognised in profit or loss in operating income or expenses. Changes in estimates of provisions can arise in particular from deviations from originally estimated costs, from changes in the settlement date or in the scope of the relevant obligation. Changes in estimates are generally recognised in profit or loss at the date of the change in estimate (see below).

*i. Employee benefits*

**Long-term employee benefits**

Liability relating to long-term employee benefits and service awards excluding pension plans is defined as an amount of the future payments, to which employees will be entitled in return for their service in the current and prior periods. Future liability which is calculated using the projected unit credit method is discounted to its present value. The discount rate used is based on yields of high quality corporate bonds as at the end of the reporting period, which maturity approximately corresponds with the maturity of the future obligation. The revaluation of the net liability from defined benefit plans (including actuarial gains and losses) shall be recognised in full immediately in other comprehensive income.

Contributions for pension insurance resulting from Collective agreement are expensed when incurred.

Employee benefits provision is presented separately both long and short-term part (if possible to distinguish, otherwise as non-current, if not IFRS 5). The benefit could be classified as short-term, if and only if the whole benefit category will be settled within 1 year; otherwise, it must be disclosed as long-term.

*Pension plans*

In accordance with IAS 19, the projected unit credit method is the only permitted actuarial method. The benchmark (target value) applied to measure defined benefit pension obligations is the present value of vested pension rights of active and former employees and beneficiaries (present value of the defined benefit obligation). It must in general be assumed that each partial benefit of the pension commitment is earned evenly from commencement of service until the respective due date.

If specific plan assets are established to cover the pension payments, these plan assets can be netted against the pension obligations and only the net liability is shown. The valuation of existing plan assets is based on the fair value at the balance sheet date in accordance with IAS 19.

Assets used to cover pension obligations that do not fully meet the requirement of plan assets have to be carried as assets on the balance sheet. Any netting off against the liability to be covered will not apply in this respect.

The Group recognises all actuarial gains and losses arising from benefit plans immediately in other comprehensive income and all expenses related to the defined benefit plan in profit or loss.

The Group recognises gains and losses on the curtailment or settlement of a benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses and past service costs that had not been previously recognised.

**Short-term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*ii. Warranties*

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and weighting of all possible outcomes against associated probabilities.

*iii. Provision for lawsuits and litigations*

Settlement of a lawsuit represents an individual potential obligation. Determining the best estimate either involves expected value calculations, where possible outcomes, stated based on a legal study, are weighted by their likely probabilities or it is the single most likely outcome, adjusted as appropriate to consider risk and uncertainty.

*iv. Provision for emission rights*

A provision for emission rights is recognised regularly during the year based on the estimated number of tonnes of CO<sub>2</sub> emitted. It is measured at the best estimate of the expenditure required to settle the present obligation at the reporting date.

*v. Restructuring*

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

*vi. Asset retirement obligation and provision for environmental remediation*

Obligations arising from the decommissioning or dismantling of property, plant and equipment are recognised in connection with the initial recognition of the related assets, provided that the obligation can be reliably estimated. The carrying amounts of the related items of property, plant and equipment are increased by the same amount that is subsequently amortised as part of the depreciation process of the related assets.

A change in the estimate of a provision for the decommissioning and restoration of property, plant and equipment is generally recognised against a corresponding adjustment to the related assets, with no effect on profit or loss. If the related items of property, plant and equipment have already been fully depreciated, changes in the estimate are recognised in profit or loss.

No provisions are recognised for contingent asset retirement obligations where the type, scope, timing and associated probabilities cannot be determined reliably.

Provisions for environmental remediation in respect of contaminated sites are recognised when the site is contaminated and when there is a legal or constructive obligation to remediate the related site.

Rehabilitation provisions are recognised for the following restoration activities:

- dismantling and removing structures;
- rehabilitating mines and tailings dams;
- dismantling operating facilities;
- closure of plant and waste sites; and
- restoration and reclamation of affected areas.

The entity records the present value of the provision in the period in which the obligation is incurred. The obligation generally arises when the asset is installed or the environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased to reflect the change in the present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in profit or loss as a finance cost.

All the provisions for environmental remediation and asset retirement obligation are presented under Provision for restoration and decommissioning.

*vii. Onerous contracts*

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

## (n) Leases

*Policy applicable from 1 January 2019*

### *Definition of a lease*

An agreement is or contains a leasing arrangement if it gives the customer the right to control the use of an identified asset in a time period in exchange for consideration. Control exists if the customer has the right to obtain substantially all economic benefits from the use of the asset and also the right to direct its use.

The Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets and short-term leases (lease term 12 months or shorter). The Group recognises the lease payments associated with these leases as an expense.

An accounting unit uses this standard for all rentals, including a rental with a right of use as a part of sub-leasing, with the exception of rental for the purpose of investigating or using minerals, oil, natural gas and similar renewable resources; rental of biological assets as a part of the IAS 41 Agriculture standard held by the lessee; concessions for services as a part of IFRIC 12 Service Concession Arrangements; licences for intellectual property provided by the lessor to the extent of IFRS 15 Revenue from Contracts with Customers; and intangible assets in scope of IAS 38 Intangible Assets.

### *Lessor accounting*

Lessor classifies leasing as either financial or operating. Lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an underlying asset. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset.

In the case of financial leasing the lessor reports in its statement of financial position a receivable in an amount equal to the net financial investment in the leasing. In the statement of comprehensive income then during the leasing term it reports financial revenues.

In the case of operating leasing the lessor recognises an underlying asset in the report on financial position. In the income statement then during the leasing term it reports leasing payments as revenues on a straight-line basis over the lease term and depreciation of the underlying asset as an expense.

### *Lessee accounting*

Upon the commencement of a leasing arrangement, the lessee recognises a right-of-use asset against a lease liability, which is valued at the current value of the leasing payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Incremental borrowing rate is determined based on interest rates from selected external financial sources and adjustments made to reflect the terms of the lease.

Exception option applies for short-term leases (lease term 12 months or shorter) and leases of low value assets (lower than 5 thousand EUR). The Group has elected not to recognize right-of-use assets for these leases. Lease payments are recognised as an expense on a straight-line basis over lease period.

The lease liability is subsequently measured at amortized cost under the effective interest rate method. Lease liability is remeasured if there is a change in:

- future lease payments arising from change in an index or rate;
- estimated future amounts payable under a residual guaranteed value;
- the assessment of the exercise of purchase, extension or termination option; or
- in-substance fixed lease payments.

When the lease liability is remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use assets. In case the right-of-use assets has been reduced to zero, the adjustment is recognized in profit or loss.

The Group presents right-of-use assets in property, plant and equipment, the same line item as it presents underlying assets of the same nature that it owns. The right-of-use assets is initially measured at cost and subsequently at cost less any accumulated depreciation and impairment losses and adjusted for certain remeasurements of the lease liability.

In a statement of comprehensive income, the lessee reports interest expense and (straight-line) depreciation of a right-of-use asset. A company (lessee) depreciates an asset in accordance with the requirements of the IAS 16. The asset is depreciated from the commencement date to the end of the lease term. If the underlying asset is transferred to the Group at the end of the lease term, the right-of-use asset is depreciated over the useful life of the underlying asset.

#### *Service part of a lease payment*

Companies within the Group accounting for leases of vehicles do not separate the service fee from the lease payments. Total lease payments are used to calculate the lease liability. For other leasing contracts the service fee is separated from the lease payments. Service fee is recognised as a current expense in statement of comprehensive income, remaining part is used to calculate the leasing liability.

#### *Lease term*

The term of a leasing arrangement is determined as of the leasing arrangement commencement date based on the non-cancellable leasing arrangement.

Leasing agreements where the lease term is set as an unfixed term (or with a set notice term more than 12 months) cannot be regarded as short-term leasing arrangements benefiting from an exception from application. The non-cancellable term is set for the determination of the value of an asset as the notice term. In the event the non-cancellable term is set as shorter than 12 months, a company applies the exception and assesses the transaction as a short-term leasing arrangement.

#### *Lease of land or lease of land and building*

In the event of the lease of land that is not covered by IAS 41 or IAS 2, it is always an operating lease. In the case of the lease of a building and land, the total rent is divided proportionately into rent for the building and rent for the land in accordance with the fair value.

#### *Subleasing*

The classification of subleasing into financial and operating is governed primarily by the original agreement, where, if the primary agreement is short-term, it is always an operating leasing arrangement and then the properties of the actual sublease are assessed. When assessing the classification, the value of an asset for use, not the value of the underlying asset, is taken into consideration. If the lessee provides or assumes that it will provide subleasing of an asset, the main leasing arrangement does not meet the conditions for leasing of small assets.

#### *Sale and lease back*

If the accounting unit (seller-lessee) transfers an asset to another accounting unit (buyer-lessor) and re-leases the asset from the buyer-lessor, then the seller-lessee and the buyer-lessor recognise the agreement on transfer and leasing based on evaluation whether the transfer of the asset is a sale or is not a sale.

#### *Renewal options*

The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

## **(o) Revenue**

### *i. Revenues from contracts with customers*

The Group applies 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 entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

The Group has identified following main sources of Revenue in scope of IFRS 15 (for complete source of Group's revenues refer to Note 7 – Sales):

- *Sale of gas, electricity, heat or other energy products (energy products)*

The Group recognises the revenue upon delivery of the energy products to the customer. The moment of the transfer of the control over the products is considered at the moment of delivery, i.e. when the customer gains the benefits and the Group fulfils the performance obligation.

Revenues are measured using transaction prices allocated to those goods transferred, reflecting the volume supplied, including the estimated volume supplied between last invoice date and end of the period. For B2C customers advance payments are required in general based on historical consumption, those are settled when the actual supplied volumes are known. While B2B customers are usually invoiced with higher frequency based on actually volumes supplied. Sales transactions usually do not contain significant financing component.

Where the Group acts as energy provider it was analysed if the distribution service invoiced is recognised as revenue from customers under IFRS 15. Judgement may be required to determine whether the Group acts as principal or agent in those cases. The key judgement is that the distribution services are not separable as a performance obligation from the integrated delivery service of the energy product. Therefore, it has been concluded that the Group acts as a principal and therefore materially all distribution services which are billed to its customers as part of the revenues from energy delivery are presented gross in the statement of comprehensive income.

- *Gas and electricity infrastructure services*

The Group provides services connected with the infrastructure by providing transmission or distribution of energy products or by providing storage capacities. Some of these services include ship-or-pay clauses (at gas transmission business) and store-or-pay clauses (at gas storage business), which reserve daily or monthly capacity for the customer with corresponding billing. The revenues from all these contracts are recognised over the time of contract. As the Group fulfils the performance obligation arisen from those contracts equally over the time of the contract, the revenues are recognised as the control over benefits from contract is transferred to client, therefore equally over the time of contract. Services are generally billed on monthly basis containing volume based and fixed fee.

- *Grid balancing services*

The Group provides grid balancing services to transmission system operators ("TSO") primarily in Italy, Germany, France, Ireland and the United Kingdom. The purpose of grid balancing services is to ensure the reliability of power grid and to maintain the quality of electricity supply. Grid balancing, which can span a wide array of services provided by the Group, includes two main streams of revenues represented by capacity fees and activation fees. The Group earns capacity fees for providing the service regardless of whether the TSO activates it (remuneration for availability), whereas activation fees are earned only when TSO requests the services (remuneration for performance).

Capacity fees are recognised as revenue over the time of the contract. Activation fees are recognised as a combination of revenue over the time and at a point in time as the Group fulfils the performance obligations included in these contracts both over the time of the contract and at a moment of delivery.

- *Coal mining and sale of coal*

The Group recognises the revenue upon delivery of coal to the customer. The moment of transfer of the control over the product is considered the moment of delivery to the destination specified by the customer, i.e. when the customer gains the benefits and the Group fulfils the performance obligation. Sales revenue is commonly subject to adjustments based on an inspection of the product by the customer. Where there are agreed differences in volume or quality of delivered products, this is reflected as reduction or increase in sales revenue recognised on the sale transaction.

- *Non-cash considerations received*

The Group measures the non-cash consideration received at fair value. The revenue is then recognised over the estimated time of the service provided for which the consideration is received.

*ii. Derivatives where the underlying asset is a commodity*

Cash-settled contracts and contracts that do not qualify for the application of the own-use exemption are regarded as trading derivatives.

The following procedure applies to other commodity and financial derivatives that are not designated as hedging derivatives and are not intended for the sale of electricity from the Group's sources, for delivery to end customers or for consumption as a part of the Group's ordinary business (the own-use exemption is not applied).

At the date of the financial statements, trading derivatives are measured at fair value. The change in fair value is recognised in profit or loss. In the separate accounts, the measurement is recognised in profit or loss from financial operations. For the purposes of Group reporting, where trading with commodity derivatives forms a significant part of the Group's total trading activities, the measurement effect is recognised in "Gain (loss) from commodity derivatives for trading with electricity and gas, net", a separate line item under "Total sales" for commodity derivatives with electricity and gas. The measurement effect for commodity derivatives with emission rights is included in line item "Emission rights, net".

*iii. Government grants*

Government grants are recognised initially at fair value as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses the grant is intended to compensate are recognised. Grants that compensate the Company for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

*iv. Revenues from free-of-charge property*

Several items of gas and electricity equipment (typically connection terminals) were obtained "free of charge" from developers and from local authorities (this does not represent a grant, because in such cases the local authorities act in the role of a developer). This equipment was recorded as property, plant, and equipment at the costs incurred by the developers and local authorities with a corresponding amount recorded as contract liability (before 1 January 2018 as deferred income) as receipt of the free of charge property is related to obligation to connect the customers to the grid. These costs approximate the fair value of the obtained assets. This contract liability is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets acquired free of charge.

*v. Rental income*

Rental income from investment property is recognised in profit or loss on a straight-line basis over the term of the lease.

**(p) Finance income and costs**

*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. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

*ii. Finance costs*

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 recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss.

*iii. Borrowing costs*

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset, from the time of acquisition or from the beginning of construction or production until entry into

service, are capitalised and subsequently amortised alongside the related asset. In the case of a specific financing arrangement, the respective borrowing costs for that arrangement are used. For non-specific financing arrangements, borrowing costs to be capitalised are determined based on a weighted average of the borrowing costs.

**(q) Income taxes**

Income taxes comprise current and deferred tax. Income taxes are recognised in profit or loss, except to the extent that they relate to a business combination or to items recognised directly in equity or in other 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 reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is measured using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No deferred tax is recognised on the following temporary differences: temporary differences arising from the initial recognition of assets or liabilities that is not a business combination and that affects neither accounting nor taxable profit or loss, and temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. No deferred tax is recognised on the initial recognition of goodwill.

The amount of deferred tax is based on the expected manner of realisation or settlement of the temporary differences, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but there is an intention to settle current tax liabilities and assets on a net basis, or the tax assets and liabilities will be realised simultaneously.

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 tax losses, tax credits and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(r) Dividends**

Dividends are recognised as distributions within equity upon approval by the Company's shareholders.

**(s) Non-current assets held for sale and disposal groups**

Non-current assets (or disposal groups comprising assets and liabilities) which are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (and all assets and liabilities in a disposal group) are re-measured in accordance with the Group's relevant accounting policies. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, and investment property, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held for sale are included in profit or loss. The same applies to gains and losses on subsequent re-measurement. Gains are not recognised in excess of any cumulative impairment loss.

Any gain or loss on the re-measurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation is included in profit or loss from continuing operations.

Any separate major line of business or geographical area of operations or significant part of business, which is decided to be sold, is classified as discontinued operations and is presented in profit or loss under separate line Profit (loss) from discontinued operations, net of tax.

**(t) Segment reporting**

Due to the fact that the Group issued debentures (Senior Secured Notes) which were listed on the Stock Exchange, the Company reports segmental information in accordance with IFRS 8.

Segment results that are reported to the Group's board of directors (the chief operating decision maker) include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. The support is provided by four executive committees: a strategic committee, an investment committee, a risk management committee and a compliance committee.

#### **4. Determination of fair values**

A number of the Group'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 in the notes specific to that asset or liability.

##### **(a) Property, plant and equipment**

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values or the income approach method. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The income approach method determines the value of property based on its ability to generate desired economic benefit for the owners. The key objective of the income based method is to determine the property value as a function of the economic benefit.

Selected items of property, plant and equipment – pipeline for natural gas transmission by eustream, a.s. – are recognized in revalued amount in accordance with IAS 16. The revalued amount represents the fair value as at the date of the most recent revaluation, net of any subsequent accumulated depreciation and subsequent accumulated impairment. The revaluation was prepared as at 1 August 2019 by an independent expert and will be carried out regularly (at least every five years), so that the carrying amount does not differ materially from the amount recognised on the balance sheet date using fair values.

Revaluation was conducted by an independent expert who used mainly the depreciated replacement cost approach supported by the market approach for some types of asset. In general, the replacement cost method was used and the indexed historical cost method for assets where reproductive rates were not available. By determining the fair value of individual assets with the cost approach, physical deterioration, plus technological and economic obsolescence of assets was acknowledged.

The assumptions used in the revaluation model are based on the reports of the independent appraisers. The resulting reported amounts of these assets and the related revaluation surplus of assets do not necessarily represent the value in which these assets could or will be sold. There are uncertainties about future economic conditions, changes in technology and the competitive environment within the industry, which could potentially result in future adjustments to estimated revaluations and useful lives of assets that can significantly modify the reported financial position and profit. For further information, refer to Note 16 – Property, plant and equipment.

##### **(b) Intangible assets**

The fair value of intangible assets recognised as a result of a business combination is based on the discounted cash flows expected to be derived from the use or eventual sale of the assets.

##### **(c) Investment property**

The fair value of investment property is determined by an independent registered valuer. The fair value is assessed based on current prices in an active market for similar properties in the same location and condition, or where not available, by applying generally applicable valuation methodologies that consider the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation (discounting).

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

**(d) Inventories**

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

**(e) 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 reporting 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 reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting 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 reporting date.

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

**(f) Non-derivative 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 reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

**(g) Derivatives**

The fair value of forward electricity, gas and emission rights contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

The fair value of other derivatives (exchange rate, commodity, foreign CPI indices) embedded in a contract is estimated by discounting the difference between the forward values and the current values for the residual maturity of the contract using a risk-free interest rate (based on zero coupon).

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

## 5. Operating segments

EPH is a leading Central European energy group that owns and operates assets in the Czech Republic, the Slovak Republic, Germany, Italy, the UK, Ireland, France, Switzerland, Poland and Hungary. EPH is vertically integrated and covers the complete value chain in the energy sector ranging from electricity and heat production from conventional and renewable sources, including highly efficient cogeneration, electricity and heat distribution, electricity and gas trading and supply to final consumers, coal extraction and, last but not least, EPH is an important regional player in various segments of the gas industry, including gas transmission, gas distribution and gas storage. In addition, EPH also operates in logistics and in commodity trading business.

EPH Group comprises over 70 companies structured in two pillars – EP Infrastructure (or “EPIF Group”) and EP Power Europe (or “EPPE Group”) – that are ringfenced and steered separately. Each group operates in reportable segments under IFRS 8 Operating Segments, which have been identified primarily on the basis of internal reports used by the Group’s “Chief operating decision maker” (Board of Directors) to allocate resources to the segments and assess their performance. EPH seeks to achieve excellence in all aspects of its operations. Major indicators used by the Board of Directors to measure these segments’ performance is operating profit before depreciation, amortization and negative goodwill (or “EBITDA”) and capital expenditures.

### **EP Infrastructure Group (“EPIF Group”)**

The EPIF Group is a leading European energy infrastructure utility focused on gas transmission, gas and power distribution, heat and power generation and gas storage. With principal operations in the Slovak Republic and the Czech Republic, EP Infrastructure is a unique entity with a large and diverse infrastructure asset base.

The EPIF Group operates critical energy infrastructure through various subsidiaries in five reportable segments under IFRS 8: Gas transmission, Gas and power distribution, Gas storage, Heat Infra and Other.

#### ***Gas Transmission***

The EPIF Group transports the natural gas (with the conditions ship or pay) through the Slovak Republic primarily based on a long-term contract concluded with a gas supplier located in Russia. The contract entitles this gas supplier to use the gas pipelines in accordance with a transport capacity needed for the transportation of natural gas to the customers in central and Western Europe. The EPIF Group assessed the contractual conditions in the ship-or-pay arrangement and concluded that the arrangement does not include a derivative as the contract do not give flexibility to the EPIF Group that has always to provide its capacity to the customer. Revenue is recognised based on the contract (fixed element) and based on actual transmitted volume which drives the amount of gas-in-kind received from the shippers (see below).

eustream, a.s. provides access to the transmission network and transport services under this long-term contract. The most significant user (shipper) of this network is the gas supplier located in Russia, other clients are typically significant European gas companies transporting natural gas from Russia and Asia sites to Europe.

The largest part of the transmission capacity is used based on the long-term contracts. Furthermore eustream, a.s. also concludes short term transportation contracts within the entry-exit system.

Transportation charges shall be reimbursed by the appropriate shipper directly to eustream, a.s. Since 2005 charges are fully regulated by Energy Regulatory Authority (“RONI”). The regulatory framework provides a stable and sustainable environment for the transmission business. The price regulation is based on benchmarking mechanism (price cap without a revenue ceiling), tariff is set on a basis of other EU operators, which create a range in which RONI sets a tariff. Once a contract is concluded it is fixed for a lifetime of the contract.

According to the regulated trade and price conditions the shipper provides part of charges in kind of natural gas used for operating purposes to cover the consumption of gas in the transmission network operation. In accordance with the regulated trade and price conditions the shipper is entitled to pay this part of charges also in cash.

Because of the contractual nature of the shipping arrangement with the Russian gas supplier, management carefully assessed the contractual conditions with the view of whether the contract contains lease as per IFRS 16, which could lead to a derecognition of the transmission pipelines. As there is no indication that the Russian gas supplier is in control of the asset and there are several other shippers using the asset, management concluded that no material indications of such leasing relationship were noted and that the transmission pipeline should be recognised in eustream's fixed assets.

### ***Gas and Power Distribution***

The Gas and power distribution segment consists of Power distribution division, Gas distribution division and Supply division. The Power distribution division distributes electricity in the central Slovakia region while Gas distribution division is responsible for distribution of natural gas covering almost the complete gas distribution network in Slovakia. The Supply division primarily supplies power and natural gas to end-consumers in the Czech Republic and Slovakia. This segment is mainly represented by Stredoslovenská energetika, a.s., SPP – distribúcia, a.s., Stredoslovenská distribučná, a.s. (further "SSD") and EP ENERGY TRADING, a.s.

The subsidiary companies SPP - distribúcia and SSD, which provide distribution of natural gas and power, are required by law to provide non-discriminatory access to the distribution network. Prices are subject to the review and approval of RONI. Both entities operate under similar regulatory frameworks whereby allowed revenues are based on the Regulated Asset Base ("RAB") multiplied by the allowed regulatory WACC plus eligible operating expenditures and allowed depreciation in line with regulatory frameworks in other European countries. All key tariff parameters are set for a given regulatory period of five years (current regulatory period is 2017 – 2021).

Sales of natural gas to medium and large customers are subject to contracts for the delivery of gas concluded usually for one or more years. The prices agreed in the contracts usually include a capacity and commodity components.

With respect to SSE, RONI regulates certain aspects of the SSE's relationships with its customers including the pricing of electricity and services provided to certain customers of SSE. Price of electricity (the commodity) is regulated for households and small business with the annual consumption up to 30 MWh where RONI sets a capped gross profit per MWh. The price of electricity for the wholesale customers is not regulated.

### ***Gas Storage***

The Gas storage segment is represented by NAFTA a.s., SPP Storage, s.r.o., POZAGAS a.s. and NAFTA Germany GmbH and its subsidiaries which store natural gas under long-term contracts in underground storage facilities located in the Czech Republic, Slovakia and Germany.

The EPIF Group stores natural gas in two locations in the Czech Republic and Slovakia and three locations in Germany. The storage capacities are utilised for injection, withdrawal and storage of natural gas according to seasonal needs to ensure the standards of security of supply based on the valid legislation and to utilise short-term market volatility of gas prices. Charges for storage are agreed upon the period of contracts. Fee for storage depends primarily on the booked capacity per year and annual price indexes, furthermore products with higher deliverability and flexibility are priced with premium.

### ***Heat Infra***

The Heat Infra segment owns and operates four large-scale combined heat and power plants (CHPs) in the Czech Republic primarily operated in highly efficient co-generation mode and represented primarily by: Elektrárny Opatovice, a.s., United Energy, a.s., Plzeňská energetika a.s. (until 31 October 2018 when it merged with Plzeňská teplárenská, a.s.), Plzeňská teplárenská, a.s. and Pražská teplárenská a.s., which is operating the largest district heating system in the Czech Republic, supplying heat to the City of Prague, and three CHPs in Hungary, represented by Budapesti Erőmű Zrt., which is supplying the City of Budapest. The heat generated in its co-generation power plants is supplied mainly to retail customers through well maintained and robust district heating systems that the EPIF Group owns in most of the cases. Czech based heat supply is regulated in a way of cost plus a reasonable profit margin while the Hungarian operations are regulated using the standard RAB multiplied by WACC plus eligible operating expenditures and

allowed depreciation formula. EP Sourcing, a.s. (former EP Coal Trading, a.s.) and EP Cargo a.s., as main suppliers of the above-mentioned entities, are also included in this segment.

### ***EPIF Other***

The Other segment owns and operates three solar power plants and holds a minority interest in an additional solar power plant and a majority interest in one wind farm in the Czech Republic. The EPIF Group also runs two solar power plants in Slovakia, and a biogas facility in Slovakia.

### **EP Power Europe Group (“EPPE Group”)**

EPPE Group focuses on development of a coherent power generation portfolio in Europe. With a total installed capacity of ca. 21 GW and with a balanced portfolio of coal and gas fired power plants, as well as renewables in the form of solar, wind and biomass power plants, EPPE Group belongs to one of the top six power producers in Europe.

It specializes in power generation from conventional and renewable sources, lignite mining and the EPPE Group also operates as a trading house.

EPPE Group is divided into three reportable segments under IFRS 8: Generation and Mining (including generation activities in Italy, France, Germany, the UK and Ireland and mining activities in Germany), Renewables (including activities in Germany, the UK, Italy and France) and Other.

### ***Generation and Mining***

The Generation part of the segment is primarily represented by investments in assets that generate electricity in condensation mode and which are located in markets with an active capacity market (the UK, France and Italy), or it where is expected that such market shall be soon implemented.

### **Italy**

EP Produzione S.P.A. operates a total generation capacity of 5.0 GW through five gas-fired power plants and one coal-fired power plant, making it one of the most relevant power generation players in the country. Its efficient and high-performance power stations are managed according to the highest environmental, safety and reliability standards, including the hard coal power plant Fiume Santo on the Sardinia island with an installed capacity of 599 MW. The company operates five gas power plants – Livorno Ferraris, Ostiglia and Tavazzano Montanaso in the north of Italy, Trapani in Sicilia and Scandale power plant in Calabria. Scandale power plant has a capacity of 814 MW and is managed by Ergosud S.P.A., a joint venture between EPH and A2A.

### **France**

EPPE through its subsidiary Gazel Energie Generation S.A.S., operates two combined cycle gas turbines with a total capacity of 828 MW located near Saint-Avold, two coal power generation units with an installed capacity of 1,190 MW, one located in Provence and the second one near Saint-Avold and 150 MW biomass power plant in Provence. The biomass power plant has the power demand secured by a long-term PPA contract. Through its subsidiaries Gazel Energie Generation S.A.S. and Gazel Energie Solutions S.A.S., it is also active in electricity and gas retail supply for Industrial and Commercial (“I&C”) and small-to-medium enterprises (“SME“) customers.

### **Germany**

LEAG Holding a.s. (“LEAG”) is the largest power plant operator in eastern Germany operating an installed capacity of 7,782 MW and is also one of the largest private employers in the region. LEAG is a joint venture controlled by EPH and Gemcol Ltd., a subsidiary of PPF Investments Ltd., and it is consolidated by equity method. Via its subsidiary Lausitz Energie Kraftwerke AG, LEAG operates lignite power plants Jänschwalde, Schwarze Pumpe, Boxberg and block R of the Lippendorf power plant. LEAG is also expanding its business areas into future-oriented energy technologies in the fields of renewable energy and electricity storage. Currently, an electricity storage facility with a capacity of 53 MW is being built at the Schwarze Pumpe site. The company Transport- und Speditionsgesellschaft Schwarze Pumpe mbH, is a full-service provider for logistics, material and warehouse management. The planning and service company GMB GmbH provides industrial services in the fields of mining, engineering as well as electricity and heat generation.

Kraftwerk Mehrum GmbH operates a coal-fired power plant near Hanover with a net installed capacity of 690 MW. The power plant has a very flexible design, which means that the net operating range of the power plant can be between 150 MW and 690 MW.

Via Saale Energie GmbH, EPPE indirectly owns 42% of the lignite power plant Schkopau, while Uniper Kraftwerke GmbH owns 58%. The power plant provides 400 MW of electric capacity to Vattenfall as well as power and heat to Dow Chemical and Deutsche Bahn via Uniper contracts.

Helmstedter Revier GmbH operated a lignite power plant Buschhaus, which has been in security stand-by mode since 2016 for a fixed remuneration provided by the market operator.

### **The UK**

EP Langage Limited is a gas-fired power station located near Plymouth, Devon. Construction of the site started in 2008 and was commissioned in 2010. The total site capacity is 905 MW. The high-pressure steam system enables market leading efficiency (51.5%), its flexible design is capable of 2-shift operation and low minimum load, enhancing plant option value, and the 2 to 1 configuration provides increased flexibility to the National Grid, the UK's high voltage electricity transmission network, for alternative services helping grid stability. A significant part of the gross margin comes from fixed capacity market contracts.

EP SHB Limited is a gas-fired power station located near Stallingborough. The total installed capacity of the power plant is 1,310 MW. The site consists of Phase 1 and Phase 2, which are separate power plants with one combined cooling systems and flexible design capable of 2-shift operation and minimum load, enhancing plant option value. A significant part of the gross margin comes from fixed capacity market contracts.

EP Kilroot Limited is a coal-fired power station located in Northern Ireland with the total capacity of 665 MW including 116 MW OCGT unit and 10 MW battery storage facility. Both coal units in the Kilroot plant are expected to be decommissioned in September 2024. The Kilroot brownfield site represents an opportunity to develop 400 MW of OCGT generation capacity and additional battery storage.

EP Ballylumford Limited is a power station located in Northern Ireland with a total capacity of 688 MW and operates a mix of flexible gas fired CCGT and distillate fired OCGT units. The highly flexible CCGT can operate in several different modes and has the lowest minimum generation for CCGT on the Irish market. Currently, it is fully contracted under PPA (Power Purchase Agreement) with the Power Procurement Board until September 2023.

### **Ireland**

Tynagh Energy Limited is a power producer in the Republic of Ireland that owns 400 MW CCGT power plant (dual fuel natural gas and distillate) in east County Galway. The plant was commissioned in 2006 and its estimated life span is approximately 30 years. The power plant is in a unique position of being the only independent CCGT plant on the Irish market and provides a flexible daily electricity production to the wholesale electricity market.

The Mining part of the segment is represented by companies operating in Germany.

Mitteldeutsche Braunkohlengesellschaft ("MIBRAG") has its activities focused in the south of Saxony-Anhalt region, where it operates Profen open-cast mine, and in Saxony, where it operates Schleenhein open-cast mine. The produced lignite is supplied to power plants under long-term supply agreements. Two biggest customers are Lippendorf and Schkopau power plants. MIBRAG is the sole shareholder of companies GALA-MIBRAG-Service GmbH, Bohr- und Brunnenbau GmbH, MIBRAG Consulting International GmbH and MIBRAG Neue Energie GmbH. The company holds shares in three other entities offering a wide range of services from energy generation, landscaping to civil engineering, disposal and mine engineering services.

Lausitz Energie Bergbau AG ("LEAG") operates four Lusatian opencast mines Jänschwalde, Welzow-Süd, Nochten and Reichwalde. They produce around 60 million tonnes of lignite per year to supply the power plants Jänschwalde, Schwarze Pumpe and Boxberg as well as the refining plant Schwarze Pumpe. Briquette, pulverized lignite and fluidized-bed lignite are processed from the raw material here. The lignite is transported using the company's own central railway network, which is 360 km long.

## **The Czech Republic**

EP Commodities, a.s. (“EPC”) specializes in trading of energy commodities, transit and storage capacities. EPC deals with transactions in natural gas, power, emissions allowances, coal and structural products like spreads across Europe. EPC focuses on countries where the EPH Group has its assets, or where liquidity enables efficient trading. Besides physical trading, EPC realizes financial hedging of assets as well as sourcing portfolio of end-users in EPH Group companies.

## **Switzerland**

EP Resources AG, located in Switzerland, handles the procurement of the coal, biomass and freight requirements of EPH’s power facilities located in Germany, Italy, France and the UK. EP Resources is a growing global franchise across energy, leveraging EPH’s in-house demand to offer global clients a portfolio of trading, marketing, freight and logistic services across coal, biomass and freight and thereby adding value to global clients.

## **Renewable Energy**

### **Germany**

In 2010, MIBRAG Neue Energie GmbH put into operation the “Am Geyersberg” wind farm on the site of the Schleenhain mine near Groitzsch, Saxony, with a total installed capacity of 6.9 MW. The wind farm consists of 3 Siemens wind turbines. The company strives for further development of wind power in area of surface mines owned by MIBRAG.

### **The UK**

In 2016, EP UK Investments Ltd (“EPUKI”) purchased Lynemouth Power Limited, the owner and operator of a 420 MW coal-fired power station in Northumberland. Lynemouth holds a Contract for Difference contract for full biomass conversion and EPUKI has progressed this, including managing the construction, fuel supply and financing workstreams. The biomass conversion has incurred capital expenditure in excess of GBP 350 million and it was commissioned in autumn 2019. Lynemouth is the largest 100% biomass fired power station in the UK.

### **Italy**

The biomass-fired power plant Strongoli, owned and operated by Biomasse Italia S.p.A., acquired by EP New Energy Italia S.r.l. in December 2017, is situated in the central-eastern part of Calabria. With a total capacity of 46 MW, it is the biggest and most modern biomass-fired power plant in Europe. The plant is mainly fuelled with biomass made of wood chips, derived from forest maintenance and agro-food residuals coming from local and national markets.

The biomass-fired power plant Crotone, owned and operated by Biomasse Crotone, acquired by EP New Energy Italia S.r.l. in December 2017, is situated in the central-eastern part of Calabria. Crotone is a biomass-fired power plant with a total capacity of 27 MW. The plant is mainly fuelled with biomass made of wood chips, derived from forest maintenance and agro-food residuals coming from local and national markets.

Fusine Energia operates a biomass power plant in Fusine, province of Sondrio, with an installed capacity of 7 MW. This power plant was acquired by EPH Group in February 2019.

### **France**

Renewable energy portfolio in France comprises six wind farms with total capacity of 84 MW operated by Aerodis, S.A. and Gazel Energie Renouvelables S.A.S., and two solar parks with a total capacity of 11 MW operated by Gazel Energie Solaire S.A.S. All renewable sources in France have their power demand secured by long-term PPA contracts.

### **EPPE Other**

The EPPE Other segment includes Energy Scanner Limited, which was liquidated in March 2019.

## **The rest of EPH Group**

### ***EPH Other***

The segment EPH Other consists of companies which are not managed within EPIF or EPPE Group.

The main entity within this segment is Slovenské elektrárne, a.s. and its subsidiaries, the largest electricity producer in the Slovak Republic, operating two nuclear, two coal-fired, 31 hydroelectric and two photovoltaic power plants, generating 72% of the country's total electricity production. With a net installed capacity of 3,820 MW, it is one of the largest electricity producers in Central and Eastern Europe. Its unique portfolio enables it to produce almost 90% of electricity without greenhouse gases, avoiding 15 million tons of carbon dioxide emissions every year. The company is currently completing units 3 and 4 of the Mochovce Nuclear Power Plant, which is one of only three nuclear power plant constructions currently underway in Europe. Slovenské elektrárne, a.s. is consolidated by equity method.

Other entities in this segment primarily include EP Cargo Deutschland GmbH, EP CARGO POLSKA, S.A., EP Coal Trading a.s., EP Coal Trading Polska s.a., Lokotrain s.r.o., LOCON Logistik & Consulting AG, EOP HOKA Group and SPEDICA Group, which arrange complex logistical solutions for the segment's customers and Przedsiębiorstwo Górnicze SILESIA Sp. z o.o. and MINING SERVICES AND ENGINEERING Sp. z o.o., which main activity is excavation of hard coal in southern Poland.

### ***Holding entities***

The Holding entities segment is mainly represented by Energetický a průmyslový holding, a.s., EP Infrastructure, a.s., EP Energy, a.s., Slovak Gas Holding B.V., EPH Gas Holding B.V., Seattle Holding B.V., SPP Infrastructure, a.s., Czech Gas Holding Investment B.V., EP Power Europe, a.s., EPPE Germany a.s., LEAG Holding, a.s., NADURENE 2, a.s., EP New Energy Italia S.r.l., EP France S.A.S., EP Yuzivska B.V., EP Slovakia B.V., and Slovak Power Holding B.V.

The segment profit therefore primarily represents dividends received from its subsidiaries, finance expense and results from acquisition accounting or disposals of subsidiaries and associates.

## Profit or loss

### For the year ended 31 December 2019

<i>In millions of EUR</i>	EPIF Group					EPPE Group			EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
	Gas Transmission	Gas and Power Distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other					
Sales: Energy	826	1,880	253	653	6	4,345	489	-	19	8,471	-	(326)	8,145
<i>external revenues</i>	790	1,804	220	547	5	4,273	489	-	17	8,145	-	-	8,145
<i>of which: electricity</i>	-	1,277	-	137	5	3,244	489	-	-	5,152	-	-	5,152
<i>gas</i>	790	527	220	-	-	805	-	-	-	2,342	-	-	2,342
<i>heat</i>	-	-	-	391	-	3	-	-	1	395	-	-	395
<i>coal</i>	-	-	-	19	-	217	-	-	14	250	-	-	250
<i>other energy products</i>	-	-	-	-	-	4	-	-	2	6	-	-	6
<i>inter-segment revenues</i>	36	76	33	106	1	72	-	-	2	326	-	(326)	-
Sales: Other	-	7	-	18	6	144	24	-	357	556	7	(135)	428
<i>external revenues</i>	-	7	-	18	5	143	24	-	230	427	1	-	428
<i>inter-segment revenues</i>	-	-	-	-	1	1	-	-	127	129	6	(135)	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net	-	9	-	-	-	4	-	-	-	13	-	(3)	10
<b>Total sales</b>	<b>826</b>	<b>1,896</b>	<b>253</b>	<b>671</b>	<b>12</b>	<b>4,493</b>	<b>513</b>	<b>-</b>	<b>376</b>	<b>9,040</b>	<b>7</b>	<b>(464)</b>	<b>8,583</b>
Cost of sales: Energy	(48)	(1,207)	(29)	(371)	-	(3,298)	(295)	-	(17)	(5,265)	-	330	(4,935)
<i>external cost of sales</i>	(46)	(971)	(27)	(348)	-	(3,234)	(295)	-	(14)	(4,935)	-	-	(4,935)
<i>inter-segment cost of sales</i>	(2)	(236)	(2)	(23)	-	(64)	-	-	(3)	(330)	-	330	-
Cost of sales: Other	-	(1)	(1)	(21)	(4)	(38)	(40)	-	(297)	(402)	(2)	118	(286)
<i>external cost of sales</i>	-	(1)	(1)	(21)	(4)	(38)	(40)	-	(179)	(284)	(2)	-	(286)
<i>inter-segment cost of sales</i>	-	-	-	-	-	-	-	-	(118)	(118)	-	118	-
Personnel expenses	(31)	(104)	(31)	(70)	(2)	(269)	(17)	-	(24)	(548)	(13)	-	(561)
Depreciation and amortisation	(130)	(159)	(29)	(83)	(3)	(199)	(81)	-	(10)	(694)	-	-	(694)
Repairs and maintenance	(1)	(4)	-	(10)	-	(52)	(6)	-	(3)	(76)	-	-	(76)
Emission rights, net	-	2	-	(41)	-	(307)	-	-	-	(346)	-	-	(346)
Negative goodwill	-	-	-	-	-	31	-	-	-	31	30	-	61
Taxes and charges	(1)	(1)	(4)	(3)	-	(89)	(2)	-	-	(100)	(2)	-	(102)
Other operating income	3	17	-	37	-	85	2	-	9	153	2	(19)	136
Other operating expenses	(17)	(91)	(14)	(26)	(2)	(206)	(36)	-	(19)	(411)	(24)	34	(401)
Own work, capitalized	4	21	1	10	-	3	-	-	-	39	-	-	39
<b>Operating profit</b>	<b>605</b>	<b>369</b>	<b>146</b>	<b>93</b>	<b>1</b>	<b>154</b>	<b>38</b>	<b>-</b>	<b>15</b>	<b>1,421</b>	<b>(2)</b>	<b>(1)</b>	<b>1,418</b>

Notes to the consolidated financial statements of Energetický a průmyslový holding, a.s. as at and for the year ended 31 December 2019

<i>In millions of EUR</i>	EPIF Group					EPPE Group			EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other					
Finance income	1	-	3	8	-	31	5	-	13	61	*1,147	*(1,119)	89
<i>external finance revenues</i>	-	-	1	4	-	15	1	-	2	23	66	-	89
<i>inter-segment finance revenues</i>	1	-	2	4	-	16	4	-	11	38	*1,081	*(1,119)	-
Finance expense	(45)	(18)	(8)	(14)	(1)	(35)	(21)	-	(12)	(154)	(171)	114	(211)
Profit (loss) from financial instruments	2	(2)	(3)	(6)	-	(14)	9	-	(51)	(65)	(252)	8	(309)
Share of profit (loss) of equity accounted investees, net of tax	-	-	-	-	-	135	.	-	40	175	-	-	175
Gain (loss) on disposal of subsidiaries	-	-	-	-	-	-	-	-	-	-	1	-	1
<b>Profit (loss) before income tax</b>	<b>563</b>	<b>349</b>	<b>138</b>	<b>81</b>	-	<b>271</b>	<b>31</b>	-	<b>5</b>	<b>1,438</b>	<b>723</b>	<b>(998)</b>	<b>1,163</b>
Income tax expenses	(152)	(87)	(35)	(16)	-	(32)	(13)	-	(3)	(338)	-	-	(338)
<b>Profit (loss) for the year</b>	<b>411</b>	<b>262</b>	<b>103</b>	<b>65</b>	-	<b>239</b>	<b>18</b>	-	<b>2</b>	<b>1,100</b>	<b>723</b>	<b>(998)</b>	<b>825</b>

\* EUR 1,001 million is attributable to intra-group dividends primarily recognised by SPP Infrastructure, a.s. EP Power Europe, a.s. and EP Energy, a.s.

**Other financial information:**

EBITDA <sup>(1)</sup>	735	528	175	176	4	322	119	-	25	2,084	(32)	(1)	2,051
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1) EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortisation of intangible assets (negative goodwill not included, if applicable). For EBITDA reconciliation to the closest IFRS measure explanation see below.

**For the year ended 31 December 2018**

<i>In millions of EUR</i>	EPIF Group					EPPE Group			EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
	Gas Transmission	Gas and Power Distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other					
Sales: Energy	752	1,760	192	583	6	3,405	409	-	239	7,346	-	(642)	6,704
<i>external revenues</i>	658	1,636	159	484	5	3,331	374	-	57	6,704	-	-	6,704
<i>of which: electricity</i>	-	1,104	-	117	5	2,205	374	-	-	3,805	-	-	3,805
<i>gas</i>	658	532	159	-	-	854	-	-	-	2,203	-	-	2,203
<i>heat</i>	-	-	-	350	-	3	-	-	1	354	-	-	354
<i>coal</i>	-	-	-	17	-	267	-	-	53	337	-	-	337
<i>other energy products</i>	-	-	-	-	-	2	-	-	3	5	-	-	5
<i>inter-segment revenues</i>	94	124	33	99	-	74	35	-	183	642	-	(642)	-
Sales: Other	-	8	-	15	7	148	32	-	205	415	4	(15)	404
<i>external revenues</i>	-	8	-	15	5	148	32	-	194	402	2	-	404
<i>inter-segment revenues</i>	-	-	-	-	2	-	-	-	11	13	2	(15)	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net	-	4	-	-	-	(41)	-	-	-	(37)	-	1	(36)
<b>Total sales</b>	<b>752</b>	<b>1,772</b>	<b>192</b>	<b>598</b>	<b>13</b>	<b>3,512</b>	<b>441</b>	<b>-</b>	<b>444</b>	<b>7,724</b>	<b>4</b>	<b>(656)</b>	<b>7,072</b>
Cost of sales: Energy	(44)	(1,187)	(12)	(338)	-	(2,544)	(317)	-	(4)	(4,446)	-	458	(3,988)
<i>external cost of sales</i>	(41)	(895)	(11)	(316)	-	(2,404)	(317)	-	(4)	(3,988)	-	-	(3,988)
<i>inter-segment cost of sales</i>	(3)	(292)	(1)	(22)	-	(140)	-	-	-	(458)	-	458	-
Cost of sales: Other	-	(1)	-	(23)	(4)	(62)	(49)	-	(400)	(539)	-	183	(356)
<i>external cost of sales</i>	-	(1)	-	(23)	(4)	(62)	(49)	-	(217)	(356)	-	-	(356)
<i>inter-segment cost of sales</i>	-	-	-	-	-	-	-	-	(183)	(183)	-	183	-
Personnel expenses	(30)	(97)	(21)	(61)	(1)	(251)	(16)	-	(19)	(496)	(10)	-	(506)
Depreciation and amortisation	(84)	(153)	(21)	(70)	(3)	(184)	(40)	-	(3)	(558)	-	-	(558)
Repairs and maintenance	(1)	(4)	-	(5)	-	(50)	(4)	-	(1)	(65)	-	-	(65)
Emission rights, net	-	-	-	(22)	-	(140)	6	-	-	(156)	-	-	(156)
Negative goodwill	-	-	5	-	-	-	-	-	-	5	-	-	5
Taxes and charges	(1)	(1)	(3)	(3)	-	(73)	(1)	-	-	(82)	-	-	(82)
Other operating income	1	15	-	22	-	85	6	-	16	145	1	(8)	138
Other operating expenses	(17)	(56)	(16)	(37)	(2)	(178)	(29)	-	(17)	(352)	(21)	15	(358)
Own work, capitalized	3	20	-	17	-	4	-	-	-	44	-	-	44
<b>Operating profit</b>	<b>579</b>	<b>308</b>	<b>124</b>	<b>78</b>	<b>3</b>	<b>119</b>	<b>(3)</b>	<b>-</b>	<b>16</b>	<b>1,224</b>	<b>(26)</b>	<b>(8)</b>	<b>1,190</b>

Notes to the consolidated financial statements of Energetický a průmyslový holding, a.s. as at and for the year ended 31 December 2019

<i>In millions of EUR</i>	EPIF Group					EPPE Group			EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other					
Finance income	1	1	4	2	-	15	-	-	32	55	*1,276	*(1,285)	46
<i>external finance revenues</i>	-	1	-	-	-	5	-	-	17	23	23	-	46
<i>inter-segment finance revenues</i>	1	-	4	2	-	10	-	-	15	32	*1,253	*(1,285)	-
Finance expense	(45)	(16)	(6)	(19)	(1)	(27)	(13)	-	(15)	(142)	(210)	118	(234)
Profit (loss) from financial instruments	(1)	(2)	-	(1)	-	(8)	6	3	14	11	(79)	-	(68)
Share of profit (loss) of equity accounted investees, net of tax	-	-	-	-	-	(20)	-	-	12	(8)	(1)	-	(9)
Gain (loss) on disposal of subsidiaries	-	-	-	-	-	-	-	-	1	1	-	-	1
<b>Profit (loss) before income tax</b>	<b>534</b>	<b>291</b>	<b>122</b>	<b>60</b>	<b>2</b>	<b>79</b>	<b>(10)</b>	<b>3</b>	<b>60</b>	<b>1,141</b>	<b>960</b>	<b>(1,175)</b>	<b>926</b>
Income tax expenses	(141)	(75)	(30)	(10)	-	(31)	(1)	-	(8)	(296)	-	-	(296)
<b>Profit (loss) for the year</b>	<b>393</b>	<b>216</b>	<b>92</b>	<b>50</b>	<b>2</b>	<b>48</b>	<b>(11)</b>	<b>3</b>	<b>52</b>	<b>845</b>	<b>960</b>	<b>(1,175)</b>	<b>630</b>

\* EUR 1,175 million is attributable to intra-group dividends primarily recognised by Czech Gas Holding Investment B.V., SPP Infrastructure, a.s. and EP Energy, a.s.

**Other financial information:**

EBITDA <sup>(1)</sup>	663	461	140	148	6	303	37	-	19	1,777	(26)	(8)	1,743
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1) EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortisation of intangible assets (negative goodwill not included, if applicable). For EBITDA reconciliation to the closest IFRS measure explanation see below.

## EBITDA reconciliation to the closest IFRS measure

It must be noted that EBITDA is not a measure that is defined under IFRS. This measure is construed as determined by the Board of Directors and is presented to disclose additional information to measure the economic performance of the Group's business activities. This term should not be used as a substitute to net income, revenues or operating cash flows or any other measure as derived in accordance with IFRS. This non-IFRS measure should not be used in isolation. This measure may not be comparable to similarly titled measures used by other companies.

### For the year ended 31 December 2019

*In millions of EUR*

	Gas Trans- mission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other	EPH Other	Total segments	Holding Entities	Inter- segment eliminations	Consolidated Financial Information
<b>Profit from operations</b>	<b>605</b>	<b>369</b>	<b>146</b>	<b>93</b>	<b>1</b>	<b>154</b>	<b>38</b>	-	<b>15</b>	<b>1,421</b>	<b>(2)</b>	<b>(1)</b>	<b>1,418</b>
Depreciation and amortisation	130	159	29	83	3	199	81	-	10	694	-	-	694
Negative goodwill	-	-	-	-	-	(31)	-	-	-	(31)	(30)	-	(61)
<b>EBITDA</b>	<b>735</b>	<b>528</b>	<b>175</b>	<b>176</b>	<b>4</b>	<b>322</b>	<b>119</b>	-	<b>25</b>	<b>2,084</b>	<b>(32)</b>	<b>(1)</b>	<b>2,051</b>

### For the year ended 31 December 2018

*In millions of EUR*

	Gas Trans- mission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other	EPH Other	Total segments	Holding Entities	Inter- segment eliminations	Consolidated Financial Information
<b>Profit from operations</b>	<b>579</b>	<b>308</b>	<b>124</b>	<b>78</b>	<b>3</b>	<b>119</b>	<b>(3)</b>	-	<b>16</b>	<b>1,224</b>	<b>(26)</b>	<b>(8)</b>	<b>1,190</b>
Depreciation and amortisation	84	153	21	70	3	184	40	-	3	558	-	-	558
Negative goodwill	-	-	(5)	-	-	-	-	-	-	(5)	-	-	(5)
<b>EBITDA</b>	<b>663</b>	<b>461</b>	<b>140</b>	<b>148</b>	<b>6</b>	<b>303</b>	<b>37</b>	-	<b>19</b>	<b>1,777</b>	<b>(26)</b>	<b>(8)</b>	<b>1,743</b>

## Non-current assets and liabilities

### For the year ended 31 December 2019

*In millions of EUR*

	Gas Trans- mission <sup>(1)</sup>	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other	EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	4,736	4,155	911	1,263	35	5,397	981	-	670	18,148	3,098	(4,557)	16,689
Reportable segment liabilities	(2,606)	(1,576)	(530)	(468)	(34)	(4,814)	(655)	-	(425)	(11,108)	(6,154)	4,557	12,705
Additions to tangible and intangible assets	72	87	12	128	-	355	21	-	32	707	-	-	707
Additions to tangible and intangible assets (excl. emission rights, right-of-use assets and goodwill)	69	85	11	57	-	122	21	-	10	375	-	-	375
Equity accounted investees	-	1	-	1	1	749	13	-	192	957	-	-	957

1) Gas pipelines held by Gas Transmission segment were revalued to fair value in 2019.

### For the year ended 31 December 2018

*In millions of EUR*

	Gas Trans- mission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other	EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	2,418	3,963	979	1,300	37	4,234	932	-	649	14,512	2,766	(3,949)	13,329
Reportable segment liabilities	(1,916)	(1,491)	(625)	(550)	(41)	(2,755)	(667)	-	(402)	(8,447)	(5,695)	3,950	(10,192)
Additions to tangible and intangible assets	53	81	6	89	1	204	69	-	8	511	-	-	511
Additions to tangible and intangible assets (excl. emission rights and goodwill)	51	81	6	52	1	114	66	-	8	379	-	-	379
Equity accounted investees	-	1	-	-	-	869	-	-	191	1,061	-	-	1,061

## Information about geographical areas

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

### For the year ended 31 December 2019

*In millions of EUR*

	<b>Czech Republic</b>	<b>Slovakia</b>	<b>Germany</b>	<b>Italy</b>	<b>United Kingdom</b>	<b>Ireland</b>	<b>France</b>	<b>Hungary</b>	<b>Other</b>	<b>Total segments</b>
Property, plant and equipment	949	7,700	710	407	947	67	389	43	6	11,218
Intangible assets	177	48	47	39	50	6	92	17	-	476
Investment property	3	-	-	-	-	-	-	-	-	3
<b>Total</b>	<b>1,129</b>	<b>7,748</b>	<b>757</b>	<b>446</b>	<b>997</b>	<b>73</b>	<b>481</b>	<b>60</b>	<b>6</b>	<b>11,697</b>

*In millions of EUR*

	<b>Czech Republic</b>	<b>Slovakia</b>	<b>Germany</b>	<b>Italy</b>	<b>United Kingdom</b>	<b>Ireland</b>	<b>France</b>	<b>Hungary</b>	<b>Other</b>	<b>Total segments</b>
Sales: Electricity	403	945	460	1,246	1,154	21	496	41	386	5,152
Sales: Gas	254	885	167	(74)	379	-	94	126	511	2,342
Sales: Heat	313	-	3	-	-	-	-	77	2	395
Sales: Coal	20	1	223	-	-	-	-	-	6	250
Sales: Other energy products	2	-	-	-	4	-	-	-	-	6
Sales: Other	118	22	160	1	23	1	8	1	94	428
Gain (loss) from commodity derivatives for trading with electricity and gas, net	56	2	(105)	(21)	(14)	-	84	-	8	10
<b>Total</b>	<b>1,166</b>	<b>1,855</b>	<b>908</b>	<b>1,152</b>	<b>1,546</b>	<b>22</b>	<b>682</b>	<b>245</b>	<b>1,007</b>	<b>8,583</b>

The geographical area Other comprises income items primarily from Switzerland and Luxembourg<sup>(1)</sup>.

1) Revenues from Switzerland and Luxembourg include mainly derivative transactions on energy exchanges.

**For the year ended 31 December 2018**

*In millions of EUR*

	<b>Czech Republic</b>	<b>Slovakia</b>	<b>Germany</b>	<b>Italy</b>	<b>United Kingdom</b>	<b>Ireland</b>	<b>France</b>	<b>Hungary</b>	<b>Other</b>	<b>Total segments</b>
Property, plant and equipment	887	5,666	732	401	797	4	-	42	3	8,532
Intangible assets	154	67	43	40	50	-	-	8	-	362
Investment property	3	-	-	-	-	-	-	-	-	3
<b>Total</b>	<b>1,044</b>	<b>5,733</b>	<b>775</b>	<b>441</b>	<b>847</b>	<b>4</b>	<b>-</b>	<b>50</b>	<b>3</b>	<b>8,897</b>

*In millions of EUR*

	<b>Czech Republic</b>	<b>Slovakia</b>	<b>Germany</b>	<b>Italy</b>	<b>United Kingdom</b>	<b>Ireland</b>	<b>France</b>	<b>Hungary</b>	<b>Other</b>	<b>Total segments</b>
Sales: Electricity	336	815	360	1,293	800	-	-	29	172	3,805
Sales: Gas	309	1,078	131	1	268	-	10	56	350	2,203
Sales: Heat	284	-	3	-	-	-	-	67	-	354
Sales: Coal	30	29	268	(6)	-	-	-	2	14	337
Sales: Other energy products	3	-	1	-	1	-	-	-	-	5
Sales: Other	97	12	151	2	27	-	-	2	113	404
Gain (loss) from commodity derivatives for trading with electricity and gas, net	(58)	(3)	34	-	(10)	-	-	1	-	(36)
<b>Total</b>	<b>1,001</b>	<b>1,931</b>	<b>948</b>	<b>1,290</b>	<b>1,086</b>	<b>-</b>	<b>10</b>	<b>157</b>	<b>649</b>	<b>7,072</b>

The geographical area Other comprises income items primarily from Poland, Switzerland and Luxembourg.

## 6. Acquisitions and disposals of subsidiaries, joint ventures and associates

### (a) Acquisitions and step acquisitions

#### i. 31 December 2019

<i>In millions of EUR</i>	<b>Date of acquisition</b>	<b>Equity interest acquired %</b>	<b>Equity interest after acquisition %</b>
<b>New subsidiaries</b>			
Fusine Energia S.r.l.	7/02/2019	100	100
EP Kilroot Limited and EP Ballylumford Limited	12/06/2019	100	100
EP France S.A.S and its subsidiaries and associates (EP France Group)	9/07/2019	<sup>(1)</sup> 100/25	100/25
LOCON LOGISTIK & CONSULTING AG and its subsidiaries (Locon Group)	26/07/2019	<sup>(2)</sup> 100/51	100/51
Tynagh Energy Limited	29/10/2019	80	80
<b>Total</b>		<b>-</b>	<b>-</b>

(1) 25% indirect interest was acquired in associate company Société des Eaux de l'Est S.A.

(2) 51% indirect interest was acquired in a subsidiary company LOCON BENELUX B.V.

On 8 March 2019, the Group via its subsidiary Pražská teplotárenská, a.s. acquired 60.5% share in Devátá energetická, s.r.o. for EUR 0.5 million. No goodwill or negative goodwill was recognized on the transaction. On 10 July 2019, the Group acquired additional 24.5% share and total ownership of the Group is 85%. The Group does not control the entity because it does not have management control and therefore the entity is presented as an associate.

On 12 April 2019, the Group via its subsidiary EP Logistics International, a.s. acquired 100% share in AVE SR Východ a.s. (subsequently renamed to EP Intermodal a.s.) for EUR 0.1 million. No goodwill or negative goodwill was recognized on the transaction.

#### **Fusine Energia S.R.L.**

On 7 February 2019, the EPH Group through EP New Energy Italia S.r.l. ("EPNEI"), a subsidiary of NADURENE a.s. and EP Power Europe, a.s., acquired Fusine Energia S.r.l. ("Fusine") from Holcim Italia Group. The acquired company operated the biomass power plant in Fusine, province of Sondrio, with an installed capacity of 7 MW. The operation is part of the strategy of the Group to develop the renewable energy business. This is the third investment in biomass energy done by EPH in Italy. EPNEI completed in December 2017 the acquisition of the biomass power plants owned by Biomasse Italia and Biomasse Crotona (with a total capacity of 73 MW).

#### **EP Kilroot Limited and EP Ballylumford Limited**

On 12 June 2019, EP UK Investments Limited ("EPUKI"), a subsidiary of EP Power Europe, a.s., acquired generation assets at Ballylumford and Kilroot, with a combined installed capacity of 1.4 GW, in Northern Ireland, from AES Corporation ("AES"). The acquisition includes a combined cycle gas turbine ("CCGT"), a battery storage facility, open cycle turbines and a coal fired power station. EPUKI acquired AES' entire Northern Irish business including all assets, systems and key management and staff. This represents the first acquisition by EPH into Northern Ireland's energy market, which forms part of the all-island Irish market.

#### **EP France Group**

On 9 July 2019, Energetický a průmyslový holding, a.s. – through its wholly owned subsidiary EP Power Europe, a.s. – and Uniper successfully concluded the negotiations announced at the end of December 2018 on the sale of Uniper's activities in France.

The scope of the transaction includes mainly Uniper's French sales business, two gas-fired power plants in Saint-Avold (Lorraine), two coal-fired power plants in Saint-Avold and Gardanne (Provence), the biomass power plant "Provence 4 Biomasse" in Gardanne and wind and solar power plants. The activities and assets at these sites and at Uniper France's headquarters in Colombes near Paris were fully transferred to EPH on completion.

## Locon Group

On 26 July 2019, EP Logistics International, a.s. (“EPLI”) took over 100% share of LOCON Logistik & Consulting AG and its subsidiary companies (“LOCON Group” or “LOCON”).

The LOCON Group has been operating as a private rail carrier specializing in container rail transport in Germany for 17 years but is also active in rail construction contracts. LOCON’s fleet consists of thirty locomotives and more than 250 freight wagons, and LOCON also operates a diesel locomotive service center and a container train dock in Brandenburg.

The acquisition of a licensed railway carrier for Germany was one of the strategic objectives of EPLI, and therefor LOCON has become one of the key elements of further development of the logistics group under the auspices of EPH.

## Tynagh Energy Limited

On 29 October 2019, EP UK Investments Limited has completed the acquisition of 80% of the shares of Tynagh Energy Limited from EFS Tynagh Holding Company Limited and GAMA Energy International BV, entities of GE Energy Financial Services and GAMA Holding A.S., respectively. Mountside Partners Limited remains a 20% shareholder.

Tynagh Energy Limited is an independent power producer in the Republic of Ireland and owns a 400MW Combined Cycle Power Plant in east Co. Galway. This is the first acquisition by EPH in the Republic of Ireland and complements its existing portfolio in the United Kingdom.

## Acquisition of non-controlling interest

On 19 January 2019, the Group acquired remaining 41.65% interest in Centro Energia Ferrara S.p.A. and Centro Energia Teverola S.p.A. The ownership of the Group increased to 100% as a result of the transaction.

### ii. 31 December 2018

<i>In millions of EUR</i>	<b>Date of acquisition</b>	<b>Equity interest acquired %</b>	<b>Equity interest after acquisition %</b>
<b>New subsidiaries</b>			
SAJDOK a.s.	5/01/2018	100	100
Plzeňská teplárenská, a.s.	31/10/2018	<sup>(1)</sup> 35	<sup>(2)</sup> 35
NAFTA Germany GmbH and its subsidiaries (NAFTA Germany)	31/12/2018	100	<sup>(3)</sup> 100
<b>Total</b>		<b>-</b>	<b>-</b>

(1) Including management control.

(2) Effective ownership of EPH Group is 24.15%.

(3) Effective ownership of EPH Group is 47.61%.

On 5 January 2018, the Group acquired 100% share in SAJDOK a.s. for EUR 2 million.

On 31 October 2018, the Group has completed merger of Plzeňská energetika, a.s. (“PE”) and Plzeňská teplárenská, a.s. (“PLTEP”), the sole owner of which was the City of Pilsen, resulting in PLTEP as successor company in which the EPIF Group would have a 35% interest (a 24.15% effective interest of EPH Group) and management control through shareholders’ agreement. Prior to the merger, the EP Infrastructure, a.s. made a cash contribution of EUR 23 million (CZK 604 million) to the entity PE, as a result the NAV of PE amounted to EUR 66 million as at the date of the merger. The Group subsequently contributed 100% of shares of PE and the City of Pilsen contributed 100% of shares in PLTEP to PLTEP as the successor company. The consideration transferred is therefore calculated as 65% of NAV of PE which amounted to EUR 43 million as at the date of merger.

On 31 December 2018, the EPIF Group through NAFTA Germany GmbH, a subsidiary of NAFTA a.s. has completed acquisition of underground gas storage facilities Inzenham – West, Wolfersberg and 80.3% share in Breitbrunn/Eggstätt in the German state of Bavaria from DEA Deutsche Erdoel. As part of the transaction NAFTA has also acquired ownership of 19.7% participation interest in Breitbrunn/Eggstätt from Storengy Deutschland GmbH and became 100% owner of Inzenham – West, Wolfersberg and Breitbrunn/Eggstätt underground storage facilities, with a storage capacity of 1.8 billion cubic meters.

### **Acquisition of non-controlling interest**

In January 2018, the Company settled a deferred consideration of EUR 3 million relating to 2015 acquisition of Budapesti Erömü Zrt.

On 2 May 2018, the Group acquired remaining 20% shares in Claymore Equity, s.r.o.

On 31 May 2018, the Group acquired 75% non-controlling interest in DCR INVESTMENT a.s. through sale from WOOGEL LIMITED (25% owned subsidiary) to Energetický a průmyslový holding, a.s. The ownership of the Group increased to 100% as a result of the transaction.

On 10 October 2018, the Group acquired through its subsidiary EP Energy, a.s. remaining 2% shares in PT měření, a.s. and through its subsidiary Pražská teplárenská Holding a.s. remaining 2% shares in PT Real Estate, a.s. as part of squeeze out approved by the Shareholders' meetings of PT Měření, a.s. and PT Real Estate, a.s. in September 2018. Effectively the Group increased its shareholding interest in PT Měření, a.s. and PT Real Estate, a.s. from 67.62% to 69%.

On 12 October 2018 the Group acquired through its subsidiary EP Energy, a.s. remaining 2% shares in Pražská teplárenská, a.s. as part of squeeze out approved by the Shareholders' meeting of Pražská teplárenská, a.s. in September 2018. Effectively the Group increased its shareholding interest in Pražská teplárenská, a.s. from 67.62% to 69%.

On 29 November 2018 and 31 December 2018, the Group acquired through its subsidiary SPEDICA GROUP COMPANIES, s.r.o. ("SGC") it two steps remaining 38.80% shares in RM LINES, a.s. SGC increased by this transaction its shareholding interest in RM LINES, a.s. from 61.2% to 100% and effectively the Group increased its shareholding interest in RM LINES, a.s. from 41.2% to 67.33%.

On 27 December 2018, the Group acquired 31% interest in PT Real Estate, a.s. ("PTRE") and its subsidiaries through sale of PTRE from Pražská teplárenská Holding a.s. (subsidiary with 69% shareholding interest) to Energetický a průmyslový holding, a.s.

All these transactions resulted in derecognition of non-controlling interest in total amount of EUR 23 million.

**(b) Effect of acquisitions***i. 31 December 2019***Subsidiaries**

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date of Fusine Energia S.r.l., EP Kilroot Limited and EP Ballylumford Limited, EP France Group, Locon Group and Tynagh Energy Limited are provided in the following table.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2019 Total<sup>(1)</sup></b>
Property, plant, equipment, land, buildings	442	230	672
Intangible assets	36	33	69
Trade receivables and other assets	620	(9)	611
Financial instruments – assets	8	-	8
Inventories	136	(40)	96
Cash and cash equivalents	135	-	135
Restricted cash	7	-	7
Deferred tax asset	4	24	28
Provisions	(443)	(174)	(617)
Deferred tax liabilities	(19)	(66)	(85)
Loans and borrowings	(115)	50	(65)
Trade payables and other liabilities	(662)	29	(633)
<b>Net identifiable assets and liabilities</b>	<b>149</b>	<b>77</b>	<b>226</b>
Non-controlling interest			(12)
Goodwill on acquisitions of a subsidiary			6
Negative goodwill on acquisition of new subsidiaries			(61)
<b>Cost of acquisition</b>			<b>159</b>
Consideration paid, satisfied in cash (A)			159
Purchase price liability			-
Consideration, other			-
<b>Total consideration transferred</b>			<b>159</b>
Less: Cash acquired (B)			135
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>(24)</b>

(1) Represents values at 100% share.

*ii. 31 December 2018***Subsidiaries**

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date of SAJDOK a.s., Plzeňská teplárenská, a.s. and NAFTA Germany GmbH are provided in the following table.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2018 Total<sup>(1)</sup></b>
Property, plant, equipment, land, buildings	304	13	317
Intangible assets	3	1	4
Trade receivables and other assets	14	-	14
Financial instruments – assets	2	2	4
Inventories	3	-	3
Cash and cash equivalents	75	-	75
Deferred tax asset	6	6	12
Provisions	(87)	(22)	(109)
Deferred tax liabilities	(10)	(10)	(20)
Loans and borrowings	(33)	-	(33)
Trade payables and other liabilities	(26)	-	(26)
<b>Net identifiable assets and liabilities</b>	<b>251</b>	<b>(10)</b>	<b>241</b>
Non-controlling interest			(79)
Goodwill on acquisitions of a subsidiary			1
Negative goodwill on acquisition of new subsidiaries			(5)
<b>Cost of acquisition</b>			<b>158</b>
Consideration paid, satisfied in cash (A)			120
Purchase price liability			-
Consideration, other <sup>(2)</sup>			38
<b>Total consideration transferred</b>			<b>158</b>
Less: Cash acquired (B)			75
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>(45)</b>

(1) Represents values at 100% share.

(2) Consideration other is presented mainly by the 65% of net book value of previously recognised share in Plzeňská energetika a.s.

As at the date of publication of the 2018 consolidated financial statements, the purchase price allocation process for NAFTA Germany GmbH had not been completed and provisional amounts were reported as at and for the year ended 31 December 2018. The purchase price allocation process was completed in 2019 and no significant differences between final figures and provisional figures, initially recorded for the year ended 31 December 2018, were noted.

For details on major acquisitions please refer also to Appendix 1 – Business combinations.

*iii. Rationale for acquisitions*

The Group's strategic rationale for realised acquisitions comprised several factors, including:

- The subsidiaries' businesses are complementary to EPH's portfolio;
- Potential for synergic effects;
- The subsidiaries have an advantageous position within the market;
- Subject industries are expected to grow in the future;
- Further vertical integration of the Trading segment with the Generation segment, i.e. securing coal and gas supplies for own coal and gas fired plants.

As further expansion in energy sectors of the countries in which the Group currently has operations is one of the strategic aims of the Group, EPH is investing both in energy companies and in companies supplying the energy industry. The Group's current aim is to further strengthen its position and become an important participant in the energy market in the Central and Western Europe.

The Group's view is that there is long-term strategic value in these investments due to the development of the market and this resulted in historical goodwill in the total amount of EUR 156 million. For the development of historical goodwill, please refer to Note 17 – Intangible assets (including goodwill).

In 2019, the Group recognized goodwill of EUR 6 million from the acquisition of Locon Group and negative goodwill of EUR 61 million from the acquisition of Fusine Energia S.r.l., EP Kilroot Limited and EP Ballylumford Limited, EP France Group and Tynagh Energy Limited.

In 2018, the Group recognised goodwill of EUR 1 million from the acquisition of SAJDOK a.s. and negative goodwill of EUR 5 million from the acquisition of NAFTA Germany GmbH.

Gain on a bargain purchase from the acquisition of Tynagh Energy Limited (EUR 21 million) is chiefly driven by the fact that the former shareholders were seeking exit from the investment due to change of asset risk profile from contracted asset to merchant asset and risks related to transformation from Single Electricity Market (SEM) to Integrated Single Electricity Market (I-SEM) introduced in October 2018. On the contrary, Group considered I-SEM to be an opportunity which would complement earlier acquisitions in Northern Ireland.

Gain on a bargain purchase from the acquisition of Uniper's energy assets in France (EUR 28 million) is driven by decision of the seller, German energy group Uniper, which considered the plan for coal exit by 2022 outlined by the French government, to have a negative effect on these assets. Uniper has concluded after strategic review to sell these assets considering the risks and negative outlook. For Group, the acquisition was an opportunity to enter the French energy market, to diversify and expand its generation capacity including renewables and biomass, and opportunity to leverage its experience in managing assets approaching end of life cycle.

The Group reconsidered the identification and measurement of all identified assets and liabilities acquired in these business combinations; consistent results were obtained in respect of negative goodwill.

The following table provides information on revenues and profit or loss of acquirees that have been included in the consolidated statement of comprehensive income for the reporting period.

<i>In millions of EUR</i>	<b>2019 Total</b>
Revenue of the acquirees recognised since the acquisition date	1,286
Profit (loss) of the acquirees recognised since the acquisition date	(8)

<i>In millions of EUR</i>	<b>2018 Total</b>
Revenue of the acquirees recognised since the acquisition date	27
Profit (loss) of the acquirees recognised since the acquisition date	2

The following table provides information on the estimated revenues and profit or loss that would have been included in the consolidated statement of comprehensive income, if the acquisition had occurred at the beginning of the reporting period (i.e. as at 1 January 2019 or as at 1 January 2018); this financial information was derived from the statutory or IFRS financial statements of the acquired entities.

<i>In millions of EUR</i>	<b>2019 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2019*	3,302
Profit (loss) of the acquirees recognised in the year ended 31 December 2019*	17

<i>In millions of EUR</i>	<b>2018 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2018*	120
Profit (loss) of the acquirees recognised in the year ended 31 December 2018*	32

\* *Before intercompany elimination; based on local statutory financial information.*

For details on major acquisitions please refer also to Appendix 1 – Business combinations.

**(c) Business combinations – acquisition accounting 2019 and 2018**

The acquiree's identifiable assets, liabilities and contingent liabilities were recognised and measured at their fair values at the acquisition date by the parent company Energetický a průmyslový holding, a.s. (except for acquisitions under common control, which are carried in net book values); in line with the above, the established fair values were subsequently reported in the consolidated financial statements of the Company. Allocation of the total purchase price among the net assets acquired for financial statement reporting purposes was performed with the support of professional advisors.

The valuation analysis is based on historical and prospective information prevailing as at the date of the business combination (which also involves certain estimates and approximations such as business plan forecasts, useful life of assets, and the weighted average cost of capital components). Any prospective information that may impact the future value of the acquired assets is based on management's expectations of the competitive and economic environments that will prevail at the time.

The results of the valuation analyses are also used for determining the amortisation and depreciation periods of the values allocated to specific intangible and tangible fixed assets.

Purchase price allocation was performed for all business combinations within the scope of IFRS 3.

Fair value adjustments resulting from business combinations in 2019 are presented in the following table:

<i>In millions of EUR</i>	<b>Property, plant and equipment</b>	<b>Intangible assets</b>	<b>Provisions</b>	<b>Other</b>	<b>Deferred tax asset/ (liability)</b>	<b>Total net effect on financial position</b>
<b>Subsidiary</b>						
EP Kilroot Limited and EP Ballylumford Limited	99	-	(123)	(18)	<sup>(1)</sup> 7	(35)
EP France S.A.S and its subsidiaries and associates (EP France Group)	182	33	(51)	54	(56)	162
Tynagh Energy Limited	(51)	-	-	(6)	7	(50)
<b>Total</b>	<b>230</b>	<b>33</b>	<b>(174)</b>	<b>30</b>	<b>(42)</b>	<b>77</b>

(1) Represents increase in deferred tax asset and decrease in deferred tax liability.

The fair value adjustments resulting from the purchase price allocation of Fusine Energia S.r.l. and Locon Group were not significant and therefore management of the Group decided not to recognise any fair value adjustment resulting from this business combination in 2019.

Fair value adjustments resulting from business combinations in 2018 are presented in the following table:

<i>In millions of EUR</i>	<b>Property, plant and equipment</b>	<b>Intangible assets</b>	<b>Financial instruments - assets</b>	<b>Provisions</b>	<b>Deferred tax asset/ (liability)</b>	<b>Total net effect on financial position</b>
<b>Subsidiary</b>						
Plzeňská teplárenská, a.s.	(63)	1	2	(16)	<sup>(1)</sup> 16	(60)
NAFTA Germany GmbH	76	-	-	(6)	(20)	50
<b>Total</b>	<b>13</b>	<b>1</b>	<b>2</b>	<b>(22)</b>	<b>(4)</b>	<b>(10)</b>

(1) Represents increase in deferred tax asset and decrease in deferred tax liability.

The fair value adjustments resulting from the purchase price allocation of SAJDOK a.s. were not significant and therefore management of the Group decided not to recognise any fair value adjustment resulting from this business combination in 2018.

**(d) Disposal of investments***i. 31 December 2019*

On 8 January 2019, in connection with the termination of the liquidation process of Nafta Exploration s.r.o. the company was dissolved from the Commercial Register and deconsolidated without any significant impact on the Group's financial statements.

On 26 March 2019, in connection with the termination of the liquidation process of Energy Scanner Ltd. the company was dissolved from the Commercial Register and deconsolidated without any significant impact on the Group's financial statements.

On 23 April 2019, EPH sold its 60% share in PGP Terminal, a.s. The entity was deconsolidated without any significant impact on the Group's financial statements.

On 10 October 2019, the Group disposed RUBY Equity Investments S.à r.l. The effect is provided in the following table:

<i>In millions of EUR</i>	<b>Net assets sold in 2019</b>
Financial instruments - assets	76
Loans and borrowings	(70)
<b>Net identifiable assets and liabilities</b>	<b>6</b>
Non-controlling interest	-
<b>Net assets value disposed</b>	<b>6</b>
Sales price	7
<b>Gain (loss) on disposal</b>	<b>1</b>

**Disposal of non-controlling interests**

On 1 January 2019, an internal reorganization involving NADURENE a.s. took place. Assets, liabilities and equity of NADURENE a.s., including interest in subsidiary companies EP New Energy Italia S.r.l. and Biomasse Servizi S.r.l., were split into 49% and 51% share respectively. 51% share subsequently merged with EP Power Europe, a.s. and 49% share demerged into separate company NADURENE 2, a.s. in which EP Power Europe, a.s. held 100% interest as at the effective date of reorganization.

On 31 June 2019, EP Power Europe, a.s. sold 100% share in NADURENE 2, a.s. to Lausitz Energie Bergbau AG ("LEB"), a joint-venture company in which the Group owns 50% interest. As a result of this transaction, the Group lost control of NADURENE 2, a.s. and started to recognize its interest in NADURENE 2, a.s. as an equity accounted investee. Full method of consolidation of EP New Energy Italia S.r.l. and its subsidiary companies and Biomasse Servizi S.r.l. has not been affected after the sale as EP Power Europe, a.s. has retained 51% interest (75.5% effective ownership interest of the Group) as well as management control over the companies.

EPH Group recognised non-controlling interest of EUR 8 million as a result of the transaction. As the consideration was received by the EPH Group from its 50% equity accounted investee, half of the consideration represents a transfer within the Group with no impact on equity. The difference between remaining 50% of the consideration received and non-controlling interest recognised of EUR 28 million was recorded directly in equity. LEAG Group's share in EP New Energy Italia S.r.l. and its subsidiary companies and Biomasse Servizi S.r.l. is not included in carrying amount of LEAG Group to prevent double counting, which led to a decrease in the carrying amount of LEAG Group by EUR 36 million.

*ii. 31 December 2018*

On 29 November 2018, the Group disposed SPEDICA AGRO, s.r.o. The effect is provided in the following table:

<i>In millions of EUR</i>	<b>Net assets sold in 2018</b>
Property, plant and equipment	1
Trade receivables and other assets	2
Cash and cash equivalents	1
Trade payables and other liabilities	(2)
<b>Net identifiable assets and liabilities</b>	<b>2</b>
Non-controlling interest	(1)
<b>Net assets value disposed</b>	<b>1</b>
Sales price	2
<b>Gain (loss) on disposal</b>	<b>1</b>

## 7. Sales

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
<b>Sales: Energy</b>		
<i>of which: Electricity</i>	5,152	<sup>(1)</sup> 3,805
<i>Gas</i>	2,342	<sup>(1)</sup> 2,203
<i>Heat</i>	395	354
<i>Coal</i>	250	337
<i>Other</i>	6	5
<b>Total Energy</b>	<b>8,145</b>	<b><sup>(1)</sup>6,704</b>
<b>Sales: Other</b>	<b>428</b>	<b>404</b>
<b>Total Revenues from customers</b>	<b>8,573</b>	<b><sup>(1)</sup>7,108</b>
<b>Gain (loss) from commodity derivatives for trading with electricity and gas, net</b>	<b>10</b>	<b><sup>(1)</sup>(36)</b>
<b>Total</b>	<b>8,583</b>	<b><sup>(1)</sup>7,072</b>

(1) For improved presentation of the effect of derivatives on revenues and cost of sales, the comparative amounts for the year ended 31 December 2018 were adjusted by EUR 23 million (decrease of Sales: Energy (Electricity)), EUR 47 million (increase of Sales: Energy (Gas)), EUR 50 million (increase of Gain (loss) from commodity derivatives for trading with electricity and gas, net) and EUR 74 million (decrease of Cost of sales: Energy).

The amount of EUR 426 million (31 December 2018: EUR 425 million) from Sales: Energy (gas) relates to distribution of gas. The amount of EUR 374 million (31 December 2018: EUR 289 million) from Sales: Energy (electricity) relates to distribution of electricity.

Other sales are represented mainly by sales of lignite dust, briquettes, gypsum, reimbursements of transportation and disposal costs, sewage sludge incineration and restoration services to third parties.

In 2019 no revenue was recognised from performance obligations satisfied (or partially satisfied) in previous periods.

For disaggregation of revenue based on type of service and based on geographical area refer to Note 5 – Operating segments.

Contract assets and liabilities primarily relate to not invoiced part of fulfilled performance obligation, received payments for services and goods where control over the assets was not transferred to customer and deferred income related to grid connection fees collected and free-of-charge non-current assets transferred from customers.

Several items of gas equipment (typically connection terminals) were obtained “free of charge” from developers and from local authorities (this does not represent a grant, because in such cases the local authorities act in the role of a developer). This equipment was recorded as property, plant, and equipment at the costs incurred by the developers and local authorities with a corresponding amount recorded as contract liability as receipt of the free of charge property is related to obligation to connect the customers to the grid. These costs approximate the fair value of the obtained assets. This contract liability is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets acquired free of charge.

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Contract assets	59	37
<i>Current</i>	59	37
<i>Non-current</i>	-	-
Contract liabilities	287	168
<i>Current</i>	182	74
<i>Non-current</i>	105	94

The amount of EUR 74 million recognised in current contract liabilities at the beginning of the period has been recognised as revenue during the year 2019.

## 8. Cost of sales

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
<b>Cost of Sales: Energy</b>		
<i>Cost of sold electricity</i>	2,243	<sup>(1)</sup> 1,316
<i>Cost of sold gas and other energy products</i>	1,280	<sup>(1)</sup> 859
<i>Consumption of fuel and other material</i>	1,099	1,536
<i>Consumption of energy</i>	166	168
<i>Other cost of sales</i>	147	109
<b>Total Energy</b>	<b>4,935</b>	<b><sup>(1)</sup>3,988</b>
<b>Cost of Sales: Other</b>		
<i>Other cost of goods sold</i>	175	205
<i>Other cost of sales</i>	82	119
<i>Consumption of material</i>	25	24
<i>Consumption of energy</i>	10	10
<i>Changes in WIP, semi-finished products and finished goods</i>	(6)	(2)
<b>Total Other</b>	<b>286</b>	<b>356</b>
<b>Total</b>	<b>5,221</b>	<b><sup>(1)</sup>4,344</b>

(1) For improved presentation of the effect of derivatives on revenues and cost of sales, the comparative amounts for the year ended 31 December 2018 were adjusted by EUR 23 million (decrease of Sales: Energy (Electricity)), EUR 47 million (increase of Sales: Energy (Gas)), EUR 50 million (increase of Gain (loss) from commodity derivatives for trading with electricity and gas, net) and EUR 74 million (decrease of Cost of sales: Energy).

Cost of sales presented in the above table contains only cost of purchased energy and purchased materials consumed in producing energy output, it does not contain directly attributable overheads (particularly personnel expenses, depreciation and amortisation, repairs and maintenance, emission rights, taxes and charges etc.).

## 9. Personnel expenses

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
Wages and salaries	395	345
Compulsory social security contributions	112	106
Expenses and revenues related to employee benefits (IAS 19)	19	25
Board members' remuneration (including boards of subsidiaries)	7	6
Other social expenses	28	24
<b>Total</b>	<b>561</b>	<b>506</b>

The average number of employees during 2019 was 11,453 (2018: 10,711), of which 244 were executives (2018: 246).

## 10. Emission rights

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
Deferred income (grant) released to profit and loss	26	14
Profit (loss) from sale of emission rights	(16)	(48)
Creation of provision for emission rights	(388)	(231)
Gain (loss) from commodity derivatives for trading with emission rights, net	32	109
Use of provision for emission rights	254	107
Consumption of emission rights	(254)	(107)
<b>Total</b>	<b>(346)</b>	<b>(156)</b>

The increase of emission rights cost is caused by the increase of average price of 1 piece of emission allowance from 16.26 EUR/piece in 2018 to 24.39 EUR/piece in 2019.

The Ministries of the Environment of the Czech Republic, Slovakia, Germany, Hungary, Italy, France, Ireland and United Kingdom set a limit on the amount of a pollutant that can be emitted. Companies are granted emission allowances and are required to hold an equivalent number of allowances which represent the right to emit a specific amount of pollutant. The total amount of allowances and credits cannot exceed the cap, limiting total emissions to that level. Companies that need to increase their emission allowance must buy credits from those who pollute less or from other market participants. The transfer of allowances is referred to as a trade. Refer to Note 3(f) – Derivative financial instruments – Transactions with emission rights and energy, Note 3(k) iii – Intangible assets – Emission rights and Note 3(m) iv – Provisions – Provision for emission rights for more details on accounting policies on emission rights.

The companies that participate in the emission rights programme are United Energy, a.s., Plzeňská teplárenská, a.s., Pražská teplárenská a.s., Elektrárny Opatovice, a.s., SPP Storage, s.r.o., JTSD - Braunkohlebergbau GmbH, Helmstedter Revier GmbH, Kraftwerk Mehrum GmbH, Stredoslovenská energetika, a.s., NAFTA a.s., eustream, a.s., Budapesti Erömi Zrt., Lynemouth Power Limited, EP UK Investments LTD and its selected subsidiaries, EP Produzione S.P.A. and its selected subsidiaries, Gazel Energie Generation S.A.S and Gazel Energie Solutions S.A.S.

## 11. Taxes and charges

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
Carbon price support <sup>(1)</sup>	56	56
Property tax and real estate transfer tax	22	8
Electricity tax	7	8
Other taxes and charges expenses (revenues)	17	10
<b>Total</b>	<b>102</b>	<b>82</b>

(1) Carbon Price Support (CPS) is the rate of climate change levy that applies to fossil fuel used for electricity generation in the United Kingdom.

## 12. Other operating income

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
Decentralization and cogeneration fee <sup>(1)</sup>	16	3
Tolling fee	15	15
Compensation from insurance companies	14	11
Consulting fees	13	20
Rental income	10	7
Contractual penalties	7	10
Property acquired free-of-charge and fees from customers	6	6
Inventories surplus	6	6
Revenues from written off liabilities	6	-
Ecological tax reimbursement	5	6
Profit from disposal of tangible and intangible assets	4	<sup>(2)</sup> 19
Transportation revenues	4	4
Waste disposal	3	-
Profit from sale of material	1	3
Other	26	28
<b>Total</b>	<b>136</b>	<b>138</b>

(1) Decentralization and cogeneration fees relate to subsidy for producing electricity in cogeneration with heat. This revenue does not meet the criteria of revenues from customer as mentioned in Note 3(o).

(2) In 2018, profit from disposal of tangible and intangible assets includes profit from sale of Pod Juliskou, a.s. and Michelský trojúhelník, a.s. in amount of EUR 5 million representing not business but land and not utilized non-production buildings.

**13. Other operating expenses**

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
Office equipment and other material	64	59
Outsourcing and other administration fees	53	49
Consulting expenses	43	49
Impairment losses	33	37
<i>Of which relates to: Property, plant and equipment and intangible assets</i>	<sup>(1)</sup> 45	<sup>(2)</sup> 18
<i>Inventories</i>	4	-
<i>Trade receivables and other assets</i>	(16)	16
<i>Goodwill</i>	-	<sup>(3)</sup> 3
Insurance expenses	24	14
Rent expenses	23	41
Transport expenses	21	17
Change in provisions, net	21	(18)
Information technologies costs	20	17
Environmental expenses	11	6
Fees and commissions expense – intermediation	7	6
Loss from written off receivables	7	-
Gifts and sponsorship	5	6
Advertising expenses	5	5
Security services	5	4
Training, courses, conferences	5	2
Re-transmission fee <sup>(4)</sup>	3	10
Contractual penalties	3	4
Communication expenses	3	2
Administrative expenses	2	-
Shortages and damages	1	1
Other	42	47
<b>Total</b>	<b>401</b>	<b>358</b>

- (1) The amount includes impairment of tangible assets of EUR 39 million recorded by SPP – distribúcia, a.s. („SPPD“). Since 1 January 2020 SPPD has been recognizing property, plant and equipment (“PPE”) used for natural gas distribution under the IAS 16 Revaluation model (for the Group reporting purposes). The effect on revaluation reserve in equity as of 1 January 2020 is expected to be positive as a result of this PPE revaluation. As part of this exercise, in 2019 SPPD performed detailed evaluation of the PPE with the aim to identify non-performing assets. During this activity SPPD compared the net book value of its individual distribution assets with estimated fair value. For certain items a negative difference was identified, i.e. estimated fair value was lower than the net book value. For such items SPPD recorded an impairment charge in total EUR 39 million.
- (2) The amount includes impairment of tangible assets in the amount of EUR 7 million recorded by Plzeňská energetika a.s., impairment of tangible assets in the amount of EUR 6 million recorded by POZAGAS a.s. and impairment of tangible assets in the amount of EUR 2 million recorded by eustream, a.s.
- (3) Impairment of goodwill recorded by Plzeňská energetika a.s.
- (4) Re-transmission fee is National Grid’s recovery of costs of installing and maintaining the transmission system in England, Wales and offshore. The amount paid is based on geographical location and size of generation.

No significant research and development expenses were recognised in profit and loss for the year 2019 and 2018.

**Fees payable to statutory auditors**

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
Statutory audits	4	2
Other attestation services	2	1
<b>Total</b>	<b>6</b>	<b>3</b>

The figures presented above include expenses recorded by all subsidiaries and also associates and joint-ventures consolidated using the equity method in 100% amount. Statutory audits include fees payable for statutory audits of financial statements. Other attestation services include the following services: IT advisory, transfer pricing, comfort letter, accounting advisory, GDPR advisory, transaction advisory and tax advisory.

**14. Finance income and expense, profit (loss) from financial instruments****Recognised in profit or loss***In millions of EUR*

	<b>2019</b>	<b>2018</b>
Interest income	37	22
Dividend income	2	18
Other finance income	3	6
Net foreign exchange gain	47	-
<b>Finance income</b>	<b>89</b>	<b>46</b>
Interest expense incl. various financing and refinancing related fees	(187)	(197)
Interest expense from unwind of provision discounting	(13)	(10)
Fees and commissions expense for other services	(7)	(13)
Fees and commissions expense for payment transactions	(3)	(4)
Fees and commissions expense for guarantees	(1)	(4)
Net foreign exchange loss	-	(6)
<b>Finance expense</b>	<b>(211)</b>	<b>(234)</b>
Profit (loss) from other derivatives for trading	11	-
Profit (loss) from assets at fair value through profit or loss <sup>(1)</sup>	6	32
Profit (loss) from currency derivatives for trading	6	1
Profit (loss) from hedging derivatives	(1)	3
Profit (loss) from interest rate derivatives for trading	(3)	-
Impairment losses on financial assets <sup>(2)</sup>	(328)	(63)
Profit (loss) from assets at fair value through OCI	-	(2)
Profit (loss) from commodity derivatives for trading	-	(4)
Profit (loss) from revaluation of contingent consideration <sup>(3)</sup>	-	(35)
<b>Profit (loss) from financial instruments</b>	<b>(309)</b>	<b>(68)</b>
<b>Net finance income (expense) recognised in profit or loss</b>	<b>(431)</b>	<b>(256)</b>

(1) Profit from assets at FVTPL in 2018 consisted mainly from net gain of EUR 25 million reported in Profit/loss from financial instruments resulting from an acquisition, a subsequent sale and revaluation of a retained share of an indirect minority shareholding in MÁTRAJ ERŐMŰ ZRT. ÉVES BESZÁMOLÓ ("ME"). While EPH entered into the transaction originally with aim to have a joint control over ME and acquired a 36.3% indirect stake in ME (through 50% stake in joint venture MATRA ENERGY HOLDING Zrt.), subsequently after transaction closing EPH decided to sell most of its shareholding to its joint venture partner. As of 31 December 2018, EPH held 11% indirect share in ME, recorded in Financial instruments and other financial assets. In 2019 the Group sold whole 11% interest in ME to a third party, no gain or loss from the transaction was reported.

(2) For details refer to Note 19 – Equity accounted investees and Note 33 – Financial instruments.

(3) For details refer to Note 34 – Trade payables and other liabilities.

## 15. Income tax expenses

### Income taxes recognised in profit or loss

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
<i>Current taxes:</i>		
Current year	(381)	(321)
Adjustment for prior periods	(3)	3
Withholding tax	-	(4)
<b>Total current taxes</b>	<b>(384)</b>	<b>(322)</b>
<i>Deferred taxes:</i>		
Origination and reversal of temporary differences <sup>(1)</sup>	46	26
<b>Total deferred taxes</b>	<b>46</b>	<b>26</b>
<b>Total income taxes (expense) benefit recognised in profit or loss</b>	<b>(338)</b>	<b>(296)</b>

(1) For details refer to Note 20 – Deferred tax assets and liabilities.

Balance of current income tax liability in amount of EUR 121 million (2018: EUR 24 million) is mainly represented by eustream, a.s. of EUR 75 million (2018: EUR 0 million), NAFTA Germany GmbH of EUR 17 million (2018: EUR 12 million) and Energetický a průmyslový holding, a.s. of EUR 8 million (2018: EUR 4 million).

Deferred taxes are calculated using currently enacted tax rates expected to apply when the asset is realised or the liability settled. According to Czech legislation the corporate income tax rate is 19% for fiscal years 2019 and 2018. The Slovak corporate income tax rate is 21% for fiscal year 2019 and 2018. The German federal income tax rate range for 2019 is 28.47% – 30.00% and for 2018 is 28.47% – 30.00%. Polish income tax rate for fiscal years 2019 and 2018 is 19%. Italian income tax rate for fiscal years 2019 and 2018 is 24%. Hungarian income tax rate for fiscal years 2019 and 2018 is 9%. British income tax rate for fiscal years 2019 and 2018 is 19%. Irish income tax rate for fiscal year 2019 is 12.5% and French income tax rate for fiscal year 2019 is 31%.

Current year income tax includes also special sector tax effective in Slovakia and Hungary.

### Income tax recognised in other comprehensive income

<i>In millions of EUR</i>	<b>2019</b>		
	<b>Gross</b>	<b>Income tax</b>	<b>Net of income tax</b>
Foreign currency translation differences for foreign operations	(59)	-	(59)
Foreign currency translation differences from presentation currency	51	-	51
Effective portion of changes in fair value of cash-flow hedges <sup>(1)</sup>	(252)	13	(239)
Fair value reserve included in other comprehensive income <sup>(1)</sup>	(27)	3	(24)
Revaluation reserve included in other comprehensive income	2,166	(551)	1,615
<b>Total</b>	<b>1,879</b>	<b>(535)</b>	<b>1,344</b>

(1) Deferred tax recognized in other comprehensive income of equity accounted investees is not shown in the table as it is not relevant to the financial statements of the Group.

<i>In millions of EUR</i>	<b>2018</b>		
	<b>Gross</b>	<b>Income tax</b>	<b>Net of income tax</b>
Foreign currency translation differences for foreign operations	24	-	24
Foreign currency translation differences from presentation currency	(38)	-	(38)
Effective portion of changes in fair value of cash-flow hedges <sup>(1)</sup>	327	9	336
Fair value reserve included in other comprehensive income <sup>(1)</sup>	22	(1)	21
<b>Total</b>	<b>335</b>	<b>8</b>	<b>343</b>

(1) Deferred tax recognized in other comprehensive income of equity accounted investees is not shown in the table as it is not relevant to the financial statements of the Group.

The foreign currency translation differences related to non-controlling interest are presented under other comprehensive income attributable to non-controlling interest.

**Reconciliation of the effective tax rate**

<i>In millions of EUR</i>		<b>2019</b>		<b>2018</b>
	%		%	
Profit before tax		1,163		926
Income tax using the Company's domestic rate (19%)	19.0%	221	19.0%	176
Effect of tax rates in foreign jurisdictions	2.8%	32	3.0%	28
Non-deductible expenses <sup>(1)</sup>	7.9%	92	6.3%	58
Other non-taxable income <sup>(2)</sup>	(5.1%)	(59)	(2.4%)	(22)
Change in tax rate	(0.5%)	(6)	(0.1%)	(1)
Tax incentives	(0.3%)	(4)	(0.1%)	(1)
Recognition of previously unrecognized tax losses	(0.2%)	(2)	(0.5%)	(5)
Effect of special levy for business in regulated services <sup>(3)</sup>	4.9%	57	5.7%	53
Current year losses for which no deferred tax asset was recognised	0.3%	4	1.3%	12
Withholding tax, income tax adjustments for prior periods	0.3%	3	0.2%	2
Revenues from dividends	-	-	(0.4%)	(4)
<b>Income taxes recognised in profit or loss</b>	<b>29.1%</b>	<b>338</b>	<b>32.0%</b>	<b>296</b>

(1) The basis consists mainly of valuation allowance to financial investments in equity-accounted investees of EUR 68 million, non-deductible interest expense of EUR 71 million (2018: EUR 80 million) and creation of provisions of EUR 283 million (2018: EUR 17 million).

(2) The basis consists mainly of negative goodwill of EUR 61 million (2018: EUR 5 million) and share of profit for joint ventures and associates of EUR 175 million (2018: loss of EUR 9 million).

(3) This item relates to special industry tax applied in Slovakia and Hungary. The balance consist mainly of amount recognized by eustream, a.s. of EUR 34 million (2018: EUR 29 million), SPP - distribúcia, a.s. of EUR 11 million (2018: EUR 14 million), NAFTA a.s. of EUR 4 million (2018: EUR 5 million), Stredoslovenská distribučná, a.s. of EUR 4 million (2018: EUR 2 million) and Budapesti Erömü Zrt. of EUR 4 million (2018: EUR 2 million).

## 16. Property, plant and equipment

*In millions of EUR*

	Land and buildings <sup>(1)</sup>	Gas pipelines – fair value model	Gas pipelines – cost model	Technical equipment, plant and machinery <sup>(1)</sup>	Other equipment, fixtures and fittings	Under construction	Total
<b>Cost or revaluation</b>							
<b>Balance at 31 December 2018</b>	<b>2,694</b>	-	<b>4,570</b>	<b>4,181</b>	<b>57</b>	<b>152</b>	<b>11,654</b>
Adjustment for change in accounting policy (IFRS 16)	45	-	-	78	-	-	123
<b>Balance at 1 January 2019</b>	<b>2,739</b>	-	<b>4,570</b>	<b>4,259</b>	<b>57</b>	<b>152</b>	<b>11,777</b>
Effects of movements in foreign exchange rates	10	-	-	52	-	5	67
Additions	54	-	1	158	3	168	384
Additions through business combinations <sup>(2)</sup>	81	-	-	566	6	19	672
Reclassification	-	1,637	(1,978)	-	-	-	(341)
Revaluation	-	<sup>(3)</sup> 2,166	-	-	-	-	2,166
Disposals	(14)	-	(30)	(50)	(3)	(1)	(98)
Transfer from intangible asset	-	-	-	4	-	-	4
Transfers	23	-	27	44	2	(96)	-
Change in provision recorded in property, plant and equipment	(10)	-	-	-	-	-	(10)
Effect from PPA corrections	(87)	-	-	113	(30)	2	(2)
<b>Balance at 31 December 2019</b>	<b>2,796</b>	<b>3,803</b>	<b>2,590</b>	<b>5,146</b>	<b>35</b>	<b>249</b>	<b>14,619</b>
<b>Depreciation and impairment losses</b>							
<b>Balance at 1 January 2019</b>	<b>(751)</b>	-	<b>(737)</b>	<b>(1,623)</b>	<b>(8)</b>	<b>(3)</b>	<b>(3,122)</b>
Effects of movements in foreign exchange rates	(3)	-	-	(6)	-	-	(9)
Depreciation charge for the year	(113)	(86)	(71)	(375)	(2)	-	(647)
Disposals	14	-	31	37	1	-	83
Reclassification (eliminated against cost)	-	49	292	-	-	-	341
Impairment losses recognised in profit or loss	(6)	-	(39)	(1)	-	(1)	(47)
<b>Balance at 31 December 2019</b>	<b>(859)</b>	<b>(37)</b>	<b>(524)</b>	<b>(1,968)</b>	<b>(9)</b>	<b>(4)</b>	<b>(3,401)</b>
<b>Carrying amounts</b>							
<b>At 1 January 2019</b>	<b>1,943</b>	-	<b>3,833</b>	<b>2,558</b>	<b>49</b>	<b>149</b>	<b>8,532</b>
<b>At 31 December 2019</b>	<b>1,937</b>	<b>3,766</b>	<b>2,066</b>	<b>3,178</b>	<b>26</b>	<b>245</b>	<b>11,218</b>

(1) Including right-of-use assets (for detail see Note 2(e)).

(2) Purchase of Fusine Energia S.r.L., EP Kilroot Limited and EP Ballylumford Limited, EP France Group, Locon Group and Tynagh Energy Limited.

(3) For more information on revaluation of gas transmission pipelines refer to Note 3(a).

<i>In millions of EUR</i>	<b>Land and buildings</b>	<b>Gas pipelines</b>	<b>Technical equipment, plant and machinery</b>	<b>Other equipment, fixtures and fittings</b>	<b>Under construction</b>	<b>Total</b>
<b>Cost</b>						
<b>Balance at 1 January 2018</b>	<b>2,434</b>	<b>4,550</b>	<b>3,601</b>	<b>17</b>	<b>453</b>	<b>11,055</b>
Effects of movements in foreign exchange rates	(7)	-	(13)	1	1	(18)
Additions	68	11	175	1	114	369
Additions through business combinations <sup>(1)</sup>	205	-	63	39	10	317
Disposals	(30)	(4)	(36)	(1)	(8)	(79)
Disposed entities <sup>(2)</sup>	-	-	(1)	-	-	(1)
Transfers	14	13	390	-	(417)	-
Change in provision recorded in property, plant and equipment	10	-	2	-	(1)	11
<b>Balance at 31 December 2018</b>	<b>2,694</b>	<b>4,570</b>	<b>4,181</b>	<b>57</b>	<b>152</b>	<b>11,654</b>
<b>Depreciation and impairment losses</b>						
<b>Balance at 1 January 2018</b>	<b>(649)</b>	<b>(629)</b>	<b>(1,337)</b>	<b>(8)</b>	<b>(2)</b>	<b>(2,625)</b>
Effects of movements in foreign exchange rates	2	(1)	2	1	(4)	-
Depreciation charge for the year	(106)	(110)	(302)	(1)	-	(519)
Disposals	15	3	19	-	3	40
Impairment losses recognised in profit or loss	(13)	-	(5)	-	-	(18)
<b>Balance at 31 December 2018</b>	<b>(751)</b>	<b>(737)</b>	<b>(1,623)</b>	<b>(8)</b>	<b>(3)</b>	<b>(3,122)</b>
<b>Carrying amounts</b>						
<b>At 1 January 2018</b>	<b>1,785</b>	<b>3,921</b>	<b>2,264</b>	<b>9</b>	<b>451</b>	<b>8,430</b>
<b>At 31 December 2018</b>	<b>1,943</b>	<b>3,833</b>	<b>2,558</b>	<b>49</b>	<b>149</b>	<b>8,532</b>

(1) Purchase of SAJDOK a.s., Plzeňská teplárenská, a.s. and NAFTA Germany.

(2) Disposal of SPEDICA AGRO, s.r.o.

The Company considered potential implication of IFRIC 12 on recognition of the assets held in regulated sectors. However, management concluded that the interpretation is not relevant for the Group as the operation of the infrastructure assets is not under Service Concession agreement.

## Revaluation of gas pipeline

Gas pipeline for natural gas transmission by eustream a.s. is recognised at revalued amount, primarily using the cost approach, especially the replacement cost method. Replacement costs are based on the acquisition cost of equivalent assets (EA) and are the estimated net book value of the assets from the acquisition cost of EA, useful lives and age of existing assets (replacement cost less depreciation methodology). For more details on revaluation, refer to Note 3(a) and Note 4(a).

If the pipeline was accounted for using the cost model, the net book value of the asset as at 31 December 2019 would be EUR 1,647 million.

## Idle assets

As at 31 December 2019 and 31 December 2018, the Group had no significant idle assets.

## Security

At 31 December 2019, property, plant and equipment with a carrying value of EUR 892 million (2018: EUR 1,292 million) is subject to pledges from financial indebtedness.

## 17. Intangible assets (including goodwill)

<i>In millions of EUR</i>	<b>Goodwill</b>	<b>Software</b>	<b>Emission rights</b>	<b>Customer relationship and other contracts</b>	<b>Other intangible assets</b>	<b>Total</b>
<b>Cost</b>						
<b>Balance at 1 January 2019</b>	<b>189</b>	<b>87</b>	<b>70</b>	<b>298</b>	<b>15</b>	<b>659</b>
Effect of movements in foreign exchange rates	1	1	-	1	-	3
Additions	-	5	332	-	-	337
Disposals	-	(1)	(254)	-	(2)	(257)
Additions through business combinations <sup>(1)</sup>	6	2	25	34	8	75
Transfers	-	2	-	-	(2)	-
<b>Balance at 31 December 2019</b>	<b>196</b>	<b>96</b>	<b>173</b>	<b>333</b>	<b>19</b>	<b>817</b>
<b>Amortisation and impairment losses</b>						
<b>Balance at 1 January 2019</b>	<b>(40)</b>	<b>(53)</b>	<b>-</b>	<b>(200)</b>	<b>(4)</b>	<b>(297)</b>
Effect of movements in foreign exchange rates	-	-	-	-	-	-
Amortisation for the year	-	(14)	-	(33)	-	(47)
Disposals	-	1	-	-	-	1
Impairment losses recognised in profit or loss	-	-	-	-	2	2
<b>Balance at 31 December 2019</b>	<b>(40)</b>	<b>(66)</b>	<b>-</b>	<b>(233)</b>	<b>(2)</b>	<b>(341)</b>
<b>Carrying amount</b>						
<b>At 1 January 2019</b>	<b>149</b>	<b>34</b>	<b>70</b>	<b>98</b>	<b>11</b>	<b>362</b>
<b>At 31 December 2019</b>	<b>156</b>	<b>30</b>	<b>173</b>	<b>100</b>	<b>17</b>	<b>476</b>

(1) Purchase of EP Kilroot Limited and EP Ballylumford Limited, EP France Group, Locon Group and Tynagh Energy Limited.

<i>In millions of EUR</i>	<b>Goodwill</b>	<b>Software</b>	<b>Emission rights</b>	<b>Customer relationship and other contracts</b>	<b>Other intangible assets</b>	<b>Total</b>
<b>Cost</b>						
<b>Balance at 1 January 2018</b>	<b>188</b>	<b>83</b>	<b>45</b>	<b>302</b>	<b>14</b>	<b>632</b>
Effect of movements in foreign exchange rates	-	-	-	(1)	-	(1)
Additions	-	7	133	-	3	143
Disposals	-	(5)	(112)	(3)	-	(120)
Additions through business combinations <sup>(1)</sup>	1	-	4	-	-	5
Transfers	-	2	-	-	(2)	-
<b>Balance at 31 December 2018</b>	<b>189</b>	<b>87</b>	<b>70</b>	<b>298</b>	<b>15</b>	<b>659</b>
<b>Amortisation and impairment losses</b>						
<b>Balance at 1 January 2018</b>	<b>(37)</b>	<b>(46)</b>	<b>-</b>	<b>(176)</b>	<b>(4)</b>	<b>(263)</b>
Amortisation for the year	-	(12)	-	(27)	-	(39)
Disposals	-	5	-	3	-	8
Impairment losses recognised in profit or loss	(3)	-	-	-	-	(3)
<b>Balance at 31 December 2018</b>	<b>(40)</b>	<b>(53)</b>	<b>-</b>	<b>(200)</b>	<b>(4)</b>	<b>(297)</b>
<b>Carrying amount</b>						
<b>At 1 January 2018</b>	<b>151</b>	<b>37</b>	<b>45</b>	<b>126</b>	<b>10</b>	<b>369</b>
<b>At 31 December 2018</b>	<b>149</b>	<b>34</b>	<b>70</b>	<b>98</b>	<b>11</b>	<b>362</b>

(1) Purchase of SAJDOK a.s. and Plzeňská teplárenská, a.s.

In 2019, EPH Group purchased emission allowances of EUR 307 million (2018: EUR 120 million). The remaining part of EUR 25 million (2018: EUR 13 million) was allocated to the Group by the respective authorities.

Amortisation of intangible assets is included in the row Depreciation and amortisation in the consolidated statement of comprehensive income.

Other intangible assets comprise valuable rights.

All intangible assets, excluding goodwill, were recognised as assets with definite useful life.

The Group has also carried out research activities reflected in these consolidated financial statements. Research costs are recognised as operating expenses in the income statement immediately when incurred. No significant research costs were incurred during 2019 and 2018.

### **Impairment testing for cash-generating units containing goodwill**

For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units which represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to single cash generating units are as follows (no intangible assets with indefinite useful lives were identified):

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
EP Energy, a.s.:		
Elektrárny Opatovice, a.s.	91	90
EP Cargo a.s.	5	5
EP ENERGY TRADING, a.s.	5	5
SPV100, s.r.o.	1	1
Biomasse Crotone S.P.A.	20	20
Biomasse Italia S.P.A.	16	16
LOCON Logistik & Consulting AG	7	-
Helmstedter Revier GmbH	5	6
EP Investment Advisors, s.r.o.	3	3
SPEDICA GROUP COMPANIES, s.r.o.	2	2
SAJDOK a.s.	1	1
<b>Total goodwill</b>	<b>156</b>	<b>149</b>

In 2019, the balance of goodwill increased by EUR 6 million as a result of acquisition of Locon Group. Remaining increase of EUR 1 million is caused by positive effect of changes in the FX rate.

In 2018, the balance of goodwill increased by EUR 1 million as a result of acquisition of SAJDOK a.s. and decreased by EUR 3 million as a result of goodwill impairment recorded by Plzeňská energetika a.s.

### **Goodwill and impairment testing**

In compliance with IAS 36, the Group annually conducts impairment testing of goodwill. As at the acquisition date goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the CGU, to which the goodwill relates, on the basis of a value in use that reflects estimated future discounted cash flows. Value in use is derived from management forecasts of future cash flows updated since the date of acquisition. The discount rates applied to the cash flow projections are calculated as the weighted average cost of capital (WACC) of each CGU.

The calculation of the recoverable amounts for CGUs containing goodwill was based on the following key assumptions:

In case of EPIF Group entities, cash-flows were projected based on past experience, actual operating results and the one-year business plan followed by an additional four years of modelled projections followed by projected results based on an estimated growth factor plus a terminal value if relevant. In case of EPPE Group entities, cash-flows were projected based on past experience, actual operating results and the five-year business plan followed by projected results based on expected useful life of the individual assets. Where relevant, cash flows for a terminal period were extrapolated using a constant growth rate of 0% – 2% (2018: 0% – 2%), which does not exceed the long-term average growth rate for the industry. Other key assumptions considered by management include forecasts of commodity market prices, future electricity and gas prices, CO<sub>2</sub> allowances prices, foreign exchange rates, investment activity, changes in working capital and changes in the regulatory framework.

The discount rates used in estimating value in use were estimated based on the principle of an average market participant using peer companies (i.e. companies operating in a comparable industry and listed on world markets) as a standard for observing respective betas, debt to equity ratios and size adjustment parameters used for calculation. The resulting pre-tax discount rates ranged from 3.02% to 6.46% (2018: range from 4.01% to 9.17%). Changes in used discount rates compared to prior year reflect a combination of factors. For some entities, the specific risk of the entity and cost of debt has been adjusted while, at the same time, risk-free rates have increased reflecting conditions on the market.

The 2019 year testing showed no need for impairment as no CGU with the recoverable value lower than the carrying value including goodwill was identified (2018: EUR 3 million as result of commercial negotiation between EP Infrastructure and City of Pilsen in relation to a merger of Plzeňská energetika and Plzeňská teplárenská, in which EP Infrastructure received 35% shareholding and a management control in exchange of contribution of cash and 100% shares in Plzeňská energetika).

### Additional information on CGU with significant goodwill assigned:

The recoverable amount of Elektrárny Opatovice, a.s. was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of Elektrárny Opatovice, a.s. Value in use in 2019 was determined in a similar manner as in 2018. Management estimated that the recoverable amount for Elektrárny Opatovice, a.s. exceeded its carrying amount (including goodwill) by EUR 341 million (2018: EUR 254 million). Key assumptions used in the calculation of value in use were the discount rate, the terminal value growth rate and the planned EBITDA. These selected assumptions were as follows:

	<b>2019</b>	<b>2018</b>
Discount rate	4.94%	6.10%
Terminal value growth rate	0.50%	2.00%

The EPH Group uses weighted average cost of capital (WACC). The discount rate is a pre-tax measure. Cost of equity is based on the risk-free rate adjusted for a risk premium to reflect both the increase risk of investing in equities generally and the systemic risk of Elektrárny Opatovice, a.s.

Budgeted Adjusted EBITDA was based on an expectation of future outcomes taking into account past experience. In particular, we have reflected the following:

- a. estimated refurbishments necessary to comply with applicable regulations (impact especially on electricity output/sales, OPEX and CAPEX);
- b. market expectations regarding power and CO2 prices, development based on historical trends;
- c. a slight decrease in heat supplies and modest increase of heat prices;
- d. the inflation driven development of various other positions, especially overhead costs.

The Group did not identify any CGU for which reasonably possible change in key management assumptions (EBITDA, terminal growth, discount rate) would cause that recoverable amount would decrease below its carrying amount.

## 18. Investment property

*In millions of EUR*

	<b>31 December 2019</b>	<b>31 December 2018</b>
Opening balance	3	3
Changes during the reporting period	-	-
<b>Closing balance</b>	<b>3</b>	<b>3</b>

### Security

As at 31 December 2019, no investment property is subject to pledges to secure bank loans (2018: EUR 0 million).

## 19. Equity accounted investees

The Group has the following investments in associates and joint ventures:

*In millions of EUR*

		<b>Ownership</b>	<b>Carrying amount</b>
		<b>31 December 2019</b>	<b>31 December 2019</b>
<b>Associates and joint ventures</b>	<b>Country</b>	<b>%</b>	
LEAG Group <sup>(1)</sup>	(3)	50.00	623
SPH Group <sup>(2)</sup>	(3)	(4)	191
Kraftwerk Schkopau GbR	Germany	41.90	66
Ergosud S.P.A.	Italy	50.00	49
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50.00	21
Fernwärme GmbH Hohenmölsen - Webau	Germany	48.96	4
Energotel, a.s.	Slovakia	26.60	1
Greeninvest Energy, a.s. <sup>(5)</sup>	Czech Republic	28.77	1
PT Distribuční, s.r.o.	Czech Republic	58.65	1
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	Poland	38.93	-
<b>Total</b>		<b>-</b>	<b>957</b>

*In millions of EUR*

		<b>Ownership</b>	<b>Carrying amount</b>
		<b>31 December 2018</b>	<b>31 December 2018</b>
<b>Associates and joint ventures</b>	<b>Country</b>	<b>%</b>	
LEAG Group <sup>(1)</sup>	(3)	50.00	717
SPH Group <sup>(2)</sup>	(3)	(4)	191
Kraftwerk Schkopau GbR	Germany	41.90	71
Ergosud S.P.A.	Italy	50.00	57
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50.00	20
Fernwärme GmbH Hohenmölsen - Webau	Germany	48.96	4
Energotel, a.s.	Slovakia	26.60	1
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	Poland	38.93	-
<b>Total</b>		<b>-</b>	<b>1,061</b>

(1) Refer to Note 39 – Group entities for detail of entities included in LEAG Group.

(2) Refer to Note 39 – Group entities for detail of entities included in SPH Group.

(3) Country of incorporation varies, for details refer to Note 39 – Group entities.

(4) Ownership percentage varies, for details refer to Note 39 – Group entities.

(5) The Group has changed the classification of its investment in Greeninvest Energy, a.s. from IFRS 5 to equity accounted investees. The carrying amount has however not changed due to the recognition of an impairment and comparatives were therefore not restated.

### LEAG Group

In 2019, EP Power Europe, a.s. sold 100% share in NADURENE 2, a.s. (and indirect 49% share in subsidiaries held by NADURENE 2, a.s.) to LEAG Group. Subsidiaries held by NADURENE 2, a.s. remain fully consolidated by EPPE Group. LEAG Group's share in EP New Energy Italia S.r.l. and its subsidiary companies and Biomasse Servizi S.r.l. is not included in carrying amount of LEAG Group to prevent double counting, which led to a decrease in the carrying amount of LEAG Group by EUR 36 million. For details refer to Note 6 (d).

### Ergosud S.P.A.

In 2019, the Group reported a valuation allowance of EUR 12 million (2018: EUR 0 million) to its financial investment in Ergosud S.P.A., which was recorded as a result of the impairment test carried out as at 31 December 2019. The impairment test reflects the new commercial agreement that established a lower tolling fee that Ergosud S.P.A. will receive for using of its production capacity from the tollers. The carrying amount of the investment in Ergosud S.P.A. as at 31 December 2019 therefore decreased to EUR 49 million (2018: EUR 57 million).

### Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.

As at 31 December 2019, the Group reported a valuation allowance of EUR 32 million (2018: EUR 32 million) to its financial investment in PGS. In 2018, the Group's share on loss of PGS was EUR 5 million.

As the carrying amount of the investment in PGS decreased to zero in course of 2018, the Group recognized share on loss of EUR 3 million and discontinued recognising its share on further losses. As at 31 December 2019 the unrecognized share on loss in PGS for the year amounts to EUR 99 million and cumulative unrecognized share on loss in PGS amounts to EUR 101 million (31 December 2018: EUR 2 million unrecognized share on loss in PGS both for the year and cumulatively).

### SPH Group

In 2016, EP Slovakia B.V., EPH's subsidiary, completed the first stage of acquisition of 50% shares in Slovak Power Holding B.V. ("SPH"), which is the owner of 66% shares in Slovenské elektrárne a.s. ("SE"). The second stage involves a put or call option for the remaining 50% shares in SPH which may be used by Enel Produzione SpA ("Enel") or EP Slovakia B.V. respectively. The total price for both of the two stages of acquisition is subject to an adjustment mechanism. The adjustment will be applied upon closing of the second stage of the transaction and will reflect certain parameters, including the change in the net financial position of SE, the development of energy prices on the Slovak markets, the efficiency of operation of SE and the enterprise value of the completed third and fourth block of the Mochovce Power Plant. Since 2018, there is an additional parameter – a loan provided by Enel to SPH during 2018 must be repaid by the advance repayment or at the final maturity date (January 2027) as a condition to the use of the put or call option. This amendment to the original mechanism means that the exercise date of said put option by Enel can take place only once the additional condition above is satisfied. EPH call option is not conditional in this respect, however, as part of the settlement of the transfer of the remaining shares in SPH, EPH will take over from Enel the outstanding amount of the loan. The base trigger event for the exercise of the options remain in place, i.e. either (a) 12 months after obtaining the trial operation permit for unit 4 of the Mochovce nuclear power plant; or (b) upon reaching the long stop date, which is defined in share purchase agreement concluded between the parties. The fair value of the put and call options has been assessed by the Group. As the fair value of the option is not significant, the option has not been recognized.

Furthermore, as at 31 December 2019 the Group reported a valuation allowance of EUR 90 million (31 December 2018: EUR 34 million) to its financial investment in SPH. Carrying amount of the investment in SPH Group as at 31 December 2019 was EUR 191 million (2018: EUR 191 million).

The Group has the following shares in the profit (loss) of associates and joint ventures:

*In millions of EUR*

Associates and joint ventures	Country	Ownership	Share of
		31 December 2019	profit (loss) 2019
		%	
LEAG Group	(1)	50.00	131
SPH Group	(1)	(2)	40
Ergosud S.P.A.	Italy	50.00	3
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50.00	3
Kraftwerk Schkopau GbR	Germany	41.90	(2)
<b>Total</b>		<b>-</b>	<b>175</b>

*In millions of EUR*

Associates and joint ventures	Country	Ownership	Share of
		31 December 2018	profit (loss) 2018
		%	
SPH Group	(1)	(2)	15
Ergosud S.P.A.	Italy	50.00	5
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50.00	2
Kraftwerk Schkopau GbR	Germany	41.90	(2)
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	Poland	38.93	(3)
LEAG Group	(1)	50.00	(26)
<b>Total</b>		<b>-</b>	<b>(9)</b>

(1) Country of incorporation varies, for details refer to Note 39 – Group entities.

(2) Ownership percentage varies, for details refer to Note 39 – Group entities.

The table below provides summary financial information for joint venture LEAG, presented at 100% as at 31 December 2019 and 2018 and for the years then ended.

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
<b>Statement of financial position information</b>		
<b>Total assets</b>	<b>5,724</b>	<b>6,418</b>
Non-current assets	2,328	3,015
Current assets	3,396	3,403
<i>of which: cash and cash equivalents</i>	1,208	584
<i>other current assets</i>	2,188	2,819
<b>Total liabilities</b>	<b>4,479</b>	<b>4,983</b>
Non-current liabilities	2,902	2,715
<i>of which: financial liabilities (excluding trade payables)</i>	16	10
<i>other non-current liabilities</i>	2,886	2,705
Current liabilities	1,577	2,268
<i>of which: financial liabilities (excluding trade payables)</i>	966	1,418
<i>other current liabilities</i>	611	850
<b>Equity</b>	<b>1,245</b>	<b>1,435</b>
<b>Statement of comprehensive income information</b>		
Revenues	2,340	2,340
<i>of which: interest income</i>	-	2
Depreciation and amortization	(258)	(254)
Interest expense	(52)	(50)
Income tax expense	-	-
<b>Profit (loss) for the year</b>	<b>262</b>	<b>(52)</b>
Other comprehensive income	(379)	772
<b>Total comprehensive income for the year</b>	<b>(117)</b>	<b>720</b>

Summary financial information for standalone associates, presented at 100% as at 31 December 2019 and for the year then ended.

<i>In millions of EUR</i>		<b>Profit</b>	<b>Other comprehensive income</b>	<b>Total comprehensive income</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>
<b>Associates and joint ventures</b>	<b>Revenue</b>						
SPH Group	2,761	122	55	177	8,056	7,203	853
Kraftwerk Schkopau GbR <sup>(1)</sup>	31	7	-	7	215	106	109
Kraftwerk Schkopau Betriebsgesellschaft GmbH <sup>(1)</sup>	105	-	-	-	7	7	-
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH <sup>(1)</sup>	59	7	-	7	60	30	30
Fernwärme GmbH Hohenmölsen - Webau <sup>(1)</sup>	5	-	-	-	14	4	10
Energotel, a.s.	12	1	-	1	12	5	7
Greeninvest Energy, a.s. <sup>(2)</sup>	4	2	-	2	22	11	11
PT Distribuční, s.r.o.	2	1	-	1	1	1	-
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	104	(255)	-	(255)	91	376	(285)
Ergosud S.P.A.	36	7	-	7	272	150	122
<b>Total</b>	<b>3,119</b>	<b>(108)</b>	<b>55</b>	<b>(53)</b>	<b>8,750</b>	<b>7,893</b>	<b>857</b>

(1) Data from standalone financial statements according to German GAAP.

(2) The Group has changed the classification of its investment in Greeninvest Energy, a.s. from IFRS 5 to equity accounted investees. The carrying amount has however not changed due to the recognition of an impairment and comparatives were therefore not restated.

*In millions of EUR*

	<b>Non-current assets</b>	<b>Current assets</b>	<b>Non-current liabilities</b>	<b>Current liabilities</b>
<b>Associates and joint ventures</b>				
SPH Group	7,390	666	6,418	785
Kraftwerk Schkopau GbR <sup>(1)</sup>	5	210	105	1
Kraftwerk Schkopau Betriebsgesellschaft GmbH <sup>(1)</sup>	-	7	-	7
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH <sup>(1)</sup>	26	34	19	11
Fernwärme GmbH Hohenmölsen - Webau <sup>(1)</sup>	14	-	1	3
Energotel, a.s.	5	7	-	5
Greeninvest Energy, a.s.	18	4	11	-
PT Distribuční, s.r.o.	1	-	1	-
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	53	38	20	356
Ergosud S.P.A.	224	48	124	26
<b>Total</b>	<b>7,736</b>	<b>1,014</b>	<b>6,699</b>	<b>1,194</b>

*(1) Data from standalone financial statements according to German GAAP.*

Summary financial information for standalone associates, presented at 100% as at 31 December 2018 and for the year then ended.

*In millions of EUR*

	<b>Revenue</b>	<b>Profit (loss)</b>	<b>Other compre- hensive income</b>	<b>Total compre- hensive income</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>
<b>Associates and joint ventures</b>							
SPH Group	2,823	46	(78)	(32)	7,609	6,930	679
Kraftwerk Schkopau GbR <sup>(1)</sup>	36	6	-	6	221	112	109
Kraftwerk Schkopau Betriebsgesellschaft GmbH <sup>(1)</sup>	108	-	-	-	22	21	1
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH <sup>(1)</sup>	57	5	-	5	56	28	28
Fernwärme GmbH Hohenmölsen - Webau <sup>(1)</sup>	5	-	-	-	14	5	9
Energotel, a.s.	12	1	-	1	12	5	7
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	169	(15)	-	(15)	270	297	(27)
Ergosud S.P.A.	44	10	-	10	282	167	115
<b>Total</b>	<b>3,254</b>	<b>53</b>	<b>(78)</b>	<b>(25)</b>	<b>8,486</b>	<b>7,565</b>	<b>921</b>

*(1) Data from standalone financial statements according to German GAAP.**In millions of EUR*

	<b>Non-current assets</b>	<b>Current assets</b>	<b>Non-current liabilities</b>	<b>Current liabilities</b>
<b>Associates and joint ventures</b>				
SPH Group	6,701	908	5,960	970
Kraftwerk Schkopau GbR <sup>(1)</sup>	9	212	110	2
Kraftwerk Schkopau Betriebsgesellschaft GmbH <sup>(1)</sup>	-	22	-	21
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH <sup>(1)</sup>	28	28	18	10
Fernwärme GmbH Hohenmölsen - Webau <sup>(1)</sup>	14	-	1	4
Energotel, a.s.	5	7	-	5
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	214	56	278	19
Ergosud S.P.A.	203	79	141	26
<b>Total</b>	<b>7,174</b>	<b>1,312</b>	<b>6,508</b>	<b>1,057</b>

*(1) Data from standalone financial statements according to German GAAP.*

## 20. Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

The following deferred tax assets and (liabilities) have been recognised:

<i>In millions of EUR</i>	31 December	31 December	31 December	31 December	31 December	31 December
	2019	2019	2019	2018	2018	2018
<b>Temporary difference related to:</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>
Property, plant and equipment	26	(1,611)	(1,585)	42	(1,088)	(1,046)
Intangible assets	6	(33)	(27)	12	(26)	(14)
Investment securities at amortised cost	-	(2)	(2)	-	(3)	(3)
Inventories	6	-	6	5	-	5
Trade receivables and other assets	2	-	2	4	-	4
Provisions	127	-	127	117	-	117
Employee benefits (IAS 19)	8	(14)	(6)	6	-	6
Loans and borrowings	-	(15)	(15)	2	(18)	(16)
Tax losses	29	-	29	18	-	18
Derivatives	23	(31)	(8)	16	(30)	(14)
Other items	62	(68)	(6)	6	(5)	1
<b>Subtotal</b>	<b>289</b>	<b>(1,774)</b>	<b>(1,485)</b>	<b>228</b>	<b>(1,170)</b>	<b>(942)</b>
Set-off tax	(204)	204	-	(161)	161	-
<b>Total</b>	<b>85</b>	<b>(1,570)</b>	<b>(1,485)</b>	<b>67</b>	<b>(1,009)</b>	<b>(942)</b>

### Movements in deferred tax during the year

*In millions of EUR*

Balances related to:	Balance at 1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income <sup>(1)</sup>	Acquired in business combinations <sup>(2)</sup>	Effect from PPA corrections <sup>(3)</sup>	Transfer	Effect of movements in foreign exchange rate	Balance at 31 December 2019
Property, plant and equipment	(1,046)	28	(551)	(26)	4	4	2	(1,585)
Intangible assets	(14)	(3)	-	(9)	-	-	(1)	(27)
Investment securities at amortised cost	(3)	-	-	-	-	-	1	(2)
Inventories	5	-	-	1	-	-	-	6
Trade receivables and other assets	4	(2)	-	1	-	-	(1)	2
Provisions	117	(5)	-	-	-	16	(1)	127
Employee benefits (IAS 19)	6	1	3	(16)	-	1	(1)	(6)
Loans and borrowings	(16)	(1)	-	-	-	2	-	(15)
Tax losses	18	11	-	-	-	-	-	29
Derivatives	(14)	(5)	13	-	-	-	(2)	(8)
Other	1	22	-	(8)	-	(23)	2	(6)
<b>Total</b>	<b>(942)</b>	<b>46</b>	<b>(535)</b>	<b>(57)</b>	<b>4</b>	<b>-</b>	<b>(1)</b>	<b>(1,485)</b>

(1) Revaluation of gas pipelines (FV model) in eustream a.s. of negative EUR 551 million.

(2) The purchase of Fusine Energia S.r.L., EP Kilroot Limited and EP Ballylumford Limited, EP France Group, Locon Group and Tynagh Energy Limited.

(3) Finalisation of purchase price allocation process in NAFTA Germany GmbH of EUR 4 million.

*In millions of EUR*

<b>Balances related to:</b>	<b>Balance at 1 January 2018</b>	<b>Recognised in profit or loss</b>	<b>Recognised in other comprehensive income</b>	<b>Acquired in business combinations<sup>(1)</sup></b>	<b>Reclassification</b>	<b>Effect of movements in foreign exchange rate</b>	<b>Balance at 31 December 2018</b>
Property, plant and equipment	(1,054)	20	-	(11)	-	(1)	(1,046)
Intangible assets	(12)	(1)	-	-	-	(1)	(14)
Investment securities at amortised cost	(4)	1	-	-	-	-	(3)
Inventories	4	-	-	-	-	1	5
Trade receivables and other assets	2	2	-	-	-	-	4
Provisions	107	7	(1)	3	-	1	117
Employee benefits (IAS 19)	5	-	-	-	-	1	6
Loans and borrowings	(18)	2	-	-	-	-	(16)
Tax losses	28	(9)	-	-	-	(1)	18
Derivatives	(25)	1	9	-	-	1	(14)
Other	(2)	3	-	-	-	-	1
<b>Total</b>	<b>(969)</b>	<b>26</b>	<b>8</b>	<b>(8)</b>	<b>-</b>	<b>1</b>	<b>(942)</b>

(1) The purchase of Plzeňská teplárenská, a.s. and NAFTA Germany GmbH.

**Unrecognised deferred tax assets**

A deferred tax asset has not been recognised in respect of the following tax losses that are available for carry forward by certain EPH Group entities:

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Tax losses carried forward	370	316
<b>Total</b>	<b>370</b>	<b>316</b>

A deferred tax asset that has not been recognised in respect of the tax losses is attributable to the following entities:

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Slovak Gas Holding B.V.	161	158
Seattle Holding B.V.	96	77
EPH Gas Holding B.V.	55	53
Gazel Energie Generation S.A.S.	36	-
Czech Gas Holding Investment B.V.	12	11
PT Holding Investments B.V.	4	4
EPPE Germany a.s.	3	3
SPP Infrastructure	2	2
EP France S.A.S.	1	-
WOOGEL LIMITED	-	1
EPPE Italy N.V.	-	3
EP Infrastructure a.s.	-	2
Other	-	2
<b>Total</b>	<b>370</b>	<b>316</b>

The entities in the table represent holding companies with insignificant operating activities. The Group does not expect significant taxable profit growth on these entities, so no deferred tax was recognised. If sufficient taxable profit were to be achieved in 2019, then the associated tax income (savings) would be up to EUR 83 million (2018: EUR 65 million).

A deferred tax asset is recognised for the carry-forward of unused tax losses only to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. An estimate of the expiry of tax losses is shown below:

	<b>2020</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>After 2024</b>	<b>Total</b>
<b>Tax losses</b>	1	3	1	3	362	<b>370</b>

Tax losses expire over a period of 5 years in the Czech Republic, 4 years in Slovakia, 9 years in the Netherlands for standard tax losses and indefinitely in France. Under current tax legislation, some deductible temporary differences do not expire. Deferred tax assets have not been recognised in respect of these items because, due to the varying nature of the sources of these profits, it is not probable that future taxable profit against which the Group can utilise the benefits from the deferred tax assets will be available.

## 21. Inventories

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Fossil fuel	150	51
Spare parts	111	63
Raw material and supplies	73	87
Overburden	31	23
Finished goods and merchandise	9	20
Work in progress	4	7
<b>Total</b>	<b>378</b>	<b>251</b>

In 2019, inventories of EUR 2,537 million (2018: EUR 2,485 million) were recognized as an expense during the year and included in Cost of sales.

As at 31 December 2019, inventories in the amount of EUR 43 million (2018: EUR 52 million) were subject to pledges.

## 22. Trade receivables and other assets

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Trade receivables	848	775
Accrued income	167	103
Advance payments	130	135
Uninvoiced supplies	104	-
Subsidies related to renewable energy	52	36
Estimated receivables	11	8
Other receivables and assets	88	84
Allowance for bad debts	(26)	(44)
<b>Total</b>	<b>1,374</b>	<b>1,097</b>
<i>Non-current</i>	147	190
<i>Current</i>	1,227	907
<b>Total</b>	<b>1,374</b>	<b>1,097</b>

In 2019, EUR 10 million receivables were written off through profit or loss (2018: EUR 1 million).

As at 31 December 2019, trade receivables with a carrying value of EUR 204 million are subject to pledges (2018: EUR 142 million).

As at 31 December 2019, trade receivables and other assets amounting EUR 1,348 million are not past due (2018: EUR 1,083 million), remaining balance of EUR 26 million is overdue (2018: EUR 14 million). For more detailed aging analysis refer to Note 37(a) ii – Risk management – Credit risk: Impairment losses.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 37 – Risk management policies and disclosures.

## 23. Cash and cash equivalents

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Current accounts with banks	1,246	867
Term deposits	-	139
<b>Total</b>	<b>1,246</b>	<b>1,006</b>

Term deposits and bills of exchange issued by banks with original maturity of up to three months are classified as cash equivalents.

As at 31 December 2019, cash equivalents of EUR 99 million are subject to pledges (2018: EUR 180 million).

## 24. Restricted cash

As at 31 December 2019, the balance of restricted cash is represented mainly by EUR 20 million cash on debt service reserve account by EP UK Finance Limited (2018: EUR 0 million). EUR 15 million (2018: EUR 21 million) represents security given by Eggborough Power Limited (“EPL”) to the pension fund, this is expected to remain in place until risk on the schemes funding deficit is eliminated. EUR 3 million is restricted cash in form of commercial deposit amounts or collateral for gas and power exchange and trade by Budapesti Erőmű Zrt. EUR 3 million restricted cash on Pension Escrow accounts and EUR 1 million as a collateral for electricity market is recorded by EP Ballylumford Limited and EP Kilroot Limited (2018: EUR 0 million). EUR 1 million is represented by collateralised cash with National Grid relating to grid connection charges and EUR 1 million represented by collateral with National Grid relating to balancing mechanism (deposited with Elexon) by EP UK Investments LTD (2018: EUR 2 million represented by collateralised cash with National Grid and EUR 2 million collateral with National Grid relating to balancing mechanism deposited with Elexon) and EUR 1 million represents cash on major maintenance reserve account by Tynagh Energy Limited.

## 25. Tax receivables

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Value added tax receivables	152	98
Current income tax receivables	11	55
Withholding tax	2	1
Energy tax	-	1
Other tax receivables	16	8
<b>Total</b>	<b>181</b>	<b>163</b>

## 26. Assets and liabilities held for sale

As at 31 December 2019 and 31 December 2018, balances of assets held for sale and liabilities held for sale are represented by Nová Invalidovna, a.s. This entity does not represent business but a group of land plots and unused buildings.

## 27. Equity

### Share capital, share premium and reserve for own shares

The authorised, issued and fully paid share capital as at 31 December 2019 consisted of 18,344,932 ordinary shares with a par value of CZK 100 each (2018: 18,344,932 shares) and 1,700,641,760 ordinary shares with a par value of CZK 1 each (2018: 1,700,641,760 shares).

The shareholders are entitled to receive dividends and to one vote per 1 CZK share and 100 votes per 100 CZK share, at meetings of the Company's shareholders.

31 December 2019	Number of shares		Ownership %	Voting rights %
	1 CZK	100 CZK		
EP Investment S.à.r.l.	1,574,538,029	2,990,835	53.00	53.00
EP Investment II S.à.r.l. (owned by Daniel Křetínský)	126,103,731	15,354,097	47.00	47.00
<b>Total</b>	<b>1,700,641,760</b>	<b>18,344,932</b>	<b>100.00</b>	<b>100.00</b>

31 December 2018	Number of shares		Ownership %	Voting rights %
	1 CZK	100 CZK		
EP Investment S.à.r.l.	1,574,538,029	2,990,835	53.00	53.00
EP Investment II S.à.r.l. (owned by Daniel Křetínský)	126,103,731	15,354,097	47.00	47.00
<b>Total</b>	<b>1,700,641,760</b>	<b>18,344,932</b>	<b>100.00</b>	<b>100.00</b>

The reconciliation of the number of shares outstanding at the beginning and at the end of the year is provided as follows:

	Number of shares 2019	
	1 CZK	100 CZK
Shares outstanding at the beginning of the year	1,700,641,760	18,344,932
<b>Shares outstanding at the end of the year</b>	<b>1,700,641,760</b>	<b>18,344,932</b>

	Number of shares 2018	
	1 CZK	100 CZK
Shares outstanding at the beginning of the year	2,155,568,900	28,946,239
Own shares cancelled on 19 September 2018	(454,927,140)	(10,601,307)
<b>Shares outstanding at the end of the year</b>	<b>1,700,641,760</b>	<b>18,344,932</b>

### Share premium

The Company recognised a Share premium of EUR 64 million in 2012.

### Reserve for own shares

On 19 September 2018, own shares were cancelled and the difference between the nominal value and purchase price in excess over the nominal value of EUR 1,444 million originally presented as reserve for own shares was released to retained earnings.

Reserves recognised in equity comprise the following items:

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Revaluation reserve	534	-
Hedging reserve	237	475
Other capital funds from capital contributions	23	23
Non-distributable reserves	16	12
Fair value reserve	(41)	(17)
Other capital reserves	(54)	(54)
Translation reserve	(109)	(102)
<b>Total</b>	<b>606</b>	<b>337</b>

#### **Non-distributable reserves**

The legal reserve of EUR 16 million was reported as at 31 December 2019 (2018: EUR 12 million).

#### **Translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations of the Group and translation of the consolidated financial statements to presentation currency.

#### **Other capital reserves**

In 2009, the Group accounted for pricing differences that arose both from establishment of the Group as at 10 August 2009 and acquisition of certain new subsidiaries in the subsequent periods prior to 9 October 2009. Such subsidiaries were acquired under common control of J&T Finance Group, a.s. (which held controlling interest in the Group at the time of acquisition of the subsidiaries), and therefore excluded from scope of IFRS 3, which defines recognition of goodwill raised from business combination as the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Acquirees under common control are recorded at the book value, which was presented in the financial statements of J&T Finance Group, a.s. (i.e. including historical goodwill less potential impairment). The difference between the cost of acquisition, carrying values of net assets and original goodwill carried forward as at the acquisition date was recorded in consolidated equity as pricing differences.

In 2010, in relation to the disposal of certain subsidiaries the revaluation reserve increased by EUR 74 million. The amount corresponds not only to pricing differences assigned directly to disposed subsidiaries but also to their direct parent companies (SPEs), which, although they remained in scope, are not cash generating units as standalones and thereby do not carry any goodwill potential.

In 2011, other capital reserves increased further by EUR 56 million in relation to the several subsidiaries that were spun off to EP Industries, a.s. as a part of non-cash dividend distribution.

In 2013, other capital reserves increased by EUR 1 million due to the process of restructuring of SPP Group.

#### **Hedging reserves**

The effective portion of fair value changes in financial derivatives designated as cash flow hedges are recognised in equity (for more details please refer to Note 33 – Financial instruments and Note 37 – Risk management policies and disclosure).

#### **Revaluation reserve**

Revaluation reserve primarily represents an effect from revaluation of gas transmission pipeline as per IAS 16 to fair value beginning 1 January 2019. The fixed assets revaluation effect including a relevant deferred tax impact totalled EUR 534 million as of 31 December 2019. For detail refer to Note 3(a) and Note 4(a).

## 28. Earnings per share

### Basic earnings per share

Basic earnings per share in EUR per equivalent 1,000 CZK of share nominal value equal 0.09 (2018: 0.05).

The calculation of basic earnings per share as at 31 December 2019 was based on a profit attributable to ordinary shareholders of EUR 309 million (2018: EUR 186 million), and a weighted average number of ordinary shares outstanding of 3,535 million (2018: 3,535 million).

### Weighted average number of ordinary shares 2019

*In millions of shares*

	Nominal	Weighted
Issued ordinary shares as at 1 January 2019	3,535	3,535
<b>Total</b>	<b>3,535</b>	<b>3,535</b>

### Weighted average number of ordinary shares 2018

*In millions of shares*

	Nominal	Weighted
Issued ordinary shares as at 1 January 2018	3,535	3,535
<b>Total</b>	<b>3,535</b>	<b>3,535</b>

### Dilutive earnings per share

As the Group 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.

## 29. Non-controlling interest

31 December 2019	Pražská teplárenská a.s. and its subsidiaries	Stredoslo- venská energetika, a.s. and its subsidiaries	NAFTA a.s. and its subsidiaries	SPP Infrastruc- ture, a.s. and its subsidiaries <sup>(3)</sup>	SPP – distribúcia, a.s. and its subsidiaries	EP Produzione Centrale Livorno Ferraris S.P.A.	eustream, a.s.	Plzeňská teplárenská, a.s.	Other subsidiaries <sup>(4)</sup>	Total
<i>In millions of EUR</i>										
<b>Non-controlling percentage</b>	<b>31.00%</b>	<sup>(5)</sup> <b>66.19%</b>	<b>52.41%</b>	<sup>(5)</sup> <b>66.19%</b>	<sup>(5)</sup> <b>66.19%</b>	<b>25.00%</b>	<sup>(5)</sup> <b>66.19%</b>	<sup>(5)</sup> <b>75.85%</b>		
Business activity	Production and distribution of heat	Distribution of electricity	Gas storage and exploration	Distribution of gas	Distribution of gas	Production of electricity and heat	Distribution of gas	Production and distribution of heat		
Country <sup>(1)</sup>	Czech Republic	Slovakia	Germany, Slovakia	Slovakia	Slovakia	Italy	Slovakia	Czech Republic		
<b>Carrying amount of NCI at 31 December 2019</b>	<b>84</b>	<b>623</b>	<b>172</b>	<b>(369)</b>	<b>1,068</b>	<b>42</b>	<sup>(6)</sup> <b>1,409</b>	<b>151</b>	<b>(576)</b>	<b>2,604</b>
<b>Profit (loss) attributable to non- controlling interest</b>	<b>7</b>	<b>84</b>	<b>42</b>	<b>-</b>	<b>89</b>	<b>2</b>	<b>272</b>	<b>10</b>	<b>10</b>	<b>516</b>
<b>Dividends declared</b>	<b>(9)</b>	<b>(5)</b>	<b>(1)</b>	<b>(340)</b>	<b>-</b>	<b>(4)</b>	<b>-</b>	<b>(8)</b>	<sup>(7)</sup> <b>(131)</b>	<b>(498)</b>
<b>Statement of financial position<sup>(2)</sup></b>										
Total assets	343	1,256	855	6,253	2,781	211	4,736	252		
<i>of which: non-current</i>	275	827	757	<sup>(8)</sup> 5,461	2,233	138	4,335	196		
<i>current</i>	68	429	98	792	548	73	401	56		
Total liabilities	72	314	527	1,746	1,168	41	2,606	52		
<i>of which: non-current</i>	42	142	476	546	1,018	12	1,702	24		
<i>current</i>	30	172	51	1,200	150	29	904	28		
<b>Net assets</b>	<b>271</b>	<b>942</b>	<b>328</b>	<b>4,507</b>	<b>1,613</b>	<b>170</b>	<b>2,130</b>	<b>200</b>	<b>-</b>	<b>-</b>
<b>Statement of comprehensive income<sup>(2)</sup></b>										
Total revenues	204	1,209	217	654	440	248	830	115		
<i>of which: dividends received</i>	-	-	-	<sup>(9)</sup> 608	-	-	-	-		
Profit after tax	23	127	80	608	134	7	412	13		
Total other comprehensive income for the period, net of tax		-	3	-	1	-	1,612	-		
<b>Total comprehensive income for the year<sup>(2)</sup></b>	<b>23</b>	<b>127</b>	<b>83</b>	<b>608</b>	<b>135</b>	<b>7</b>	<b>2,024</b>	<b>13</b>	<b>-</b>	<b>-</b>
<b>Net cash inflows (outflows)<sup>(2)</sup></b>	<b>-</b>	<b>86</b>	<b>(13)</b>	<b>4</b>	<b>21</b>	<b>1</b>	<b>188</b>	<b>3</b>	<b>-</b>	<b>-</b>

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 39 – Group entities).

(2) Financial information derived from financial statements prepared in accordance with IFRS including fair value adjustments arising from the acquisition by the Group.

(3) Excluding NAFTA a.s. and its subsidiaries, SPP Storage, s.r.o. and SPP – distribúcia, a.s. and its subsidiaries, eustream, a.s. and POZAGAS a.s.

- (4) *Column “Other subsidiaries” represents primarily 31% non-controlling interest in holding entities in EPIF Group. The non-controlling interest in these entities is negative as the consolidated net asset value of the entities after elimination of investment in subsidiaries is negative.*
- (5) *Even though the immediate parent companies holds less than half of the voting rights, the Group assumes its control over the subgroups through shareholders’ agreements that provide the Group with management control as the shareholder’s agreement provides the Group with right and ability to manage subgroups activities and influence thus their performance and return on the investment.*
- (6) *Increase of non-controlling interest on eustream, a.s. relates to revaluation of property, plant and equipment of EUR 2,166 million increasing non-controlling interest by EUR 1,070 million.*
- (7) *Dividends in amount of EUR 124 million were paid by EP Infrastructure, a.s.*
- (8) *Includes financial investments in eustream, a.s., SPP – distribúcia, a.s., NAFTA, a.s. and POZAGAS a.s. eliminated in calculation of NCI.*
- (9) *Includes dividends from eustream, a.s., SPP – distribúcia, a.s., NAFTA, a.s. and POZAGAS a.s. eliminated in calculation of NCI.*

<b>31 December 2018</b>	<b>Pražská teplárenská a.s. and its subsidiaries</b>	<b>Stredoslo- venská energetika, a.s. and its subsidiaries</b>	<b>NAFTA a.s. and its subsidiaries</b>	<b>SPP Infrastruc- ture, a.s. and its subsidiaries<sup>(3)</sup></b>	<b>SPP – distribúcia, a.s. and its subsidiaries</b>	<b>EP Produzione Centrale Livorno Ferraris S.P.A.</b>	<b>eustream, a.s.</b>	<b>Plzeňská teplárenská, a.s.</b>	<b>Other subsidiaries<sup>(4)</sup></b>	<b>Total</b>
<i>In millions of EUR</i>										
<b>Non-controlling percentage</b>	<b>31.00%</b>	<b><sup>(8)</sup>66.19%</b>	<b>52.41%</b>	<b><sup>(8)</sup>66.19%</b>	<b><sup>(8)</sup>66.19%</b>	<b>25.00%</b>	<b><sup>(8)</sup>66.19%</b>	<b><sup>(8)</sup>75.85%</b>		
Business activity	Production and distribution of heat	Distribution of electricity	Gas storage and exploration	Distribution of gas	Distribution of gas	Production of electricity and heat	Distribution of gas	Production and distribution of heat		
Country <sup>(1)</sup>	Czech Republic	Slovakia	Slovakia	Slovakia	Slovakia	Italy	Slovakia	Czech Republic		
<b>Carrying amount of NCI at 31 December 2018</b>	<b>85</b>	<b>545</b>	<b>166</b>	<b>(327)</b>	<b>1,064</b>	<b>45</b>	<b>333</b>	<b>148</b>	<b>(555)</b>	<b>1,504</b>
<b>Profit (loss) attributable to non-controlling interest</b>	<b>7</b>	<b>34</b>	<b>36</b>	<b>-</b>	<b>104</b>	<b>1</b>	<b>260</b>	<b>5</b>	<b>(3)</b>	<b>444</b>
<b>Dividends declared</b>	<b>(1)</b>	<b>(3)</b>	<b>(1)</b>	<b>(448)</b>	<b>-</b>	<b>(2)</b>	<b>-</b>	<b>-</b>	<b><sup>(5)</sup>(71)</b>	<b>(526)</b>
<b>Statement of financial position<sup>(2)</sup></b>										
Total assets	341	1,120	964	6,268	2,723	238	2,418	237		
<i>of which: non-current</i>	270	711	720	<sup>(6)</sup> 6,214	2,305	151	2,237	186		
<i>current</i>	71	409	244	54	418	87	181	51		
Total liabilities	67	297	648	1,702	1,116	60	1,916	42		
<i>of which: non-current</i>	32	115	336	1,228	1,014	15	1,765	22		
<i>current</i>	35	182	312	474	102	45	151	20		
<b>Net assets</b>	<b>274</b>	<b>823</b>	<b>316</b>	<b>4,566</b>	<b>1,607</b>	<b>178</b>	<b>502</b>	<b>195</b>	<b>-</b>	<b>-</b>
<b>Statement of comprehensive income<sup>(2)</sup></b>										
Total revenues	204	1,019	156	1,052	414	260	757	27		
<i>of which: dividends received</i>	-	-	-	<sup>(7)</sup> 1,006	-	-	-	-		
Profit after tax	23	52	69	1,006	158	5	395	7		
<b>Total comprehensive income for the year<sup>(2)</sup></b>	<b>23</b>	<b>52</b>	<b>69</b>	<b>1,006</b>	<b>158</b>	<b>5</b>	<b>395</b>	<b>7</b>	<b>-</b>	<b>-</b>
<b>Net cash inflows (outflows)<sup>(2)</sup></b>	<b>(21)</b>	<b>94</b>	<b>4</b>	<b>8</b>	<b>31</b>	<b>15</b>	<b>(17)</b>	<b>-</b>	<b>-</b>	<b>-</b>

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 39 – Group entities).

(2) Financial information derived from financial statements prepared in accordance with IFRS including fair value adjustments arising from the acquisition by the Group.

(3) Excluding NAFTA a.s. and its subsidiaries, SPP Storage, s.r.o. and SPP – distribúcia, a.s. and its subsidiaries, eustream, a.s. and its subsidiaries and POZAGAS a.s.

(4) Column “Other subsidiaries” represents primarily 31% non-controlling interest in holding entities in EPIF Group. The non-controlling interest in these entities is negative as the consolidated net asset value of the entities after elimination of investment in subsidiaries is negative.

(5) Dividends in amount of EUR 71 million were paid by EP Infrastructure, a.s.

(6) Includes financial investments in eustream, a.s., SPP – distribúcia, a.s., NAFTA, a.s. and POZAGAS eliminated in calculation of NCI.

(7) Includes dividends from eustream, a.s., SPP – distribúcia, a.s., NAFTA, a.s. and POZAGAS a.s. eliminated in calculation of NCI.

- (8) *Even though the immediate parent companies holds less than half of the voting rights, the Group assumes its control over the subgroups through shareholders' agreements that provide the Group with management control as the shareholder's agreement provides the Group with right and ability to manage subgroups activities and influence thus their performance and return on the investment.*

### 30. Loans and borrowings

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Issued debentures at amortised costs	4,078	3,313
Loans payable to credit institutions	1,684	2,123
Revolving credit facility	369	406
Lease liabilities	145	<sup>(1)</sup> 2
Factoring loans	54	43
Bank overdraft	49	39
Loans payable to other than credit institutions	12	17
<b>Total</b>	<b>6,391</b>	<b>5,943</b>
<i>Non-current</i>	4,666	4,915
<i>Current</i>	1,725	1,028
<b>Total</b>	<b>6,391</b>	<b>5,943</b>

1) As at 31 December 2018, the balance represents finance lease liability under IAS 17.

The weighted average interest rate on loans and borrowings (excluding debentures) for 2019 was 2.04% (2018: 2.32%).

#### Issued debentures at amortised costs

Details about debentures issued as at 31 December 2019 are presented in the following table:

<i>In millions of EUR</i>	<b>Principal</b>	<b>Accrued interest</b>	<b>Unamortised transactions cost/premium /discounts</b>	<b>Maturity</b>	<b>Interest rate (%)</b>	<b>Effective interest rate (%)</b>
SPP Infrastructure Financing bond I	750	13	-	18/07/2020	3.750	3.773/3.717
SPP Infrastructure Financing bond II	500	12	(4)	12/02/2025	2.625	2.685
SPPD bond	500	8	(1)	23/06/2021	2.625	2.828
EP Infrastructure 2024 notes	750	8	(4)	26/04/2024	1.659	1.786
EP Infrastructure 2026 notes	600	4	(4)	30/07/2026	1.698	1.795
EP Infrastructure 2027 Private offering	70	-	(1)	08/04/2027	2.150	2.360
EP Infrastructure 2028 notes	500	2	(3)	09/10/2028	2.045	2.117
EPH Financing CZ 2020 notes	118	-	-	09/06/2020	3.500	3.900
EPH Financing CZ 2022 notes	102	2	-	16/07/2022	<sup>(1)</sup> 4.220	3.440
EPH Financing SK 2020 notes	75	1	-	28/08/2020	3.500	4.060
EPH 2020 Private placement I	61	-	1	08/03/2020	2.500	2.500
EPH 2020 Private placement II	18	-	-	28/06/2020	2.500	2.500
<b>Total</b>	<b>4,044</b>	<b>50</b>	<b>(16)</b>	<b>-</b>	<b>-</b>	<b>-</b>

1) Interest rate is a combination of reference interest rate (6M PRIBOR) and margin of 2.00% p.a. set for relevant interest period.

Details about debentures issued as at 31 December 2018 are presented in the following table:

<i>In millions of EUR</i>	<b>Principal</b>	<b>Accrued interest</b>	<b>Unamortised transactions cost/premium /discounts</b>	<b>Maturity</b>	<b>Interest rate (%)</b>	<b>Effective interest rate (%)</b>
SPP Infrastructure Financing bond I	750	13	(1)	18/07/2020	3.750	3.773/3.717
SPP Infrastructure Financing bond II	500	12	(4)	12/02/2025	2.625	2.685
EP Infrastructure 2024 notes	750	8	(5)	26/04/2024	1.659	1.786
SPPD bond	500	7	(3)	23/06/2021	2.625	2.828
EP Energy 2019 notes	499	5	(2)	01/11/2019	5.875	6.301
EPH Financing CZ 2020 notes	117	-	-	09/06/2020	3.500	3.590
EPH Financing CZ 2022 notes	94	1	(3)	16/07/2022	<sup>(1)</sup> 3.270	3.380
EPH Financing SK 2020 notes	75	1	(1)	28/08/2020	3.500	4.060
<b>Total</b>	<b>3,285</b>	<b>47</b>	<b>(19)</b>	<b>-</b>	<b>-</b>	<b>-</b>

1) Interest rate is a combination of reference interest rate (6M PRIBOR) and margin of 2.00% p.a. set for relevant interest period.

#### EP Infrastructure bonds (2024 Notes)

On 26 April 2018, EP Infrastructure, a.s. successfully placed at par its debut international offering of EUR 750 million. Notes are issued in nominal value of EUR 100,000 each and bear 1.659% fixed rate and are unsecured (“2024 Notes”). The 2024 Notes are listed on Irish Stock Exchange (Euronext Dublin). Unless previously redeemed or cancelled, the 2024 Notes will be redeemed at their principal amount on 26 April 2024.

The Group may prematurely redeem all, but not part of the 2024 Notes at a redemption price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, plus a “make whole” premium. Further, the Group may redeem all, but not part of the 2024 Notes at a price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax laws. Upon the occurrence of a certain change of control events, the Group may be required to offer to redeem the 2024 Notes prematurely at the principal amount of 100% of the prematurely redeemed, plus accrued and unpaid interest and additional amounts, if any.

The 2024 Notes contain a covenant limiting certain types of distributions to issuer’s shareholders in certain circumstances. The EPIF Group has to monitor the ratio of total amount of Group’s net debt to Group’s EBITDA (i.e. net leverage) before certain types of distributions are carried out.

The 2024 Notes are stated net of debt issue costs of EUR 5 million (at inception). These costs are allocated to the profit and loss account over the term of the 2024 Notes through the effective interest rate of 1.786%.

#### EP Infrastructure bonds (2026 Notes)

On 30 July 2019, EP Infrastructure, a.s. successfully placed at par its offering of EUR 600 million 1.698% fixed rate unsecured notes due in July 2026 in the denomination of EUR 100,000 each (“2026 Notes”). The 2026 Notes are listed on Irish Stock Exchange (Euronext Dublin). Unless previously redeemed or cancelled, the 2026 Notes will be redeemed at their principal amount on 30 July 2026. The Group may prematurely redeem all, but not part of the 2026 Notes at a redemption price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, plus a “make whole” premium. Further, the Group may redeem all, but not part of the 2026 Notes at a price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax laws. Upon the occurrence of a certain change of control events, the Group may be required to offer to redeem the 2026 Notes prematurely at the principal amount of 100% of the prematurely redeemed, plus accrued and unpaid interest and additional amounts, if any.

The 2026 Notes contain a covenant limiting certain types of distributions to issuer’s shareholders in certain circumstances. The EPIF Group has to monitor the ratio of total amount of Group’s net debt to Group’s EBITDA (i.e. net leverage) before certain types of distributions are carried out. The 2026 Notes are stated net of debt issue costs of EUR 4 million. These costs are allocated to the profit and loss over the term of the 2026 Notes through the effective interest rate of 1.795%.

#### Private Offering (2027 Notes)

On 8 April 2019, EP Infrastructure, a.s. placed EUR 70 million eight-year notes, which were accepted for trading at the Third Market operated by Vienna Stock Exchange. The notes bear interest at 6M EURIBOR +2.15%, are unsecured and due in April 2027 (“Private Offering”). The Group may prematurely redeem all, but not part of the Private Offering at a redemption price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, plus a “make whole” premium. Further, the Group may redeem all, but not part of the Private Offering at a price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax laws. Upon the occurrence of a certain change of control events, the Group may be required to offer to redeem the Private Offering prematurely at the principal amount of 100% of the prematurely redeemed, plus accrued and unpaid interest and additional amounts, if any.

The Private Offering is stated net of debt issue costs of EUR 1 million. These costs are allocated to the profit and loss over the term of the Private Offering through the effective interest rate of 2.36%.

#### EP Infrastructure bonds (2028 Notes)

On 9 October 2019, EP Infrastructure, a.s. successfully placed at par its offering of EUR 500 million 2.045% fixed rate unsecured notes due in October 2028 in the denomination of EUR 100,000 each (“2028 Notes”). The 2028 Notes are listed on Irish Stock Exchange (Euronext Dublin). Unless previously redeemed or cancelled, the 2028 Notes will be redeemed at their principal amount on 9 October 2028.

The Group may prematurely redeem all, but not part, of the 2028 Notes at a redemption price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, plus a “make whole” premium. Further, the Group may redeem all, but not part of the 2028 Notes at a price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax laws. Upon the occurrence of a certain change of control events, the Group may be required to offer to redeem the 2028 Notes prematurely at the principal amount of 100% of the prematurely redeemed, plus accrued and unpaid interest and additional amounts, if any.

The 2028 Notes contain a covenant limiting certain types of distributions to issuer’s shareholders in certain circumstances. The EPIF Group has to monitor the ratio of total amount of Group’s net debt to Group’s EBITDA (i.e. net leverage) before certain types of distributions are carried out. The 2028 Notes are stated net of debt issue costs of EUR 3 million. These costs are allocated to the profit and loss over the term of the 2028 Notes through the effective interest rate of 2.117%.

#### SPP Infrastructure Financing bond (2020 Notes)

The first tranche of guaranteed notes in the amount of EUR 500 million was issued on 18 July 2013 and the second tranche in the amount of EUR 250 million was issued on 10 September 2013. The notes are due in 2020 (“2020 Notes”) and are listed on the official market of the Irish Stock Exchange. The 2020 Notes bear an interest of 3.75% per annum, payable annually in arrears on 18 July of each year. The 2020 Notes were issued by SPP Infrastructure Financing B.V., and are guaranteed by eustream, a.s.

The terms and conditions pursuant to which the 2020 Notes were issued contain a limited number of restrictive covenants, mainly negative pledges.

The 2020 Notes are stated net of debt issue costs of EUR 5 million (at inception). These costs are allocated to the profit and loss account over the term of the 2020 Notes through the effective interest rates of 3.773% (first tranche) and 3.717% (second tranche).

The proceeds of the 2020 Notes were on-lent to eustream, a.s. via the purchase of 2020 Intra-group notes issued by eustream, a.s. bearing 4.12% p.a. while interest payments are aligned to effectively finance payments by SPP Infrastructure Financing B.V.

#### 2021 SPPD bond

On 23 June 2014, SPP - distribúcia, a.s. issued bonds in the amount of EUR 500 million with a fixed interest rate of 2.625% p.a. The maturity of bonds is on 23 June 2021. The 2021 SPPD bond is stated net of debt issue costs of EUR 3 million (at inception). These costs are allocated to the profit and loss account through the effective interest rate of 2.828%.

#### SPP Infrastructure Financing bond II (2025 Notes)

On 12 February 2015, SPP Infrastructure Financing B.V. issued bonds in the amount of EUR 500 million with a fixed interest rate of 2.625% p.a. The maturity of bonds is on 12 February 2025. The 2020 SPP IF bond is stated net of debt issue costs of EUR 1 million (at inception). These costs are allocated to the profit and loss account through the effective interest rate of 2.685%.

#### EPH Financing SK (2020 Notes)

On 28 February 2017, EPH Financing SK, a.s. issued bonds in the amount of EUR 6 million with a fixed interest rate of 3.500% p.a. In 2017 additional bonds in the amount of EUR 48 million were subscribed and in 2018 additional bonds in the amount of EUR 21 million were subscribed. Total principal of bonds issued as at 31 December 2019 amounts to EUR 75 million. The maturity of bonds is on 28 August 2020. The EPH Financing SK bond is stated net of debt issue costs of EUR 1 million (at inception). These costs are allocated to the profit and loss account through the effective interest rate of 4.06%.

EPH Financing CZ (2020 Notes)

On 9 December 2016, EPH Financing CZ, a.s. issued bonds in the amount of EUR 22 million (CZK 600 million) with a fixed interest rate of EUR 3.500% p.a. In 2017, additional bonds in the amount of EUR 91 million (CZK 2,400 million) were subscribed. Total principal of bonds issued as at 31 December 2019 amounts to EUR 118 million (CZK 3,000 million). The maturity of bonds is on 9 June 2020.

EPH Financing CZ, a.s. may redeem some or all of the 2020 Notes at any time and price on the market or otherwise. Unless redeemed prematurely (the option of premature redemption is not currently being considered by the company), the 2020 Notes will be redeemed by the Group in their principal amount on 9 June 2020.

The EPH Financing CZ 2020 bond is stated net of debt issue costs. These costs are allocated to the profit and loss account through the effective interest rate of EUR 3.59%.

EPH Financing CZ (2022 Notes)

On 16 July 2018, EPH Financing CZ, a.s. issued bonds with the expected total principal amount of EUR 117 million (CZK 3,000 million), with a possibility to increase the total principal of the bonds by 50% to CZK 4,500 million. Total principal of bonds issued as at 31 December 2019 amounts to EUR 102 million (CZK 2,601 million). The maturity of the bonds is 16 July 2022.

The 2022 Notes bear a combined interest of variable interest reference rate 6M PRIBOR and margin of 2.00% per annum, payable semi-annually in arrears on 16 January and 16 July of each year.

EPH Financing CZ, a.s. may redeem some or all of the 2022 Notes at any time and price on the market or otherwise. Unless redeemed prematurely (the option of premature redemption is not currently being considered by the company), the 2022 Notes will be redeemed by the Group in their principal amount on 16 July 2022.

The EPH Financing CZ 2022 bond is stated net of debt issue costs. These costs are allocated to the profit and loss account through the effective interest rate of EUR 3.44%.

EPH 2020 Private placements

On 8 March 2019, Energetický a průmyslový holding, a.s. issued 1-Year Fixed Rate Private Placement Bonds due 8 March 2020 in the total nominal volume of EUR 61,897,934 (the "Issue"). EPH has used the proceeds of the Issue for general corporate purposes.

On 28 June 2019, Energetický a průmyslový holding, a.s. issued 1-Year Fixed Rate Private Placement Bonds due 28 June 2020 in the total nominal volume of EUR 18,175,576 (the "Issue"). EPH has used the proceeds of the Issue for general corporate purposes.

## Other loans and borrowings

### Terms and debt repayment schedule

Terms and conditions of outstanding loans as at 31 December 2019 were as follows:

<i>In millions of EUR</i>	<b>Cur- rency</b>	<b>Nominal interest rate</b>	<b>Year of maturity (up to)</b>	<b>Balance at 31/12/19</b>	<b>Due within 1 year</b>	<b>Due in 1–5 years</b>	<b>Due in following years</b>
Unsecured bank loan	EUR	variable*	2029	1,231	281	776	174
Secured bank loan	GBP	variable*	2023	206	45	161	-
Secured bank loan	EUR	variable*	2025	149	48	84	17
Unsecured bank loan	EUR	fixed	2033	98	83	10	5
Unsecured loan	EUR	fixed	2027	8	-	6	2
Unsecured loan	CZK	fixed	2025	3	-	3	-
Unsecured loan	PLN	variable*	2025	1	-	1	-
Revolving credit facility	EUR	variable*	2024	296	25	271	-
Revolving credit facility	GBP	variable*	2023	47	12	35	-
Revolving credit facility	EUR	fixed	2020	16	16	-	-
Revolving credit facility	CZK	variable	2020	10	10	-	-
Factoring loan	EUR	variable*	2020	44	44	-	-
Factoring loan	EUR	fixed	2020	10	10	-	-
Bank overdraft	EUR	variable*	2020	47	47	-	-
Bank overdraft	CZK	variable*	2020	2	2	-	-
Lease liabilities	-	-	-	145	29	65	51
<b>Total interest-bearing liabilities</b>				<b>2,313</b>	<b>652</b>	<b>1,412</b>	<b>249</b>

\* Variable interest rate is derived as PRIBOR, EURIBOR or LIBOR plus a margin. All interest rates are market based.

Terms and conditions of outstanding loans as at 31 December 2018 were as follows:

<i>In millions of EUR</i>	<b>Cur- rency</b>	<b>Nominal interest rate</b>	<b>Year of maturity (up to)</b>	<b>Balance at 31/12/18</b>	<b>Due within 1 year</b>	<b>Due in 1–5 years</b>	<b>Due in following years</b>
Secured bank loan	EUR	variable*	2025	1,506	61	1,444	1
Unsecured bank loan	EUR	variable*	2025	331	7	310	14
Secured bank	GBP	variable*	2023	266	24	242	-
Unsecured bank loan	EUR	fixed	2023	19	6	13	-
Unsecured bank loan	CZK	fixed	2024	1	-	1	-
Unsecured loan	CZK	fixed	2020	8	-	8	-
Unsecured loan	EUR	fixed	2021	8	-	8	-
Unsecured loan	PLN	variable*	2025	1	-	1	-
Revolving credit facility	EUR	variable*	2024	340	250	10	80
Revolving credit facility	GBP	variable*	2019	56	56	-	-
Revolving credit facility	CZK	variable	2020	10	-	10	-
Factoring loan	EUR	variable*	2019	43	43	-	-
Bank overdraft	EUR	variable*	2020	39	27	12	-
Liabilities from financial leases	-	-	-	2	1	1	-
<b>Total interest-bearing liabilities</b>				<b>2,630</b>	<b>475</b>	<b>2,060</b>	<b>95</b>

\* Variable interest rate is derived as PRIBOR, EURIBOR or LIBOR plus a margin. All interest rates are market based.

### EPIF Facility Agreement

EP Infrastructure, a.s. is a party to a senior term and revolving facilities agreement dated 19 July 2018 with a group of financing banks (the “EPIF’s Facilities Agreement”), pursuant to which EPIF has been provided with term facility A in the amount of EUR 750 million due 19 July 2022, term facility B in the amount EUR 500 million due 19 July 2023 and a revolving facility C up to the amount of EUR 250 million due 19 July 2023.

The debts of EPIF under the EPIF’s Facilities Agreement are general, senior unsecured debts of the EPIF and rank equally in right of payment with the EPIF’s existing and future indebtedness that is not subordinated in right of payment.

The EPIF’s Facilities Agreement contains restrictive provisions which, among other things, limit the Group’s ability to incur additional financial indebtedness, perform acquisitions, invest in joint ventures,

make distributions and certain other payments, dispose of assets, provide loans or guarantees, or create security or the EPIF's ability to merge with other companies. These restrictions are subject to a number of exceptions and qualifications. For example, EPIF can make distributions and certain other payments and the Group can perform acquisitions if, among other things, the Group net leverage does not exceed a certain limit, and the Group can incur additional financial indebtedness if, among other things, certain net leverage limits set for various Group levels are met. In addition, under the EPIF's Facilities Agreement, if the rating of the EPIF drops below a certain level, the Group will become subject to a regularly tested net leverage covenant on the Group level. The EPIF's Facilities Agreement also contains change of control provisions the triggering of which may result in mandatory prepayment.

In 2019, facility A in the amount of EUR 750 million was repaid and the outstanding transaction costs relating to facility A were released to the income statement.

#### Schuldschein loans

On 15 April 2019, EPIF entered into two Schuldschein loan agreements. The first loan amounted to EUR 134.5 million due on 24 April 2024, and the second loan amounted to EUR 48 million due on 24 April 2026.

The debts of EPIF under the Schuldschein loan agreements are general unsecured debts of the EPIF and rank equally in right of payment with EPIF's existing and future indebtedness that is not subordinated in right of payment.

#### EP Produzione S.P.A.

In first quarter of 2019, EP Produzione S.P.A. utilized term loans in total amount of EUR 100 million based on Facilities Agreements dated 28 January 2019 and 5 February 2019.

#### EP New Energy Italia S.R.L.

On 30 May 2019, EP New Energy Italia S.R.L. entered into a refinancing Facilities Agreement and during the first half of 2019 utilised term loans in the total amount of EUR 119 million.

### **Fair value information**

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

<i>In millions of EUR</i>	<b>31 December 2019</b>		<b>31 December 2018</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Issued debentures at amortised costs	4,078	4,124	3,313	3,265
Loans payable to credit institutions	1,684	1,676	2,123	2,113
Revolving credit facility	369	373	406	410
Lease liabilities	145	149	2	2
Factoring loans	54	54	43	43
Bank overdraft	49	49	39	39
Loans payable to other than credit institutions	12	12	17	16
<b>Total</b>	<b>6,391</b>	<b>6,437</b>	<b>5,943</b>	<b>5,888</b>

All interest bearing instruments held at amortised costs are categorised within Level 2 of the fair value hierarchy (for detail of valuation methods refer to Note 2(d) i – Assumption and estimation uncertainties).

**Significant investing and financing activities not requiring cash:**

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Investing activities	121	-
Financing activities	340	368
<b>Total</b>	<b>461</b>	<b>368</b>

For the years 2019 and 2018 non-cash financing activities include partial set-off of SPPI loan provided to Slovenský plynárenský priemysel, a.s. The total amount of the loan was EUR 340 million (including EUR 30 million provided in 2018; 2018: EUR 368 million), of which the amount EUR 340 million (2018: EUR 368 million) was set-off against dividends declared by SPPI to Slovenský plynárenský priemysel, a.s.

For the year 2019 non-cash investing activities in amount of EUR 121 million (2018: EUR 0 million) represent EPH loan provided to shareholders which was set-off against dividends declared by EPH to its shareholders.

### Reconciliation of movements of liabilities to cash flow arising from financing activities

<i>In millions of EUR</i>	Liabilities							Equity			Total	
	Loans from credit institutions	Loans from other than credit institutions	Revolving credit facility	Factoring loans	Bank overdraft	Issued debentures	Lease liabilities	Share capital/premium	Reserves	Retained earnings		Non-controlling interest
<b>Balance at 1 January 2019</b>	<b>2,123</b>	<b>17</b>	<b>406</b>	<b>43</b>	<b>39</b>	<b>3,313</b>	<b>2</b>	<b>216</b>	<b>337</b>	<b>1,080</b>	<b>1,504</b>	<b>9,080</b>
<i>Changes from financing cash flows</i>												
Proceeds from loans and borrowings	1,070	-	369	11	59	1,261	-	-	-	-	-	<b>2,770</b>
Repayment of borrowings	(1,554)	(5)	(410)	-	-	(499)	-	-	-	-	-	<b>(2,468)</b>
Transaction cost related to loans and borrowings	(14)	-	-	-	-	(8)	-	-	-	-	-	<b>(22)</b>
Payment of lease liabilities	-	-	-	-	-	-	(28)	-	-	-	-	<b>(28)</b>
Set-off of dividends with loans provided	-	-	-	-	-	-	-	-	-	(121)	(340)	<b>(461)</b>
Dividend paid	-	-	-	-	-	-	-	-	-	(746)	(170)	<b>(916)</b>
<b>Total change from financing cash flows</b>	<b>(498)</b>	<b>(5)</b>	<b>(41)</b>	<b>11</b>	<b>59</b>	<b>754</b>	<b>(28)</b>	<b>-</b>	<b>-</b>	<b>(867)</b>	<b>(510)</b>	<b>(1,125)</b>
Changes arising from obtaining or losing of control of subsidiaries	43	-	-	-	(50)	-	22	-	-	30	15	<b>60</b>
Total effect of changes in foreign exchange rates	14	1	4	-	1	8	(3)	-	(7)	-	(1)	<b>17</b>
<i>Other changes</i>												
<b>Liability related</b>												
Interest expense	52	8	6	-	-	118	3	-	-	-	-	<b>187</b>
Interest paid	(50)	(9)	(6)	-	-	(115)	(1)	-	-	-	-	<b>(181)</b>
Lease liability (impact of IFRS16)	-	-	-	-	-	-	150	-	-	-	-	<b>150</b>
Liability from dividends not paid	-	-	-	-	-	-	-	-	-	-	12	<b>12</b>
Total liability-related other changes	<b>2</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3</b>	<b>152</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12</b>	<b>168</b>
<b>Equity related</b>												
Other equity related changes	-	-	-	-	-	-	-	-	276	315	1,584	<b>2,175</b>
Total equity-related other changes	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>276</b>	<b>315</b>	<b>1,584</b>	<b>2,175</b>
<b>Balance at 31 December 2019</b>	<b>1,684</b>	<b>12</b>	<b>369</b>	<b>54</b>	<b>49</b>	<b>4,078</b>	<b>145</b>	<b>216</b>	<b>606</b>	<b>558</b>	<b>2,604</b>	<b>10,375</b>

<i>In millions of EUR</i>	Liabilities							Equity				Total	
	Loans from credit institutions	Loans from other than credit institutions	Revolving credit facility	Factoring loans	Bank overdraft	Issued debentures	Finance lease liabilities	Share capital/premium	Reserve for own shares	Reserves	Retained earnings		Non-controlling interest
<b>Balance at 1 January 2018</b>	<b>2,530</b>	<b>17</b>	<b>300</b>	<b>-</b>	<b>31</b>	<b>3,237</b>	<b>6</b>	<b>216</b>	<b>(1,444)</b>	<b>(38)</b>	<b>2,426</b>	<b>1,515</b>	<b>8,796</b>
<i>Changes from financing cash flows</i>													
Proceeds from loans and borrowings	2,415	-	106	43	39	862	-	-	-	-	-	-	3,465
Repayment of borrowings	(2,851)	-	-	-	(31)	(790)	-	-	-	-	-	-	(3,672)
Transaction cost related to loans and borrowings	(4)	-	-	-	-	(9)	-	-	-	-	-	-	(13)
Payment of finance lease liabilities	-	-	-	-	-	-	(5)	-	-	-	-	-	(5)
Dividend paid	-	-	-	-	-	-	-	-	-	-	(114)	(109)	(223)
<b>Total change from financing cash flows</b>	<b>(440)</b>	<b>-</b>	<b>106</b>	<b>43</b>	<b>8</b>	<b>63</b>	<b>(5)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(114)</b>	<b>(109)</b>	<b>(448)</b>
Changes arising from obtaining or losing of control of subsidiaries	33	-	-	-	-	-	-	-	-	-	5	121	159
Total effect of changes in foreign exchange rates	(6)	-	-	-	-	8	1	-	-	(6)	(4)	6	(1)
<i>Other changes</i>													
<b>Liability related</b>													
Interest expense	71	9	3	-	-	115	-	-	-	-	-	-	198
Interest paid	(65)	(9)	(3)	-	-	(110)	-	-	-	-	-	-	(187)
Set-off with loans provided	-	-	-	-	-	-	-	-	-	-	-	(367)	(367)
Liability from dividends not paid	-	-	-	-	-	-	-	-	-	-	-	(30)	(30)
Total liability-related other changes	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(397)</b>	<b>(386)</b>
<b>Equity related</b>													
Transfer from reserve for own shares – release of reserve for own shares	-	-	-	-	-	-	-	-	1,444	-	(1,444)	-	-
Other equity related changes	-	-	-	-	-	-	-	-	-	381	211	368	960
Total equity-related other changes	-	-	-	-	-	-	-	-	<b>1,444</b>	<b>381</b>	<b>(1,233)</b>	<b>368</b>	<b>960</b>
<b>Balance at 31 December 2018</b>	<b>2,123</b>	<b>17</b>	<b>406</b>	<b>43</b>	<b>39</b>	<b>3,313</b>	<b>2</b>	<b>216</b>	<b>-</b>	<b>337</b>	<b>1,080</b>	<b>1,504</b>	<b>9,080</b>

### 31. Provisions

<i>In millions of EUR</i>	<b>Employee benefits</b>	<b>Provision for emission rights</b>	<b>Onerous contracts</b>	<b>Provision for lawsuits and litigations</b>	<b>Provision for restoration and decommissioning<sup>(3)</sup></b>	<b>Other</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>128</b>	<b>248</b>	<b>11</b>	<b>17</b>	<b>892</b>	<b>46</b>	<b>1,342</b>
Provisions made during the year	46	388	-	22	55	20	531
Provisions used during the year	(37)	(254)	(26)	-	(37)	(4)	(358)
Provisions reversed during the year	(2)	-	(5)	-	(43)	(10)	(60)
Acquisitions through business combinations <sup>(1)</sup>	177	49	164	5	201	21	617
Effect from PPA correction	-	-	-	-	2	-	2
Unwinding of discount <sup>(2)</sup>	2	-	-	-	11	-	13
Effects of movements in foreign exchange rate	1	4	5	-	1	1	12
<b>Balance at 31 December 2019</b>	<b>315</b>	<b>435</b>	<b>149</b>	<b>44</b>	<b>1,082</b>	<b>74</b>	<b>2,099</b>
<i>Non-current</i>	288	14	103	26	1,032	51	1,514
<i>Current</i>	27	421	46	18	50	23	585

(1) The purchase of Fusine Energia S.r.L., EP Kilroot Limited and EP Ballylumford Limited, EP France Group, Locon Group and Tynagh Energy Limited.

(2) Unwinding of discount is included in interest expense.

(3) As at 31 December 2019, the balance in amount of EUR 445 million represents mining related provisions recorded by JTSD – Braunkohlebergbau GmbH and Helmstedter Revier GmbH. The balance in amount of EUR 202 million represents asset retirement costs recorded by EP Produzione S.P.A. and Fiume Santo S.P.A. The balance in amount of EUR 177 million represents asset retirement costs recorded by Gazel Energie Generation S.A.S. Remaining balance of EUR 258 million represents other decommissioning provisions.

<i>In millions of EUR</i>	<b>Employee benefits</b>	<b>Provision for emission rights</b>	<b>Onerous contracts</b>	<b>Provision for lawsuits and litigations</b>	<b>Provision for restoration and decommissioning<sup>(3)</sup></b>	<b>Other</b>	<b>Total</b>
<b>Balance at 1 January 2018</b>	<b>142</b>	<b>120</b>	<b>33</b>	<b>20</b>	<b>833</b>	<b>25</b>	<b>1,173</b>
Provisions made during the year	31	231	1	1	73	10	<b>347</b>
Provisions used during the year	(39)	(107)	(22)	-	(39)	(11)	<b>(218)</b>
Provisions reversed during the year	(17)	-	-	(5)	(54)	-	<b>(76)</b>
Acquisitions through business combinations <sup>(1)</sup>	9	4	-	-	72	24	<b>109</b>
Transfer <sup>(2)</sup>	-	-	-	1	-	(1)	<b>-</b>
Unwinding of discount <sup>(3)</sup>	1	-	-	-	9	-	<b>10</b>
Effects of movements in foreign exchange rate	1	-	(1)	-	(2)	(1)	<b>(3)</b>
<b>Balance at 31 December 2018</b>	<b>128</b>	<b>248</b>	<b>11</b>	<b>17</b>	<b>892</b>	<b>46</b>	<b>1,342</b>
<i>Non-current</i>	95	-	11	-	842	20	<b>968</b>
<i>Current</i>	33	248	-	17	50	26	<b>374</b>

(1) The purchase of Plzeňská teplárenská, a.s. and NAFTA Germany.

(2) Transfer by EP ENERGY TRADING, a.s. due to the change of the purpose of the provision.

(3) Unwinding of discount is included in interest expense.

(4) As at 31 December 2018, the balance in amount of EUR 429 million represents mining related provisions recorded by JTSD - Braunkohlebergbau GmbH and Helmstedter Revier GmbH. Remaining balance of EUR 463 million represents other decommissioning provisions.

Accounting for provisions involves frequent use of estimates, such as probability of occurrence of uncertain events or calculation of the expected outcome. Such estimates are based on past experience, statistical models and professional judgement.

### Employee benefits

The Group recorded a significant amount as provision for long-term employee benefits related to its employees. Valuations of these provisions are sensitive to assumptions used in the calculations, such as future salary and benefit levels, discount rates, employee leaving rate, late retirement rate, mortality and life expectancy. The management considered various estimated factors and how these estimates would impact the recognised provision. As a result of this analysis, no significant variances to the recorded provision are expected.

The provision for employee benefits in the amount of EUR 315 million (2018: EUR 128 million) was recorded by Mitteldeutsche Braunkohlengesellschaft GmbH, Helmstedter Revier GmbH, Gazel Energie Generation S.A.S., Kraftwerk Mehrum GmbH, Eggborough Power Limited, EP Ballylumford Limited, Stredoslovenská distribučná, a.s., SPP – distribúcia, a.s., NAFTA a.s., NAFTA Germany GmbH, eustream, a.s., Stredoslovenská energetika a.s., EP Produzione S.P.A., Fiume Santo S.P.A., EP Produzione Centrale Livorno Ferraris S.P.A., Elektrárny Opatovice, a.s., Pražská teplárenská, a.s. and United Energy, a.s.

#### *i. Mitteldeutsche Braunkohlengesellschaft GmbH*

The provision recorded by Mitteldeutsche Braunkohlengesellschaft GmbH amounts to EUR 10 million (2018: EUR 19 million), of which EUR 4 million (2018: EUR 3 million) represents a defined benefit pension scheme. The remaining balance of EUR 6 million (2018: EUR 16 million) represents other unfunded employee benefits paid for work and life jubilees and anniversaries.

The schedules below summarise information about the defined benefit obligations and plan assets.

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
<b>Plan A</b>		
Fair value of plan asset	4	4
Present value of obligations	(6)	(6)
<b>Total employee benefit (asset)</b>	<b>(2)</b>	<b>(2)</b>
<b>Plan B</b>		
Fair value of plan asset	2	2
Present value of obligations	(3)	(2)
<b>Total employee benefit (asset)</b>	<b>(1)</b>	<b>-</b>
<b>Plan C</b>		
Fair value of plan asset	-	-
Present value of obligations	(1)	(1)
<b>Total employee benefit (asset)</b>	<b>(1)</b>	<b>(1)</b>

**Movement in the present value of defined benefit obligations**

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	(6)	(2)	(1)	(9)
Benefits paid by plan	-	-	-	-
Actuarial gains (losses)	-	(1)	-	(1)
<b>Balance at 31 December 2019</b>	<b>(6)</b>	<b>(3)</b>	<b>(1)</b>	<b>(10)</b>

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>	<b>Total</b>
<b>Balance at 1 January 2018</b>	(6)	(3)	(1)	(10)
Benefits paid by plan	-	1	-	1
Actuarial gains (losses)	-	-	-	-
<b>Balance at 31 December 2018</b>	<b>(6)</b>	<b>(2)</b>	<b>(1)</b>	<b>(9)</b>

**Movement in fair value of plan assets**

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	4	2	-	6
Benefits paid by plan	-	-	-	-
Contributions to plan assets	-	-	-	-
<b>Balance at 31 December 2019</b>	<b>4</b>	<b>2</b>	<b>-</b>	<b>6</b>

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>	<b>Total</b>
<b>Balance at 1 January 2018</b>	4	2	-	6
Benefits paid by plan	-	-	-	-
Contributions to plan assets	-	-	-	-
<b>Balance at 31 December 2018</b>	<b>4</b>	<b>2</b>	<b>-</b>	<b>6</b>

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

**As at 31 December 2019**

<i>In %</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>
Discount rate	0.00	0.21	0.78
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	0.00	0.00	0.00
Post retirement pension increase	0.00	0.00	0.00
Mortality & disability	(1)	(1)	(1)

(1) Assumptions regarding future mortality are based on published statistics and mortality tables RT2018G.

**As at 31 December 2018**

<i>In %</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>
Discount rate	0.71	1.00	2.05
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	0.00	0.00	0.00
Post retirement pension increase	0.00	0.00	0.00
Mortality & disability	(1)	(1)	(1)

(1) Assumptions regarding future mortality are based on published statistics and mortality tables RT2018G.

ii. *Helmstedter Revier GmbH*

The provision recorded by Helmstedter Revier GmbH amounts to EUR 52 million (2018: EUR 49 million), of which EUR 29 million (2018: EUR 20 million) represents a defined benefit pension scheme and EUR 14 million (2018: EUR 22 million) represents an early retirement scheme. The schedules below summarise information about the defined benefit obligations.

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
<b>Plan A</b>		
Fair value of plan asset	32	30
Present value of obligations	(59)	(49)
<b>Total employee benefit (asset)</b>	<u>(27)</u>	<u>(19)</u>
<b>Plan B</b>		
Fair value of plan asset	1	1
Present value of obligations	(3)	(2)
<b>Total employee benefit (asset)</b>	<u>(2)</u>	<u>(1)</u>
<b>Early retirement</b>		
Present value of obligations	(14)	(22)
<b>Total employee benefit (asset)</b>	<u>(14)</u>	<u>(22)</u>

**Movements in the present value of defined benefit obligations**

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Early retirement</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>(49)</b>	<b>(2)</b>	<b>(22)</b>	<b>(73)</b>
Benefits paid by plan	1	-	8	<b>9</b>
Current service costs	(1)	-	-	<b>(1)</b>
Current interest costs	(1)	-	-	<b>(1)</b>
Actuarial gains (losses) recognised in other comprehensive income	(9)	(1)	-	<b>(10)</b>
<b>Balance at 31 December 2019</b>	<u><b>(59)</b></u>	<u><b>(3)</b></u>	<u><b>(14)</b></u>	<u><b>(76)</b></u>

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Early retirement</b>	<b>Total</b>
<b>Balance at 1 January 2018</b>	<b>(51)</b>	<b>(2)</b>	<b>(28)</b>	<b>(81)</b>
Benefits paid by plan	-	-	8	<b>8</b>
Current service costs	-	-	(2)	<b>(2)</b>
Current interest costs	(1)	-	-	<b>(1)</b>
Actuarial gains (losses) recognised in other comprehensive income	3	-	-	<b>3</b>
<b>Balance at 31 December 2018</b>	<u><b>(49)</b></u>	<u><b>(2)</b></u>	<u><b>(22)</b></u>	<u><b>(73)</b></u>

**Movement in fair value of plan assets**

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>30</b>	<b>1</b>	<b>31</b>
Contributions to plan assets	-	-	-
Expected return on plan assets	-	-	-
Actuarial gains (losses) recognised in other comprehensive income	2	-	2
<b>Balance at 31 December 2019</b>	<b>32</b>	<b>1</b>	<b>33</b>

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Total</b>
<b>Balance at 1 January 2018</b>	<b>30</b>	<b>1</b>	<b>31</b>
Contributions to plan assets	-	-	-
Expected return on plan assets	-	-	-
Actuarial gains (losses) recognised in other comprehensive income	-	-	-
<b>Balance at 31 December 2018</b>	<b>30</b>	<b>1</b>	<b>31</b>

**Expense recognised in profit and loss:**

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
Current service costs	(1)	(2)
Current interest costs	(1)	(1)
<b>Total</b>	<b>(2)</b>	<b>(3)</b>

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

**As at 31 December 2019**

<i>In %</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Early Retirement</b>
Discount rate	0.54	0.54	0.00
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	0.00	0.00	0.00
Post retirement pension increase	1.75	1.75	1.00
Mortality & disability	(1)	(1)	(1)

(1) Assumptions regarding future mortality are based on published statistics and mortality tables RT2018G.

**As at 31 December 2018**

<i>In %</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Early Retirement</b>
Discount rate	1.73	1.73	0.85
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	0.00	0.00	0.00
Post retirement pension increase	1.75	1.75	0.00
Mortality & disability	(1)	(1)	(1)

(1) Assumptions regarding future mortality are based on published statistics and mortality tables RT2018G.

*iii. Gazel Energie Generation S.A.S.*

The provision recorded by Gazel Energie Generation S.A.S. amounts to EUR 160 million, of which EUR 158 million represents a defined benefit pension scheme. The remaining balance of EUR 2 million represents other unfunded employee benefits paid for work and life jubilees and anniversaries.

The schedules below summarise information about the defined benefit obligations and plan assets.

<i>In millions of EUR</i>	<b>2019</b>
<b>Plan A</b>	
Fair value of plan asset	-
Present value of obligations	(53)
<b>Total employee benefit (asset)</b>	<b>(53)</b>
<b>Plan B</b>	
Fair value of plan asset	-
Present value of obligations	(5)
<b>Total employee benefit (asset)</b>	<b>(5)</b>
<b>Plan C</b>	
Fair value of plan asset	-
Present value of obligations	(100)
<b>Total employee benefit (asset)</b>	<b>(100)</b>

**Movement in the present value of defined benefit obligations**

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>(48)</b>	<b>(5)</b>	<b>(78)</b>	<b>(131)</b>
Benefits paid by plan	3	-	1	4
Current service costs	(2)	-	(3)	(5)
Current interest costs	(1)	-	(2)	(3)
Actuarial gains (losses)	(5)	-	(19)	(24)
<b>Balance at 31 December 2019</b>	<b>(53)</b>	<b>(5)</b>	<b>(100)</b>	<b>(158)</b>

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

**As at 31 December 2019**

<i>In %</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>
Discount rate	2.40	1.50	2.40
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	1.75	2.50	0.00
Post retirement pension increase	2.00	0.00	0.00
Mortality & disability	(1)	(1)	(1)

(1) Assumptions regarding future mortality are based on published statistics and mortality tables TGH/TGH 05.

*iv. SSE Holding Group*

*Pension Plans*

This program has a defined contribution pension plan under which the Group pays fixed contributions to third parties or government. The Group has no legal or constructive obligation to pay further funds, if the amount of plan assets is insufficient to pay all the performance of employees who are eligible for the current and prior periods.

The amount of benefits depends on several factors, such as age, years of service and salary.

### *Unfunded pension plan with defined benefit*

According to the Corporate Group collective agreement for the period 2017 – 2019, the Group is obliged to pay its employees upon age pension or disability pension, depending on seniority, the following multiples of the average monthly salary:

<b>Years of service</b>	<b>Multiples of average monthly wage</b>
10 years or less	2
11 – 15 years	4
16 – 20 years	5
21 – 25 years	6
25 years and more	7

The minimum requirement of the Labour Code to post the retirement, equal to one average monthly salary, is included in the above multiples.

### *Other benefits*

The SSE Holding Group also pays benefits for work and life anniversaries:

- one monthly wage after 25 years of service;
- 40% to 110% of the employee's monthly salary depending on seniority in the Group at the age of 50.

The Group had created expectations on the part of its employees that it will continue to provide the benefits and it is management's judgement that it is not probable that the Group will cease to provide them.

### *v. NAFTA Germany and its subsidiaries*

Through employer-funded company pension scheme the Group makes a contribution to employees' retirement provision and support them in the event of invalidity or bereavement. The Group pension scheme provides for a personal pension to be paid to each employee of the Group once the waiting period has elapsed. The extent of this company pension depends on the years of service and remuneration paid. In supplementation of the employer-funded pension scheme, employees also have the option of provision for retirement themselves by means of a remuneration conversion, thus additionally securing their standard of living after retirement.

### **Provision for emission rights**

Provision for emission rights is recognised regularly during the year based on the estimated number of tonnes of CO<sub>2</sub> emitted. It is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

### **Provision for lawsuits**

A provision of EUR 44 million was recorded mainly by Gazel Energie Generation (EUR 25 million; 2018: EUR 0 million) and JTSD – Braunkohlebergbau GmbH (EUR 17 million; 2018: EUR 16 million).

For more details refer to Note 40 – Litigations and claims.

As disclosed in Note 40 – Litigations and claims, there are other legal proceedings in which the Group is involved and for which the possibility of an outflow of resources was assessed as remote as at the date of the preparation of these consolidated financial statements, and therefore no provision was recorded as at 31 December 2019 and 31 December 2018.

### **Provision for restoration and decommissioning**

The provision of EUR 1,082 million (2018: EUR 892 million) was primarily recorded by JTSD – Braunkohlebergbau GmbH (EUR 355 million; 2018: EUR 322 million), Gazel Energie Generation S.A.S. (EUR 184 million), EP Produzione S.P.A. (EUR 116 million; 2018: EUR 118 million), Helmstedter Revier GmbH (EUR 90 million; 2018: EUR 107 million), NAFTA a.s. (EUR 90 million; 2018: EUR 96 million), Fiume Santo S.P.A. (EUR 83 million; 2018: EUR 84 million), NAFTA Germany GmbH (EUR 66 million; 2018: EUR 69 million), Eggborough Power Limited (EUR 13 million; 2018: EUR 14 million), Kraftwerk Mehrum GmbH (EUR 12 million, 2018: EUR 17 million), Lynemouth Power Limited (EUR 12 million;

2018: EUR 12 million), POZAGAS a.s. (EUR 12 million, 2018: EUR 9 million) and eustream, a.s. (EUR 6 million; 2018: EUR 8 million).

*i. Germany (JTSD – Braunkohlebergbau GmbH and Helmstedter Revier GmbH)*

According to the German Federal Mining Law, a mining company is obliged to re-cultivate/reclaim all the land used for mining purposes after discontinuation of mining operations. The requirements to be met for this purpose are set forth in a comprehensive framework operations plan and compliance is monitored by the mining authorities.

The following expense items are considered:

- dewatering and flooding expenses;
- creation and stability of slope systems;
- soil preparation and treatment for subsequent agricultural and forest use;
- removal of all technical plants and equipment.

As at 31 December 2019, the provision for re-cultivation of both Schleenhain and Profen strip mines recorded by JTSD – Braunkohlebergbau GmbH is based on the recommendations of The German Commission on Growth, Structural change and Employment („coal commission“) from 26 January 2019 which proposes a gradual reduction and closure of all coal-fired power plants and subsequently strip mines in Germany by 2038. Refer to Note 41 – Subsequent events for developments of the lignite phase-out in Germany after the balance sheet date.

Estimates are reviewed by an external expert/engineering office to ensure that mining provisions have been properly created. These external experts determine the value of all expense items listed above on the basis of usual market prices. In 2019, quantities and values were adjusted based on the latest knowledge. Consequently, the provisions were recalculated for IFRS accounting purposes on the basis of the new settlement values. An annual inflation rate of 0.27% (2018: 0.84%) and a discount rate in range between 1.09% – 1.24% (2018: 1.68%) were used to calculate the provisions in case of JTSD – Braunkohlebergbau GmbH and annual inflation rate of 0.27% (2018: 0.84%) and a discount rate of 0.0% (2018: 0.0%) were used to calculate the provisions in case of Helmstedter Revier GmbH. For determination of the discount rate Helmstedter Revier GmbH applies German bonds that remained negative for 2019. As a result, the company decided to apply 0%.

The Group uses stress tests in the form of inflation and discount rate shocks, i.e. simulated immediate decreases/increases in inflation or the discount rate by 1%.

At the reporting date, a change of 1% in the inflation rate would have increased or decreased the provision for restoration recognised by JTSD – Braunkohlebergbau GmbH by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
	<b>Profit (loss)</b>	<b>Profit (loss)</b>
Increase of inflation rate by 1%	(90)	(97)
Decrease of inflation rate by 1%	72	80

At the reporting date, a change of 1% in the discount rate would have increased or decreased the provision for restoration recognised by JTSD – Braunkohlebergbau GmbH by the amounts shown in the table below. Due to 0% discount rate announced by Helmstedter Revier GmbH, the company is excluded from the analysis. This analysis assumes that all other variables remain constant.

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
	<b>Profit (loss)</b>	<b>Profit (loss)</b>
Increase of discount rate by 1%	70	74
Decrease of discount rate by 1%	(85)	(90)

ii. *Slovakia (POZAGAS a.s., NAFTA a.s., NAFTA Germany GmbH and SPP Storage, s.r.o.)*

POZAGAS a.s. estimated the provision for decontamination and restoration using the existing technology and current prices adjusted for expected future inflation and discounted using a discount rate that reflects the current market assessment of the time value of money – risk free rate of 1.12% (2018: 2.15%).

NAFTA a.s. currently has 141 production wells in addition to 244 storage wells. Production wells that are currently in production or are being used for other purposes are expected to be abandoned after reserves have been fully produced or when it has been determined that the wells will not be used for any other purposes. Storage wells are expected to be abandoned after the end of their useful lives. NAFTA a.s. has the obligation to dismantle the production and storage wells, decontaminate contaminated soil, restore the area, and restore the site to its original condition to the extent as stipulated by law.

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects the current market assessment of the time value of money – risk free rate (2019: 1.12%; 2018: 1.40%). The provision takes into account the estimated costs for the abandonment of production and storage wells and centres, and the costs of restoring the sites to their original condition. These costs are expected to be incurred between 2019 and 2093.

NAFTA Germany GmbH (through its subsidiaries) currently has 44 storage wells. Storage wells are expected to be abandoned after the end of their useful lives. NAFTA Germany GmbH has the obligation to dismantle the storage wells, decontaminate contaminated soil, restore the area, and restore the site to its original condition to the extent as stipulated by law.

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects the current market assessment of the time value of money – risk free rate of 1.29% (2018: 1.56 %). The provision takes into account the estimated costs for the abandonment of storage wells and centres, and the costs of restoring the sites to their original condition. These costs are expected to be incurred between 2039 and 2061.

SPP Storage, s.r.o. (“SPP Storage”) currently has 41 production wells and storage facility. SPP Storage’s provision for decontamination and restoration resulted from a legislative requirement to dismantle an underground storage facility, mainly production wells and storage wells after the operation of the underground storage facility is discontinued.

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects the current market assessment of the time value of money – risk free rate (2019: 1.92%; 2018: 2.20%). The provision takes into account the estimated costs for the abandonment of production and storage wells and centres, and the costs of restoring the sites to their original condition.

The Group uses stress tests in the form of expected costs, inflation and discount rate shocks, i.e. simulated immediate increase/decrease of expected costs by 10% and increases in inflation or the discount rate by 1%.

At the reporting date, a change of 10% in the expected costs would have increased or decreased the provision for asset retirement obligations by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

At the reporting date, an increase of 1% in the inflation or discount rate, or a 10% change in the expected costs of decommissioning, would have increased or decreased the provision for asset retirement obligations by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
	<b>Profit (loss)</b>	<b>Profit (loss)</b>
Decrease of expected costs of 10%	15	18
Increase of expected costs of 10%	(15)	(18)
Increase of inflation rate by 1%	(39)	(46)
Increase of discount rate by 1%	28	30

iii. *Italy (EP Produzione S.P.A. and Fiume Santo S.P.A.)*

As at 31 December 2019, the provision recognised by EP Produzione S.P.A. and Fiume Santo S.P.A. in total amount of EUR 202 million (2018: EUR 202 million) consists of the following items:

Asset retirement costs (ARO provision) in amount of EUR 176 million (EUR 105 million for EP Produzione S.P.A. and EUR 71 million for Fiume Santo S.P.A.; 2018: EUR 176 million, of which EUR 107 million for EP Produzione S.P.A. and EUR 69 million for Fiume Santo S.P.A.) represents a liability related to the eventual retirement of tangible assets. The provision is calculated as a present value of estimated future expenditures related to the fixed assets retirement.

Provision for health and safety risk in amount of EUR 7 million (2018: EUR 7 million) recorded by EP Produzione S.P.A. that represents potential liabilities to personnel arising from exposure to asbestos fibers.

Provision for restoration of land totalling EUR 19 million (2018: EUR 18 million) in region of Tavazzano, Ostiglia and Fiume Santo where the power plants are situated.

Estimated costs are adjusted by expected future inflation (0.27 % for 2019; 2018: 0.84%) and discounted using a discount rate that reflects the current market assessment of the time value of money – risk free rate of 0.88% (2018: 1.53%).

The Group uses stress tests in the form of inflation and discount rate shocks, i.e. simulated immediate decreases/increases in inflation or the discount rate by 1%.

At the reporting date, a change of 1% in the inflation rate would have increased or decreased the provision for restoration recognised by EP Produzione S.P.A. and Fiume Santo S.P.A. by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
	<b>Profit (loss)</b>	<b>Profit (loss)</b>
Increase of inflation rate by 1%	(24)	(25)
Decrease of inflation rate by 1%	20	22

At the reporting date, a change of 1% in the discount rate would have increased or decreased the provision for restoration recognised by EP Produzione S.P.A. and Fiume Santo S.P.A. by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
	<b>Profit (loss)</b>	<b>Profit (loss)</b>
Increase of discount rate by 1%	19	22
Decrease of discount rate by 1%	(22)	(25)

iv. *France*

As at 31 December 2019, the provision recognised by Gazel Energie Generation S.A.S., Aerodis S.A.S., Gazel Energie Renouvelables S.A.S. and Gazel Energie Solaire S.A.S. in total amount of EUR 177 million consists of the following items:

Provision for dismantling the windfarms and solar farms in France in amount of EUR 6 million represents a liability related to the eventual retirement of tangible assets. The provision is calculated as a present value of estimated future expenditures related to the fixed assets retirement.

Provision for dismantling the power plants of Gazel Energie Generation S.A.S. amounts EUR 171 million composed as follows:

Provision for dismantling four plants in the north of France (Emile Huchet power plants) EUR 79 million; provision for dismantling four plants in the south of France (Provence power plants) EUR 42 million;

provision for dismantling closed power plants of Hornaing and Lucy EUR 43 million and provision for restoration of land totalling EUR 7 million, mainly to clean up ashes.

Estimated costs are adjusted by expected future inflation (0.27 % for 2019) and discounted using a discount rate in range between 0.28% - 0.83%.

The Group uses stress tests in the form of inflation and discount rate shocks, i.e. simulated immediate decreases/increases in inflation or the discount rate by 1%.

At the reporting date, a change of 1% in the inflation rate would have increased or decreased the provision for restoration recognised by Gazel Energie Generation S.A.S., Aerodis S.A.S., Gazel Energie Renouvelables S.A.S. and Gazel Energie Solaire S.A.S. by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

<i>In millions of EUR</i>	<b>2019</b>
	<b>Profit (loss)</b>
Increase of inflation rate by 1%	(18)
Decrease of inflation rate by 1%	16

At the reporting date, a change of 1% in the discount rate would have increased or decreased the provision for restoration recognised by Gazel Energie Generation S.A.S., Aerodis S.A.S., Gazel Energie Renouvelables S.A.S. and Gazel Energie Solaire S.A.S. by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

<i>In millions of EUR</i>	<b>2019</b>
	<b>Profit (loss)</b>
Increase of discount rate by 1%	16
Decrease of discount rate by 1%	(18)

v. *Other*

As at 31 December 2019, Eggborough Power Limited (“EPL”) recognized a provision for restoration and decommissioning in amount of EUR 13 million (2018: EUR 14 million) representing the present value of costs associated with closure commitments at the ash disposal facility and land that EPL has retained.

As at 31 December 2019, Kraftwerk Mehrum GmbH recognised provision for Asset retirement obligation (“ARO provision”) in the amount of EUR 12 million (2018: EUR 17 million). The ARO provision is calculated as a present value of estimated future expenditures related to the fixed assets retirement.

Lynemouth Power Limited and eustream, a.s. estimated the provision for decontamination and restoration and long-term asset retirement using the existing technology and current prices adjusted for expected future inflation and discounted using a discount rate that reflects the current market assessment of the time value of money – risk free rate.

Provisions for restoration and decommissioning recognised by Eggborough Power Limited, Kraftwerk Mehrum GmbH, POZAGAS a.s., Lynemouth Power Limited and eustream, a.s. have not been included in stress testing as the change in provisions due to a change in parameters would have insignificant impact on the Group's financial statements.

## 32. Deferred income

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Government grants	91	98
Other deferred income	23	24
<b>Total</b>	<b>114</b>	<b>122</b>
Non-current	88	112
Current	26	10
<b>Total</b>	<b>114</b>	<b>122</b>

Balance of government grants in amount of EUR 90 million (2018: EUR 98 million) is mainly represented by eustream, a.s. of EUR 59 million (2018: EUR 62 million), Elektrárny Opatovice, a.s. of EUR 21 million (2018: EUR 22 million), United Energy a.s. of EUR 5 million (2018: EUR 6 million) and Alternative Energy, s.r.o. of EUR 3 million (2018: EUR 4 million). Elektrárny Opatovice, a.s. and Alternative Energy, s.r.o. were provided with government grants to reduce emission pollutions and to build biogas facility. This deferred income is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets constructed and is recognised as other operating income.

Balance of government grants recognised by eustream, a.s. includes the grants allocated by the European Commission for various business projects.

Balance of other deferred income in amount of EUR 23 million (2018: EUR 24 million) consists mainly of deferred income recognized by EP Cargo a.s. in the amount of EUR 13 million (2018: EUR 14 million), which represents compensation raised from a business partner from an unrealized business case. The compensation covers capitalized additional investment costs and expected losses from a previously concluded rent contract. Because the losses from the rent contract occur over duration of the contract and because the capitalized costs are depreciated over time, the compensation is also recognized in revenues over time.

Beginning 1 January 2018, the balance of other deferred income and free-of-charge received property recognized by Stredoslovenská distribučná, a.s. and SPP – distribúcia, a.s. has been recognized as Contract liabilities on a separate line in the statement of financial position (see Note 2(e)).

### 33. Financial instruments

#### Financial instruments and other financial assets

<i>In millions of EUR</i>	31 December 2019	31 December 2018
<b>Assets carried at amortised cost</b>		
Loans to other than credit institutions	443	391
Other short-term deposits	9	1
Impairment of loans to other than credit institutions	(355)	(92)
<b>Total</b>	<b>97</b>	<b>300</b>
<b>Assets carried at fair value</b>		
<b>Hedging: of which</b>	69	37
<i>Commodity derivatives cash flow hedge<sup>(1)</sup></i>	62	33
<i>Other derivatives fair value hedge</i>	6	4
<i>Currency forwards cash flow hedge</i>	1	-
<b>Risk management purpose: of which</b>	285	106
<i>Commodity derivatives reported as trading</i>	278	104
<i>Currency forwards reported as trading</i>	7	2
<b>Equity instruments at fair value through OCI: of which</b>	27	23
<i>Shares and interim certificates at fair value through OCI</i>	27	23
<b>Equity instruments at fair value through PL: of which</b>	-	48
<i>Shares at fair value through PL</i>	-	48
<b>Total</b>	<b>381</b>	<b>214</b>
Non-current	108	149
Current	370	365
<b>Total</b>	<b>478</b>	<b>514</b>

(1) *Commodity derivatives designated as cash flow hedges primarily relate to forwards for sale/purchase of electricity which EP ENERGY TRADING, a.s. used to hedge the cash flows related to purchase/sale of electricity utilised for electricity supply to final customers. The effectiveness of the hedging relationship is typically assessed by comparison of hedged volume to actual volumes sourced or delivered.*

*Additionally, eustream, a.s. is active in hedging cash inflows predominantly from gas-in-kind received from shippers. eustream, a.s. regularly performs estimations of the surplus of natural gas from received gas-in-kind and enters into short and mid-term commodity swaps in order to hedge its natural gas selling prices.*

#### Financial instruments and other financial liabilities

<i>In millions of EUR</i>	31 December 2019	31 December 2018
<b>Liabilities carried at amortised cost</b>		
Issued bills of exchange at amortised costs	116	83
<b>Total</b>	<b>116</b>	<b>83</b>
<b>Liabilities carried at fair value</b>		
<b>Hedging: of which</b>	155	138
<i>Interest rate swaps cash flow hedge</i>	101	82
<i>Commodity derivatives cash flow hedge</i>	35	43
<i>Currency forwards cash flow hedge</i>	16	13
<i>Interest rate swaps fair value hedge</i>	3	-
<b>Risk management purpose: of which</b>	376	134
<i>Commodity derivatives reported as trading</i>	307	129
<i>Interest rate swaps reported as trading</i>	68	4
<i>Currency forwards reported as trading</i>	1	1
<b>Total</b>	<b>531</b>	<b>272</b>
Non-current	237	154
Current	410	201
<b>Total</b>	<b>647</b>	<b>355</b>

The weighted average interest rate on loans to other than credit institutions for 2019 was 5.84% (2018: 6.81%).

As at 31 December 2019, the Group reported a valuation allowance of EUR 192 million (2018: EUR 1 million) to loans provided to its associate Przedsiębiorstwo Górnicze SILESIA Sp. z o.o. („PGS“). In 2019, as a result of the credit analysis an additional valuation allowance of EUR 189 million was recorded. Remaining increase of EUR 2 million was caused by negative effect of changes in the FX rate. At the same time, the Group reported valuation allowance of EUR 32 million (2018: EUR 32 million) to its financial investment in PGS (refer to Note 19 – Equity accounted investees). Valuation adjustments in both years were recorded as a result of the impairment test carried out as at 31 December 2019 and 2018 respectively. The results of the impairment tests reflect the current conditions on the Polish hard coal market.

Furthermore, as at 31 December 2019 the Group reported as a result of the carried-out credit analysis a valuation allowance of EUR 157 million (31 December 2018: EUR 87 million) to loans provided to a third party as the Company has doubts about a borrower’s ability to fully settle its debt, as its credit is also indirectly linked to PGS. In 2019, as a result of the credit analysis an additional valuation allowance of EUR 69 million was recorded. Remaining increase of EUR 1 million was caused by negative effect of changes in the FX rate.

Shares at fair value through profit or loss as at 31 December 2018 primarily represent shares of Uniper SE of EUR 32 million and 11% interest held in MÁTRAI ERŐMŰ ZRT. ÉVES BESZÁMOLÓ of EUR 10 million. These shares were disposed of during the year 2019.

Fair values and respective nominal amounts of derivatives are disclosed in the following table:

<i>In millions of EUR</i>	<b>31 December 2019 Nominal amount buy</b>	<b>31 December 2019 Nominal amount sell</b>	<b>31 December 2019 Positive fair value</b>	<b>31 December 2019 Negative fair value</b>
<b>Hedging: of which</b>	2,899	(2,926)	69	(155)
<i>Interest rate swaps cash flow hedge</i>	1,455	(1,455)	-	(101)
<i>Commodity derivatives cash flow hedge</i>	378	(387)	62	(35)
<i>Other derivatives fair value hedge</i>	98	(98)	6	-
<i>Currency forwards cash flow hedge</i>	866	(884)	1	(16)
<i>Interest rate swaps fair value hedge</i>	102	(102)	-	(3)
<b>Risk management purpose: of which</b>	3,260	(3,270)	285	(376)
<i>Commodity derivatives reported as trading</i>	1,636	(1,654)	278	(307)
<i>Currency forwards reported as trading</i>	624	(616)	7	(1)
<i>Interest rate swaps reported as trading</i>	1,000	(1,000)	-	(68)
<b>Total</b>	<b>6,159</b>	<b>(6,196)</b>	<b>354</b>	<b>(531)</b>

<i>In millions of EUR</i>	<b>31 December 2018 Nominal amount buy</b>	<b>31 December 2018 Nominal amount sell</b>	<b>31 December 2018 Positive fair value</b>	<b>31 December 2018 Negative fair value</b>
<b>Hedging: of which</b>	3,204	(3,202)	37	(138)
<i>Interest rate swaps cash flow hedge</i>	2,388	(2,388)	-	(82)
<i>Commodity derivatives cash flow hedge</i>	564	(562)	33	(43)
<i>Currency forwards cash flow hedge</i>	155	(155)	-	(13)
<i>Other derivatives fair value hedge</i>	97	(97)	4	-
<b>Risk management purpose: of which</b>	2,983	(2,994)	106	(134)
<i>Commodity derivatives reported as trading</i>	1,683	(1,695)	104	(129)
<i>Currency forwards reported as trading</i>	900	(899)	2	(1)
<i>Interest rate swaps reported as trading</i>	400	(400)	-	(4)
<b>Total</b>	<b>6,187</b>	<b>(6,196)</b>	<b>143</b>	<b>(272)</b>

Swap derivatives are recognised in respect of interest rate swaps as described in detail in Note 37 – Risk management policies and disclosures.

Commodity derivatives are recognised in respect of contracts for purchase and sale of electricity, which are denominated in CZK and EUR where the contractual condition of derivatives does not meet the “own use exemption” as noted in IFRS 9.2.4.

Sensitivity analysis relating to the fair values of financial instruments is included in the Note 37 – Risk management policies and disclosures.

#### Fair value hierarchy for financial instruments carried at fair value

In general, financial instruments carried at fair value are measured based on quoted market prices at the reporting date. If the market for a financial instrument is not active, fair value is established using valuation techniques. In applying valuation techniques, management uses estimates and assumptions that are consistent with available information that market participants would use in setting a price for the financial instrument.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable on the market for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

<i>In millions of EUR</i>	<b>2019</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets carried at fair value:</b>				
<b>Hedging: of which</b>	-	69	-	<b>69</b>
<i>Commodity derivatives cash flow hedge</i>	-	62	-	<b>62</b>
<i>Other derivatives fair value hedge</i>	-	6	-	<b>6</b>
<i>Currency forwards cash flow hedge</i>	-	1	-	<b>1</b>
<b>Risk management purpose: of which</b>	-	285	-	<b>285</b>
<i>Commodity derivatives reported as trading</i>	-	278	-	<b>278</b>
<i>Currency forwards reported as trading</i>	-	7	-	<b>7</b>
<b>Equity instruments at fair value through OCI:</b>				
<i>of which</i>	-	-	27	<b>27</b>
<i>Shares and interim certificates at fair value through OCI</i>	-	-	27	<b>27</b>
<b>Total</b>	<b>-</b>	<b>354</b>	<b>27</b>	<b>381</b>
<b>Financial liabilities carried at fair value:</b>				
<b>Hedging: of which</b>		155	-	<b>155</b>
<i>Interest rate swaps cash flow hedge</i>	-	101	-	<b>101</b>
<i>Commodity derivatives cash flow hedge</i>	-	35	-	<b>35</b>
<i>Currency forwards cash flow hedge</i>	-	16	-	<b>16</b>
<i>Interest rate swaps fair value hedge</i>	-	3	-	<b>3</b>
<b>Risk management purpose: of which</b>	-	376	-	<b>376</b>
<i>Commodity derivatives reported as trading</i>	-	307	-	<b>307</b>
<i>Interest rate swaps reported as trading</i>	-	68	-	<b>68</b>
<i>Currency forwards reported as trading</i>	-	1	-	<b>1</b>
<b>Total</b>	<b>-</b>	<b>531</b>	<b>-</b>	<b>531</b>

<i>In millions of EUR</i>	2018			Total
	Level 1	Level 2	Level 3	
<b>Financial assets carried at fair value:</b>				
<b>Hedging: of which</b>	-	37	-	<b>37</b>
<i>Commodity derivatives cash flow hedge</i>	-	33	-	<b>33</b>
<i>Other derivatives fair value hedge</i>	-	4	-	<b>4</b>
<b>Risk management purpose: of which</b>	-	106	-	<b>106</b>
<i>Commodity derivatives reported as trading</i>	-	104	-	<b>104</b>
<i>Currency forwards reported as trading</i>	-	2	-	<b>2</b>
<b>Equity instruments at fair value through PL:</b>				
<i>of which</i>	38	-	10	<b>48</b>
<i>Shares at fair value through PL</i>	38	-	10	<b>48</b>
<b>Equity instruments at fair value through OCI:</b>				
<i>of which</i>	-	-	23	<b>23</b>
<i>Shares and interim certificates at fair value through OCI</i>	-	-	23	<b>23</b>
<b>Total</b>	<b>38</b>	<b>143</b>	<b>33</b>	<b>214</b>
<b>Financial liabilities carried at fair value:</b>				
<b>Hedging: of which</b>	-	138	-	<b>138</b>
<i>Interest rate swaps cash flow hedge</i>	-	82	-	<b>82</b>
<i>Commodity derivatives cash flow hedge</i>	-	43	-	<b>43</b>
<i>Currency forwards cash flow hedge</i>	-	13	-	<b>13</b>
<b>Risk management purpose: of which</b>	-	134	-	<b>134</b>
<i>Commodity derivatives reported as trading</i>	-	129	-	<b>129</b>
<i>Interest rate swaps reported as trading</i>	-	4	-	<b>4</b>
<i>Currency forwards reported as trading</i>	-	1	-	<b>1</b>
<b>Total</b>	<b>-</b>	<b>272</b>	<b>-</b>	<b>272</b>

There were no transfers between fair value levels in either 2019 or 2018.

The fair value of financial instruments held at amortised costs is shown in the table below:

<i>In millions of EUR</i>	Carrying value	Fair value
	31 December 2019	31 December 2019
<b>Financial assets</b>		
Loans to other than credit institutions	(1)88	118
Other short-term deposits	9	9
<b>Total</b>	<b>97</b>	<b>127</b>
<b>Financial liabilities</b>		
Issued bills of exchange at amortised costs	116	116
<b>Total</b>	<b>116</b>	<b>116</b>
<i>In millions of EUR</i>		
	Carrying value	Fair value
	31 December 2018	31 December 2018
<b>Financial assets</b>		
Loans to other than credit institutions	(1)299	331
Other short-term deposits	1	1
<b>Total</b>	<b>300</b>	<b>332</b>
<b>Financial liabilities</b>		
Issued bills of exchange at amortised costs	83	77
<b>Total</b>	<b>83</b>	<b>77</b>

(1) Loans to other than credit institutions are stated net of impairment.

All financial instruments held at amortised costs are categorised within Level 2 of the fair value hierarchy (for detail of valuation methods refer to Note 2(d) i – Assumption and estimation uncertainties).

#### Transactions with emission rights not recognized in balance sheet

The following information pertains to contracts on delivery or sale of emission rights. These contracts meet the requirements of IFRS 9 for the application of the own-use exemption and therefore do not fall in the

scope of IFRS 9 (refer to Note 3(f) – Derivative financial instruments – Transactions with emission rights and energy) and are reported as off-balance sheet items, not derivatives. The management carefully assessed conditions of the contracts and concluded that all contracts are intended to be settled via physical delivery needed for consumption or physically delivered quantities shall be sold as part of its ordinary business, therefore the contracts are not reported as derivatives.

As at 31 December 2019, the EPH Group is contractually obliged to purchase 5,845,142 pieces (2018: 2,635,207 pieces) of emission rights at an average price 24.34 EUR/piece (2018: 14.616 EUR/piece).

### 34. Trade payables and other liabilities

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Trade payables	706	585
Other tax liabilities	161	42
Accrued expenses	135	111
Estimated payables	102	93
Payroll liabilities	88	72
Uninvoiced supplies	83	40
Advance payments received	42	87
Other contingent consideration <sup>(1)</sup>	41	41
Liabilities to partners and associations	20	32
Retentions to contractors	2	-
Other liabilities	96	126
<b>Total</b>	<b><u>1,476</u></b>	<b><u>1,229</u></b>
<i>Non-current</i>	145	149
<i>Current</i>	<u>1,331</u>	<u>1,080</u>
<b>Total</b>	<b><u>1,476</u></b>	<b><u>1,229</u></b>

(1) In 2016, the EPH Group acquired 33% share in SPH Group. In addition to the purchase price paid upon closing of the first stage of the transaction, remaining part of the purchase price will be subject to a price adjustment mechanism. As at 31 December 2019, EPH Group recognised a liability of EUR 41 million as an estimate of probable future payment (2018: EUR 41 million).

Trade payables and other liabilities have not been secured as at 31 December 2019 or as at 31 December 2018.

As at 31 December 2019 and 31 December 2018, no liabilities to social and health insurance or tax authorities were overdue.

Estimated payables are recognised based on contractual conditions or invoices received after the balance sheet date but before the financial statements are published.

The Group's exposure to currency and liquidity risk related to trade payables and other liabilities is disclosed in Note 37 – Risk management policies and disclosures.

#### Liabilities to social fund

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
<b>Balance at 1 January</b>	1	1
Charged to expenses	2	2
Disposal/decrease in principal	<u>(2)</u>	<u>(2)</u>
<b>Balance at 31 December</b>	<b><u>1</u></b>	<b><u>1</u></b>

Liabilities to the social fund are presented under payroll liabilities.

## 35. Financial commitments and contingencies

### Off balance sheet liabilities

<i>In millions of EUR</i>	31 December 2019	31 December 2018
Granted pledges – securities	3,981	995
Commitments	936	683
Guarantees given	63	104
Other granted pledges	1,298	1,942
<b>Total</b>	<b>6,278</b>	<b>3,724</b>

### Granted pledges - securities

Granted pledges represent securities of individual Group companies used as collateral for external financing.

As at 31 December 2019 the amount EUR 3,584 million represents pledges recognized by EPIF Investment, a.s. (“EPIF Investment”), which entered into a senior contract on a fixed-term credit facility with a financing bank on 18 June 2019. This loan is secured by a pledge of shares of the subsidiary EP Infrastructure, a.s. and a pledge on the EPIF Investment’s current bank account. Granted pledges as at 31 December 2018 in the amount EUR 661 million represent securities of individual Group companies used as a collateral for external financing by EP Energy, a.s. which was settled in October 2019

### Guarantees given

Guarantees given include mainly guarantees in the amount of EUR 63 million (2018: EUR 103 million) used as collateral for external financing obtained by equity-accounted investees.

### Commitments

In 2018, Mitteldeutsche Braunkohlengesellschaft mbH (“MIBRAG”) concluded agreements with Saxony’s Upper Mining Authority (“SOBA”) and Saxony-Anhalt’s State Office of Geology and Mining (“LAGB”), to ensure that the expenses for restoring open-cast mines are covered. The concluded agreements provide for the establishment of a special fund designed to financially shore up future liquidity requirements, which is to be set up successively by transferring certain assets to developed companies by MIBRAG and by reinvesting the assets within the fund. The special fund including the income generated by this fund will be pledged “insolvency-proof” as security to the States of Saxony and Saxony-Anhalt. A total of EUR 358 million is to be accrued by the special purpose vehicles by 2034 (Profen) and 2037 (Schleenhain). Subsequently, the accrued funds will be continuously reduced as the rehabilitation obligations are successively met. The agreement makes it possible for EPPE Group to accrue the total amount over time (not as a lump sum) until 2034 and 2037 respectively.

Majority of remaining commitments is represented by contracts to purchase physical energy in following years by SSE Group in amount of EUR 311 million (2018: EUR 236 million), where physical delivery of the energy will be realised in future. Contracts for purchase of non-current assets of EUR 60 million are recognized by eustream, a.s., EUR 24 million (2018: EUR 19 million) by SSE Group and contracts for future purchase of emission rights of EUR 143 million (2018: EUR 39 million) are recognized by JTSD – Braunkohlebergbau GmbH, Elektrárny Opatovice, a.s., Pražská teplárenská a.s., United Energy, a.s., Budapesti Erömü Zrt., Plzeňská teplárenská, a.s. and EP UK Investments Limited. Remaining EUR 40 million (2018: EUR 30 million) arise from different type of service contracts.

**Other granted pledges**

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Property, plant and equipment	892	1,292
Trade receivables	204	142
Cash and cash equivalents <sup>(1)</sup>	135	201
Inventories	43	52
Loans granted <sup>(2)</sup>	24	255
<b>Total</b>	<b>1,298</b>	<b>1,942</b>

(1) According to the bond documentation cash balances at specific entities were pledged in favour of the bondholders in case EPE defaults on bonds payments. As such, the pledged cash was readily available to the Group and did not represent restricted cash. Bonds were settled in October 2019

Pledged cash and cash equivalents include pledged restricted cash of EUR 36 million (2018: EUR 21 million).

(2) Total balance of pledged granted loans includes intercompany loans of EUR 13 million (2018: EUR 249 million), which are eliminated in these consolidated financial statements.

Other granted pledges include net book value of property, plant and equipment, cash and cash equivalents, trade receivables, inventories and loans granted pledged by EP SHB Limited, EP Langage Limited, Lynemouth Power Limited, EP UK Finance Limited, EP Ballylumford Limited and EP Kilroot Limited. Total value of assets pledged by each of these companies is limited by value of net assets less loan payable to EP UK Finance Limited.

**Off balance sheet assets**

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Received promises	1,621	967
Other received guarantees and warranties	175	116
<b>Total</b>	<b>1,796</b>	<b>1,083</b>

**Received promises**

Received promises mainly comprise the loan commitments received by the various companies within the Group in amount of EUR 1,173 million (2018: EUR 610 million). Contracts for the future sale of energy in amount of EUR 359 million (2018: EUR 218 million) and regulatory contingent assets related to green energy of EUR 88 million (2018: EUR 139 million) are recognised by SSE Group.

*Regulatory contingent assets related to green energy*

The SSE Group is legally bound to connect producers of green energy, if they comply with requirements set by primary legislation and to purchase the green electricity generated by them, which is used to cover network losses. The purchase tariff for green energy is set by RONI and is covered by the Tariff for system operation ("TPS").

In 2019 SSD recognised a loss of EUR 88 million (2018: EUR 139 million) as the difference between the green energy support costs and revenues from TPS in the period from 1 January 2019 to 31 December 2019. The loss includes revenues adjusted for compensation for past losses, which was recognised as accrued income as at 31 December 2018 (for 2018 revenues as at 31 December 2017).

Based on the Regulatory Framework valid in 2019 the cumulated losses incurred in 2017 and 2018 are compensated in two years' time, i.e. relevant amounts in 2019 and 2020 through an increase of revenues from TPS (2017 and 2018 losses to be recovered in 2019 and 2020). The 2019 loss is reported as a contingent asset in amount of EUR 88 million as of 31 December 2019 and will be recovered in 2021.

Based on the RONI decision dated in December 2019 the resulting contingent asset of EUR 139 million originating in the year 2018 was recognized as accrued income in the consolidated statement of financial position as of 31 December 2019 and will be fully collected in the course of 2020 (31 December 2018: EUR 97 million originating in the year 2017 was recognized as accrued income in the consolidated statement of financial position as of 31 December 2018 and was fully collected in the course of 2019). The loss for 2019 has not yet been recognized as the asset does not yet meet the recognition criteria set by IFRS

as adopted by the EU and will be recognised during the course of 2020 once a RONI confirmation on the exact amount shall be received.

In the middle of August 2018, Slovak government approved the legal act relating to SOT (amendment to the Slovak Renewable Energy Sources Act) drafted by Slovak Ministry of economy („ME“). Parliament approved the change later in 2018 and in November 2018 the final version of legal act relating to SOT was published in the Official Journal.

Primarily, the legal act transfers SOT clearing duty from the distribution companies to a state-owned company, in this case OKTE a.s., from 1 January 2020. Following the current legislation, from the accounting and cash flow perspective, the Group expects the SOT deficit to be fully recognised in statement of financial position in course of 2019 and 2020. Settlement of the receivable is expected to occur during the course of 2020 and 2021 at the latest.

#### Other received guarantees and warranties

Other received guarantees and warranties mainly consist of guarantees received from parent company of the customer to secure trade receivables in the amount of EUR 89 million (2018: EUR 77 million) recognised by eustream, a.s. and SPP - distribúcia, a.s., guarantees received from banks of EUR 64 million (2018: EUR 26 million) recognised by NAFTA a.s. and payment guarantees of EUR 13 million recognized by Gazel Energie Solutions S.A.S. (2018: EUR 0 million).

### 36. Leases

#### (a) Leases as a lessee

The Group leases buildings, pipelines, locomotives and wagons and personal cars. The leases have various lease terms and run under various period of time. For some leases, the Group has an option to renew the lease after the end of the lease term.

The Group has elected not to recognise right-of-use assets and lease liabilities for some leases of low-value assets and short-term leases (lease term 12 months or shorter). The Group recognises the lease payments associated with these leases as an expense.

#### Right-of-use assets

Right-of-use assets related to leased land and buildings and technical equipment, plant and machinery that do not meet the definition of investment property are presented as property, plant and equipment (refer to Note 16).

<i>In millions of EUR</i>	<b>Land and building</b>	<b>Technical equipment, plant and machinery</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>45</b>	<b>80</b>	<b>125</b>
Depreciation charge for the year	(6)	(21)	(27)
Additions to right-of-use assets	1	24	25
Additions in business combinations	3	19	22
Modifications to right-of-use assets	-	(6)	(6)
<b>Balance at 31 December 2019</b>	<b>43</b>	<b>96</b>	<b>139</b>

#### Maturity analysis of lease liabilities

<i>In millions of EUR</i>	<b>31 December 2019</b>
<b>Undiscounted contractual cash flows by maturity</b>	
Up to 3 months	7
3 months to 1 year	24
1–5 years	66
Over 5 years	55
<b>Total undiscounted contractual cash flows</b>	<b>152</b>
<b>Carrying amount</b>	<b>145</b>

**Amounts recognized in profit or loss**

<i>In millions of EUR</i>	<b>2019</b>
<b>2019 – Leases under IFRS 16</b>	
Depreciation charge for the year	(27)
Interest on lease liabilities	(3)
Expenses related to short-term leases	(1)
Expenses related to leases of low-value assets, excluding short-term leases of low-value assets	(9)
Expenses related to variable lease payments not included in measurement of lease liability	(1)
	<u>(1)</u>

<i>In millions of EUR</i>	<b>2018</b>
<b>2018 – Leases under IAS 17</b>	
Lease expenses	41
	<u>41</u>

**Amounts recognized in statement of cash flows**

<i>In millions of EUR</i>	<b>2019</b>
Total cash outflow for leases	(28)
	<u>(28)</u>

**(b) Leases as a lessor**

During the year ended 31 December 2019, EUR 7 million (2018: EUR 7 million) was recognised as income in profit or loss in respect of operating leases.

## 37. Risk management policies and disclosures

This section provides details of the Group's exposure to financial and operational risks and the way it manages such risk. The most important types of financial risks to which the Group is exposed are credit risk, liquidity risk, interest rate, commodity price risk, foreign exchange risk, concentration risk and regulatory risk.

As part of its operations, the Group is exposed to different market risks, notably the risk of changes in interest rates, exchange rates and commodity prices. To minimise this exposure, the Group enters into derivatives contracts to mitigate or manage the risks associated with individual transactions and overall exposures, using instruments available on the market.

### (a) Credit risk

#### *i. Exposure to credit risk*

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers and loans and advances.

The Group has established a credit policy under which each new customer requesting products/services over a certain limit (which is based on the size and nature of the particular business) is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group uses credit databases for analysis of creditworthiness of new customers and after deemed creditworthy they are also subject to Risk committee approval. The Group's policy is also to require suitable collateral to be provided by customers such as a bank guarantee or a parent company guarantee. The exposure to credit risk is monitored on an ongoing basis.

#### **Additional aspects mitigating credit risk**

The Group operates mainly as an energy and power generation and distribution company, and thus has a specific customer structure. The distribution companies represent a comparatively low credit risk. The large clients are dependent upon electricity supplies which significantly mitigates the credit risks. In addition, bank guarantees and advance payments are required before active operation with traders. Previous experience shows that such elements are very favourable in terms of credit risk mitigation. Customers of distribution and supply segment of Heat Infra segment are required to pay prepayments which further decrease credit risk. In energy and power generation sector, increasing proportion of the revenues is generated from the regulated and/or state controlled entities (especially in relation to the green energy production and services provided to grids; refer to Note 3(o) – Revenues for description of grid services), which represent a comparatively low credit risk. At the same time substantial volume of the transactions is done with large clients with solid credit standing and/or are realized through exchanges, which provides for further risk mitigation.

The carrying amount of financial assets (plus guarantees issued) represents the maximum credit exposure if counterparties fail to carry out completely their contractual obligations and any collateral or security proves to be of no value. The maximum credit exposure amounts disclosed below therefore greatly exceed expected losses, which are included in the allowance for impairment.

The Group establishes an allowance for impairment that represents its estimate of expected credit losses. The Group measures loss allowances 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 Group has elected to measure loss allowances at an amount equal to lifetime ECLs.

At the reporting date, the maximum exposure to credit risk by the type of counterparty and by geographic region is provided in the following tables.

**Credit risk by type of counterparty****As at 31 December 2019***In millions of EUR*

	<b>Corporate (non-financial institutions)</b>	<b>State, government</b>	<b>Financial institutions</b>	<b>Banks</b>	<b>Individuals</b>	<b>Other</b>	<b>Total</b>
<i>Assets</i>							
Cash and cash equivalents	-	-	-	1,246	-	-	<b>1,246</b>
Restricted cash	3	-	-	44	-	-	<b>47</b>
Contract assets	59	-	-	-	-	-	<b>59</b>
Trade receivables and other assets	931	214	-	5	150	74	<b>1,374</b>
Financial instruments and other financial assets	387	-	31	34	26	-	<b>478</b>
<b>Total</b>	<b>1,380</b>	<b>214</b>	<b>31</b>	<b>1,329</b>	<b>176</b>	<b>74</b>	<b>3,204</b>

**As at 31 December 2018***In millions of EUR*

	<b>Corporate (non-financial institutions)</b>	<b>State, government</b>	<b>Financial institutions</b>	<b>Banks</b>	<b>Individuals</b>	<b>Other</b>	<b>Total</b>
<i>Assets</i>							
Cash and cash equivalents	-	-	-	1,006	-	-	<b>1,006</b>
Restricted cash	5	-	-	25	-	-	<b>30</b>
Contract assets	37	-	-	-	-	-	<b>37</b>
Trade receivables and other assets	980	23	-	1	29	64	<b>1,097</b>
Financial instruments and other financial assets	429	-	59	25	1	-	<b>514</b>
<b>Total</b>	<b>1,451</b>	<b>23</b>	<b>59</b>	<b>1,057</b>	<b>30</b>	<b>64</b>	<b>2,684</b>

### Credit risk by location of debtor

#### As at 31 December 2019

*In millions of EUR*

	Czech Republic	Slovakia	Cyprus	Italy	Poland	Germany	Hungary	United Kingdom	France	Ireland	Other	Total
<i>Assets</i>												
Cash and cash equivalents	274	445	-	167	4	85	15	99	121	19	17	<b>1,246</b>
Restricted cash	2	-	-	-	-	-	3	41	-	1	-	<b>47</b>
Contract assets	30	21	-	-	-	-	-	-	-	-	8	<b>59</b>
Trade receivables and other assets	133	222	-	231	18	159	21	276	150	5	159	<b>1,374</b>
Financial instruments and other financial assets	28	9	1	30	-	190	1	84	94	-	41	<b>478</b>
<b>Total</b>	<b>467</b>	<b>697</b>	<b>1</b>	<b>428</b>	<b>22</b>	<b>434</b>	<b>40</b>	<b>500</b>	<b>365</b>	<b>25</b>	<b>225</b>	<b>3,204</b>

#### As at 31 December 2018

*In millions of EUR*

	Czech Republic	Slovakia	Cyprus	Italy	Poland	Germany	Hungary	United Kingdom	France	Ireland	Other	Total
<i>Assets</i>												
Cash and cash equivalents	333	238	-	214	3	74	6	128	-	-	10	<b>1,006</b>
Restricted cash	3	-	-	-	-	-	2	25	-	-	-	<b>30</b>
Contract assets	27	10	-	-	-	-	-	-	-	-	-	<b>37</b>
Trade receivables and other assets	126	212	-	248	12	159	22	165	4	-	149	<b>1,097</b>
Financial instruments and other financial assets	95	5	63	13	124	115	7	24	2	-	66	<b>514</b>
<b>Total</b>	<b>584</b>	<b>465</b>	<b>63</b>	<b>475</b>	<b>139</b>	<b>348</b>	<b>37</b>	<b>342</b>	<b>6</b>	<b>-</b>	<b>225</b>	<b>2,684</b>

As at 31 December 2019, location Other comprises mainly debtors located in the Netherlands, Luxembourg and Belgium (2018: the Netherlands, Luxembourg and Belgium).

**ii. 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 reporting date;
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

The Group measures loss allowances at an amount equal to lifetime ECLs except for those financial assets for which credit risk has not increased significantly since initial recognition.

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

The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs. For more information refer to Note 3(d) – Non-derivative financial assets.

**Credit risk – impairment of financial assets**

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

<i>In millions of EUR</i>	<b>12-month ECL</b>	<b>Lifetime ECL not credit- impaired</b>	<b>Lifetime ECL credit- impaired</b>	<b>Purchased credit- impaired</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	(17)	(5)	(114)	-	(136)
Impairment losses recognised during the year	(5)	(1)	(281)	-	(287)
Reversal of impairment losses recognised during the year	15	-	20	-	35
Write-offs	2	-	8	-	10
Effects of movements in foreign exchange rate	-	-	(3)	-	(3)
<b>Balance at 31 December 2019</b>	<b>(5)</b>	<b>(6)</b>	<b>(370)</b>	<b>-</b>	<b>(381)</b>

<i>In millions of EUR</i>	<b>12-month ECL</b>	<b>Lifetime ECL not credit- impaired</b>	<b>Lifetime ECL credit- impaired</b>	<b>Purchased credit- impaired</b>	<b>Total</b>
<b>Balance at 31 December 2017 – IAS 39</b>	-	-	(40)	-	(40)
Impact of adopting IFRS 9 <sup>(1)</sup>	(3)	(1)	(1)	-	(5)
<b>Restated balance at 1 January 2018</b>	<b>(3)</b>	<b>(1)</b>	<b>(41)</b>	<b>-</b>	<b>(45)</b>
Impairment losses recognised during the year	(15)	(3)	(74)	-	(92)
Reversal of impairment losses recognised during the year	1	-	1	-	2
Effects of movements in foreign exchange rate	-	(1)	-	-	(1)
<b>Balance at 31 December 2018</b>	<b>(17)</b>	<b>(5)</b>	<b>(114)</b>	<b>-</b>	<b>(136)</b>

(1) Excluding impact of adopting IFRS 9 recognised by equity accounted investees in the amount of EUR 4 million.

The most significant change which contributed to change in the loss allowance during 2019 was mainly creation of lifetime ECL to certain loans to other than credit institutions and reversal of impairment loss of a trade receivable created in previous year as the uncertainty connected to the collection of the receivable has been rebutted (2018: classification of certain loans to other than credit institution in Stage

III and creation of lifetime ECL to these receivables and increase in the gross carrying amount of trade receivables). For more information on creation of loss allowance refer to Note 33 – Financial instruments.

The movements in the allowance for impairment in respect of financial assets during the year ended 31 December 2019 and 2018 were as follows:

<i>In millions of EUR</i>	<b>Loans to other than credit institutions</b>	<b>Contract assets</b>	<b>Trade receivables and other assets</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>(92)</b>	-	<b>(44)</b>	<b>(136)</b>
Impairment losses recognised during the year	(280)	-	(7)	<b>(287)</b>
Reversals of impairment losses recognised during the year	19	-	16	<b>35</b>
Write-offs	-	-	10	<b>10</b>
Effects of movements in foreign exchange rate	(2)	-	(1)	<b>(3)</b>
<b>Balance at 31 December 2019</b>	<b>(355)</b>	-	<b>(26)</b>	<b>(381)</b>

<i>In millions of EUR</i>	<b>Loans to other than credit institutions</b>	<b>Contract assets</b>	<b>Trade receivables and other assets</b>	<b>Total</b>
<b>Balance at 31 December 2017 – IAS 39</b>	<b>(17)</b>	-	<b>(23)</b>	<b>(40)</b>
Impact of adopting IFRS 9 <sup>(1)</sup>	(1)	-	(4)	<b>(5)</b>
<b>Restated balance at 1 January 2018</b>	<b>(18)</b>	-	<b>(27)</b>	<b>(45)</b>
Impairment losses recognised during the year	(74)	-	(18)	<b>(92)</b>
Reversals of impairment losses recognised during the year	-	-	2	<b>2</b>
Effects of movements in foreign exchange rate	-	-	(1)	<b>(1)</b>
<b>Balance at 31 December 2018</b>	<b>(92)</b>	-	<b>(44)</b>	<b>(136)</b>

(1) Excluding impact of adopting IFRS 9 recognised by equity accounted investees in the amount of EUR 3 million.

The ageing of financial assets, excluding cash and cash equivalents and derivatives, at the reporting date was:

### Credit risk – impairment of financial assets

As at 31 December 2019

*In millions of EUR*

	Other term deposits	Contract assets	Loans to other than credit institutions	Trade receivables and other assets	Total
Before maturity (net)	9	59	88	1,348	1,504
After maturity (net)	-	-	-	26	26
<b>Total</b>	<b>9</b>	<b>59</b>	<b>88</b>	<b>1,374</b>	<b>1,530</b>
A – Assets (gross)					
- before maturity	9	59	443	1,356	1,867
- after maturity <30 days	-	-	-	18	18
- after maturity 31–180 days	-	-	-	4	4
- after maturity 181–365 days	-	-	-	4	4
- after maturity >365 days	-	-	-	18	18
<b>Total assets (gross)</b>	<b>9</b>	<b>59</b>	<b>443</b>	<b>1,400</b>	<b>1,911</b>
B – Loss allowances for assets					
- before maturity	-	-	(355)	(9)	(364)
- after maturity <30 days	-	-	-	-	-
- after maturity 31–180 days	-	-	-	(1)	(1)
- after maturity 181–365 days	-	-	-	(1)	(1)
- after maturity >365 days	-	-	-	(15)	(15)
<b>Total loss allowances</b>	<b>-</b>	<b>-</b>	<b>(355)</b>	<b>(26)</b>	<b>(381)</b>
<b>Total assets (net)</b>	<b>9</b>	<b>59</b>	<b>88</b>	<b>1,374</b>	<b>1,530</b>

**Credit risk – impairment of financial assets****As at 31 December 2018***In millions of EUR*

	<b>Other term deposits</b>	<b>Contract assets</b>	<b>Loans to other than credit institutions</b>	<b>Trade receivables and other assets</b>	<b>Total</b>
Before maturity (net)	1	37	299	1,083	<b>1,420</b>
After maturity (net)	-	-	-	14	<b>14</b>
<b>Total</b>	<b>1</b>	<b>37</b>	<b>299</b>	<b>1,097</b>	<b>1,434</b>
A – Assets (gross)					
- before maturity	1	37	391	1,104	<b>1,533</b>
- after maturity <30 days	-	-	-	11	<b>11</b>
- after maturity 31–180 days	-	-	-	3	<b>3</b>
- after maturity 181–365 days	-	-	-	2	<b>2</b>
- after maturity >365 days	-	-	-	21	<b>21</b>
<b>Total assets (gross)</b>	<b>1</b>	<b>37</b>	<b>391</b>	<b>1,141</b>	<b>1,570</b>
B – Loss allowances for assets					
- before maturity	-	-	(92)	(21)	<b>(113)</b>
- after maturity <30 days	-	-	-	-	<b>-</b>
- after maturity 31–180 days	-	-	-	(1)	<b>(1)</b>
- after maturity 181–365 days	-	-	-	(2)	<b>(2)</b>
- after maturity >365 days	-	-	-	(20)	<b>(20)</b>
<b>Total loss allowances</b>	<b>-</b>	<b>-</b>	<b>(92)</b>	<b>(44)</b>	<b>(136)</b>
<b>Total assets (net)</b>	<b>1</b>	<b>37</b>	<b>299</b>	<b>1,097</b>	<b>1,434</b>

Impairment losses on financial assets at amortized cost are calculated based on a 3-stage model. Impairment losses from credit impaired financial assets relate either to trade receivables due from several customers which have already been impaired at the date of the application of a 3-stage model or to receivables where events that have a detrimental impact on the estimated future cash flows of the asset have occurred. Remaining amount of impairment losses represents loss allowances at an amount equal to expected credit losses.

Group calculates a collective loss allowance for trade receivables on the basis of a simplified approach based on historical provision matrix. Probability of default is taken from a historical provision matrix (set up separately by each component) with element of forward-looking information (the Group incorporates the following forward-looking information: GDP growth, unemployment rate, interest rates, change in stock market index). The resulting collective loss allowance was not significant as at 31 December 2019.

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 Group assessed the need to create a credit loss allowance for receivables due from banks (included in the item cash and cash equivalents) and concluded that the resulting provision would be negligible.

**(b) Liquidity risk**

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Various methods of managing liquidity risk are used by individual companies in the Group.

The Group's management focuses on methods used by financial institutions, i.e. diversification of sources of funds. This diversification makes the Group flexible and limits its dependency on one financing source. Liquidity risk is evaluated in particular by monitoring changes in the structure of financing and comparing these changes with the Group's liquidity risk management strategy. The Group also holds, as a part of its liquidity risk management strategy, a portion of its assets in highly liquid funds.

Typically the Group ensures that it has sufficient cash on demand and assets within short 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. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Therefore, in the case of liabilities, the earliest required repayment date is shown. Those liabilities that do not have a contractual maturity date are grouped together in the "undefined maturity" category.

## Maturities of financial liabilities

### As at 31 December 2019

In millions of EUR

	Carrying amount	Contractual cash flows <sup>(1)</sup>	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
<b>Liabilities</b>							
Loans and borrowings	6,391	6,841	280	1,537	2,861	2,163	-
Trade payables and other liabilities	<sup>(2)</sup> 1,434	1,434	793	468	102	43	28
Financial instruments and financial liabilities	647	650	99	312	225	14	-
out of which Derivatives - inflow <sup>(3)</sup>		4,390	341	1,034	1,290	1,725	-
outflow <sup>(3)</sup>	(531)	(4,732)	(395)	(1,274)	(1,329)	(1,734)	-
<b>Total</b>	<b>8,472</b>	<b>8,925</b>	<b>1,172</b>	<b>2,317</b>	<b>3,188</b>	<b>2,220</b>	<b>28</b>

\* Contract liabilities in amount of EUR 287 million are not shown in the table above as these items are not expected to cause any future cash outflow.

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

(2) Advances received in amount of EUR 42 million are excluded from the carrying amount as these items will cause no future cash outflow.

(3) Inflow/outflow of derivatives represent nominal value of derivatives.

### As at 31 December 2018

In millions of EUR

	Carrying amount	Contractual cash flows <sup>(1)</sup>	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
<b>Liabilities</b>							
Loans and borrowings	5,943	6,370	175	923	3,601	1,671	-
Trade payables and other liabilities	<sup>(2)</sup> 1,144	1,146	709	266	106	37	28
Financial instruments and financial liabilities	355	354	57	143	99	55	-
out of which Derivatives - inflow <sup>(3)</sup>		4,448	590	1,227	528	2,103	-
outflow <sup>(3)</sup>	(272)	(4,571)	(621)	(1,303)	(544)	(2,103)	-
<b>Total</b>	<b>7,442</b>	<b>7,870</b>	<b>941</b>	<b>1,332</b>	<b>3,806</b>	<b>1,763</b>	<b>28</b>

\* Contract liabilities in amount of EUR 168 million are not shown in the table above as these items are not expected to cause any future cash outflow.

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

(2) Advances received in amount of EUR 85 million are excluded from the carrying amount as these items will cause no future cash outflow.

(3) Inflow/outflow of derivatives represent nominal value of derivatives.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or in significantly different amounts.

**(c) Interest rate risk**

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities will mature or re-price at different times or in differing amounts. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped together in the "maturity undefined" category.

Various types of derivatives are used to reduce the amount of debt exposed to interest rate fluctuations and to reduce borrowing costs and include mainly interest rate swaps.

These contracts are normally agreed with a notional amount lower than or equal to that of the underlying financial liability and expiry date, so that any change in the fair value and/or expected future cash flows of these contracts is offset by a corresponding change in the fair value and/or the expected future cash flows from the underlying position.

Financial information relating to interest bearing and non-interest-bearing assets and liabilities and their contractual maturity or re-pricing dates as at 31 December 2019 is as follows:

<i>In millions of EUR</i>	<b>Up to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Undefined maturity (or non-interest bearing)</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	1,246	-	-	-	<b>1,246</b>
Restricted cash	25	-	-	22	<b>47</b>
Trade receivables and other assets	1	1	-	1,372	<b>1,374</b>
Financial instruments and other financial assets <sup>(1)</sup>	37	8	43	390	<b>478</b>
<b>Total</b>	<b>1,309</b>	<b>9</b>	<b>43</b>	<b>1,784</b>	<b>3,145</b>
<b>Liabilities</b>					
Loans and borrowings <sup>(2)</sup>	3,192	1,437	1,671	91	<b>6,391</b>
Trade payables and other liabilities	3	-	-	1,473	<b>1,476</b>
Financial instruments and financial liabilities <sup>(1)</sup>	210	69	5	363	<b>647</b>
<b>Total</b>	<b>3,405</b>	<b>1,506</b>	<b>1,676</b>	<b>1,927</b>	<b>8,514</b>
<b>Net interest rate risk position</b>	<b>(2,096)</b>	<b>(1,497)</b>	<b>(1,633)</b>	<b>(143)</b>	<b>(5,369)</b>
Effect of interest rate swaps	2,484	(704)	(1,780)	-	-
<b>Net interest rate risk position (incl. IRS)</b>	<b>388</b>	<b>(2,201)</b>	<b>(3,413)</b>	<b>(143)</b>	<b>(5,369)</b>

(1) The Group contractually agreed to swap float interest rate for a fixed rate (at some of its bank loans).

(2) Disregarding agreed interest rate swaps.

Notional amounts of financial instruments are included in Note 33 – Financial instruments.

Interest rate risk exposure as at 31 December 2018 is as follows:

<i>In millions of EUR</i>	<b>Up to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Undefined maturity (or non-interest bearing)</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	986	-	-	20	<b>1,006</b>
Restricted cash	26	-	-	4	<b>30</b>
Trade receivables and other assets	-	-	-	1,097	<b>1,097</b>
Financial instruments and other financial assets <sup>(1)</sup>	115	99	89	211	<b>514</b>
<b>Total</b>	<b>1,127</b>	<b>99</b>	<b>89</b>	<b>1,332</b>	<b>2,647</b>
<b>Liabilities</b>					
Loans and borrowings <sup>(2)</sup>	3,240	1,453	1,249	1	<b>5,943</b>
Trade payables and other liabilities	3	-	-	1,226	<b>1,229</b>
Financial instruments and financial liabilities <sup>(1)</sup>	122	47	-	186	<b>355</b>
<b>Total</b>	<b>3,365</b>	<b>1,500</b>	<b>1,249</b>	<b>1,413</b>	<b>7,527</b>
<b>Net interest rate risk position</b>	<b>(2,238)</b>	<b>(1,401)</b>	<b>(1,160)</b>	<b>(81)</b>	<b>(4,880)</b>
Effect of interest rate swaps	2,312	(209)	(2,103)	(1)	<b>(1)</b>
<b>Net interest rate risk position (incl. IRS)</b>	<b>74</b>	<b>(1,610)</b>	<b>(3,263)</b>	<b>(82)</b>	<b>(4,881)</b>

(1) The Group contractually agreed to swap float interest rate for a fixed rate (at some of its bank loans).

(2) Disregarding agreed interest rate swaps.

Notional amounts of financial instruments are included in Note 33 – Financial instruments.

### Sensitivity analysis

The Group performs stress testing using a standardised interest rate shock, for financial assets and liabilities to be repriced up to 1 year time, i.e. an immediate decrease/increase in interest rates by 1% along the whole yield curve is applied to the interest rate positions of the portfolio.

At the reporting date, a change of 1% in market interest rates would have increased or decreased profit by the amounts shown in the table below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

<i>In millions of EUR</i>	<b>2019 Profit (loss)</b>	<b>2018 Profit (loss)</b>
Decrease in interest rates by 1%	-	1
Increase in interest rates by 1%	(5)	(8)

The analysis stated above does not reflect the impact of change in interest rate on the fair value of derivatives.

**(d) Foreign exchange risk**

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group is exposed to a currency risk on sales, purchases and borrowings that are denominated in currency other than the respective functional currencies of Group entities, primarily EUR, USD, GBP, PLN and HUF.

Various types of derivatives are used to reduce the exchange rate risk on foreign currency assets, liabilities and expected future cash flows. These include forward exchange contracts, most with a maturity of less than one year.

These contracts are also normally agreed with a notional amount and expiry date equal to that of the underlying financial liability or the expected future cash flows, so that any change in the fair value and/or future cash flows of these contracts stemming from a potential appreciation or depreciation of the Czech crown against other currencies is fully offset by a corresponding change in the fair value and/or the expected future cash flows of the underlying position.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances on the level of individual companies within the Group.

As of 31 December 2019, the Group is exposed to foreign exchange risk when financial assets and liabilities are denominated in a currency other than the functional currency in which they are measured. Assets and liabilities denominated in a currency different from the functional currency in which they are measured are presented in the table below:

<i>In millions of EUR</i>	<b>CZK</b>	<b>USD</b>	<b>EUR</b>	<b>GBP</b>	<b>PLN</b>	<b>HUF</b>	<b>Other</b>
<b>Assets</b>							
Cash and cash equivalents	3	5	23	3	4	1	1
Restricted cash	-	-	-	-	-	-	-
Trade receivables and other assets	-	2	895	18	3	2	-
Financial instruments and other financial assets	-	17	2,941	1,018	28	-	-
	<b>3</b>	<b>24</b>	<b>3,859</b>	<b>1,039</b>	<b>35</b>	<b>3</b>	<b>1</b>
<b>Off-balance sheet assets</b>							
Receivables from forward exchange contracts	-	84	133	36	61	9	-
	<b>-</b>	<b>84</b>	<b>133</b>	<b>36</b>	<b>61</b>	<b>9</b>	<b>-</b>
<b>Liabilities</b>							
Loans and borrowings	-	11	4,864	508	-	-	-
Trade payables and other liabilities	2	1	432	18	1	-	1
Financial instruments and financial liabilities	-	-	417	-	-	-	-
	<b>2</b>	<b>12</b>	<b>5,713</b>	<b>526</b>	<b>1</b>	<b>-</b>	<b>1</b>
<b>Off-balance sheet liabilities</b>							
Payables related to forward exchange contracts	-	20	343	74	-	-	-
	<b>-</b>	<b>20</b>	<b>343</b>	<b>74</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net FX risk position</b>	<b>1</b>	<b>12</b>	<b>(1,854)</b>	<b>513</b>	<b>34</b>	<b>3</b>	<b>-</b>
Effect of forward exchange contracts	-	64	(210)	(38)	61	9	-
Effect of cash flow hedges on FX risk <sup>(1)</sup>	-	-	945	-	-	-	-
<b>Net FX risk position (incl. forward exchange contracts and cash flow hedges on FX risk)</b>	<b>1</b>	<b>76</b>	<b>(1,119)</b>	<b>475</b>	<b>95</b>	<b>12</b>	<b>-</b>

(1) The amount relates to a cash flow hedge recognized by the Group's entities in its standalone financial statements.

Foreign currency denominated intercompany receivables and payables are included in sensitivity analysis for foreign exchange risk. These balances are eliminated in consolidated balance sheet but their effect on profit or loss of their currency revaluation is not fully eliminated. Therefore, the total amounts of exposure to foreign exchange risk do not equal to respective items reported on consolidated balance sheet.

As of 31 December 2018, the Group is exposed to foreign exchange risk when financial assets and liabilities are denominated in a currency other than the functional currency in which they are measured. Assets and liabilities denominated in a currency different from the functional currency in which they are measured are presented in the table below:

<i>In millions of EUR</i>	<b>CZK</b>	<b>USD</b>	<b>EUR</b>	<b>GBP</b>	<b>PLN</b>	<b>HUF</b>	<b>Other</b>
<b>Assets</b>							
Cash and cash equivalents	2	1	214	1	1	2	-
Restricted cash	-	-	-	-	-	-	-
Trade receivables and other assets	1	31	312	21	1	-	-
Financial instruments and other financial assets	1	18	2,611	739	119	1	-
	<b>4</b>	<b>50</b>	<b>3,137</b>	<b>761</b>	<b>121</b>	<b>3</b>	<b>-</b>
<b>Off-balance sheet assets</b>							
Receivables from forward exchange contracts	-	-	282	125	30	-	-
	<b>-</b>	<b>-</b>	<b>282</b>	<b>125</b>	<b>30</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>							
Loans and borrowings	-	18	3,830	370	-	-	-
Trade payables and other liabilities	-	17	378	20	2	-	-
Financial instruments and financial liabilities	-	-	244	-	-	-	-
	<b>-</b>	<b>35</b>	<b>4,452</b>	<b>390</b>	<b>2</b>	<b>-</b>	<b>-</b>
<b>Off-balance sheet liabilities</b>							
Payables related to forward exchange contracts	-	16	497	224	-	-	-
	<b>-</b>	<b>16</b>	<b>497</b>	<b>224</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net FX risk position</b>	<b>4</b>	<b>15</b>	<b>(1,315)</b>	<b>371</b>	<b>119</b>	<b>3</b>	<b>-</b>
Effect of forward exchange contracts	-	(16)	(215)	(99)	30	-	-
Effect of cash flow hedges on FX risk <sup>(1)</sup>	-	-	980	-	-	-	-
<b>Net FX risk position (incl. forward exchange contracts and cash flow hedges on FX risk)</b>	<b>4</b>	<b>(1)</b>	<b>(550)</b>	<b>272</b>	<b>149</b>	<b>3</b>	<b>-</b>

(1) The amount relates to a cash flow hedge recognized by the Group's entities in its standalone financial statements.

Foreign currency denominated intercompany receivables and payables are included in sensitivity analysis for foreign exchange risk. These balances are eliminated in consolidated balance sheet but their effect on profit or loss of their currency revaluation is not fully eliminated. Therefore, the total amounts of exposure to foreign exchange risk do not equal to respective items reported on consolidated balance sheet.

Off-balance sheet assets and liabilities include payables and receivables from forward exchange contracts (refer to Note 33 – Financial instruments).

The following significant exchange rates applied during the period:

CZK	31 December 2019		31 December 2018	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
EUR 1	25.672	25.410	25.643	25.725
GBP 1	29.256	29.866	28.990	28.762
HUF 100	7.895	7.688	8.045	8.015
PLN 1	5.973	5.970	6.020	5.980
USD 1	22.934	22.621	21.735	22.466

### Sensitivity analysis

A strengthening (weakening) of the Czech crown, as indicated below, against the EUR, GBP, PLN and USD at the reporting date would have impacted profit (loss) and other comprehensive income by the amounts shown in the following tables. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably likely at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

<i>Effect in millions of EUR</i>	2019	2018
	Profit (loss)	Profit (loss)
EUR (5% strengthening)	93	66
PLN (5% strengthening)	(2)	(6)
GBP (5% strengthening)	(26)	(19)
USD (5% strengthening)	(1)	(1)

<i>Effect in millions of EUR</i>	2019	2018
	Other comprehensive income	Other comprehensive income
EUR (5% strengthening)	-	-

A weakening of the Czech crown against the above currencies at the reporting date would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

### (e) Commodity risk

The Group's exposure to commodity risk principally consists of exposure to fluctuations in the prices of commodities, especially energy, gas and emission allowances, both on the supply and the demand side. The Group's primary exposure to commodity price risks arises from the nature of its physical assets, namely power plants and to a lesser extent from proprietary trading activities.

In case of favourable power prices, the Group manages the natural commodity risk connected with its electricity generation by selling the power it expects to produce in the cogeneration power plants and in ancillary services on an up to two-year forward basis. In case of low power prices, instead of entering into such forward contracts, the Group uses the flexibility of its own power generating capacities to react to current power prices with the aim to achieve better average selling price.

In addition, the Group purchases emission allowances on a forward basis.

The Group aims to reduce exposure to fluctuations in commodity prices through the use of swaps and various other types of derivatives.

The Group manages the commodity price risks associated with its proprietary trading activities by generally trading on a back-to-back basis, i.e., purchasing from the market where it has a customer in place to purchase the commodity.

Commodity derivatives primarily represents forwards on purchase or sale of electricity and swaps relating to gas which is typically used to hedge the commodity price for eustream's operations, specifically locking the sales prices for surplus of gas-in-kind received from shippers (for more details refer to Note 33 – Financial instruments).

### **Sensitivity analysis**

A 5% change in the market of the natural gas would have impact on the fair value of cash flow hedging derivatives of EUR 7 million (2018: negative EUR 17 million).

A 5% change in the market of the electricity would have impact on the fair value of cash flow hedging derivatives of negative EUR 6 million (2018: EUR 5 million).

A change in the market price of electricity of 1 EUR/MWh would have decreased or increased revenues from sales of electricity by EUR 40 million (2018: EUR 35 million). This analysis assumes that all other variables, in particular gas prices and emission rights prices, remain constant.

### **(f) Regulatory risk**

The Group is exposed to risks resulting from the state regulation of electricity selling prices by the states in which it undertakes business activities. In Slovakia electricity prices for households and small enterprises are regulated providing for a capped profit margin per MWh.

The sale of electricity to mid-sized and large customers is the subject matter of composite electricity supply contracts. Such contracts usually determine the price for the supply of the commodity. The price of the distribution and other components is determined based on the Slovak Regulatory Office for Network Industries's ("RONI") price decisions for distribution companies and the market and transmission system operator. For small enterprises and households, composite electricity supply contracts define the products for which price lists are issued in accordance with the RONI's price decisions for the regulated entity as a supplier of electricity. The RONI sets a maximum margin per MWh to be charged by the supplier. Improper regulation could negatively influence operating performance and cash flows.

The Czech Energy Regulatory Office ("ERO") issues pricing decisions that set forth mandatory guidelines applicable to the calculation of heat prices. These rates are comprised of (i) the economically justified costs necessary for production and distribution of heat, (ii) appropriate profit, and (iii) VAT. Furthermore, the ERO sets the limit price for heat which allows the Company's subsidiaries to set their own heat price on the condition that it is lower than the limit price and follows the calculation principles. Nevertheless, the ERO also has the right to review retroactively the operations of a heat producer for the previous 5 years with respect to the heat price setting mechanism applied by that particular entity. If the entity is not able fully to support the pricing mechanism applied, ERO can impose significant penalties which might have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects. The fact that the price of heat is not set by the ERO as a fixed amount per unit, gives rise to a degree of uncertainty on the part of the operator as there is the possibility that the calculation it carried out will be assessed as incorrect by the ERO.

As regards electricity produced by cogeneration plants, the ERO also stipulates the amount of subsidy for electricity from high-efficiency cogeneration sources in its price decision in the form of a green bonus, which is set per MWh and granted on an annual or hourly basis. The price decision distinguishes between a basic tariff (which applies to cogeneration plants in general) and additional tariff (which applies only to some of them). The respective tariff is set in the price decision in CZK per MWh and has different levels depending on the size of the plant, overall time of its use during a year and the fuel it uses. It is common that the ERO issues the price decision annually, in the autumn for the coming calendar year.

The basic framework for the price regulation of gas supplies is provided by Act No. 250/2012 Coll. on Regulation in Network Industries and the Regulation Policy for the current 2017 – 2021 regulation period. Details related to the scope and method of conducting price regulation are determined in the generally-binding legal regulations issued by the RONI.

Gas Transmission business is obliged regularly to submit tariff structure proposals in respect of the relevant regulatory period to the RONI for approval. The current regulatory period started on 1 January 2017 and will end on 31 December 2021.

### **(g) Concentration risk**

Major part of gas transmission, gas and power distribution and gas storage revenues, which are primarily recognised by SPPI Group and Stredoslovenská distribučná, a.s., are concentrated to a small number of

customers. This is caused by the nature of business which has high barriers of entry. At the same time, majority of these revenues is subject to regulation as well as recognised under long-term contracts, often under “take or pay” schemes which limit the volatility of revenues year-on-year. From the credit risk perspectives, the counterparties are typically high-profile entities which are dependent on the supplied service which naturally limits the present credit risk.

#### (h) Capital management

The Group’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group’s debt to adjusted capital ratio at the end of the reporting period was as follows:

<i>In millions of EUR</i>	<b>31 December 2019</b>	<b>31 December 2018</b>
Total liabilities	12,705	10,192
Less: cash and cash equivalents	1,246	1,006
<b>Net debt</b>	<b>11,459</b>	<b>9,186</b>
Total equity attributable to equity holders of the Company	1,380	1,633
Less: amounts accumulated in equity relating to cash flow hedges	237	475
<b>Adjusted capital</b>	<b>1,143</b>	<b>1,158</b>
<b>Debt to adjusted capital</b>	<b>10.03</b>	<b>7.93</b>

#### (i) Hedge accounting

##### Cash flow hedge

The balance as at 31 December 2019 represents primarily derivative agreements to hedge on interest rate, foreign exchange rate, electricity price and a foreign exchange rate, gas price and a foreign exchange rate and the effect from a cash flow hedge recognised on the EPH Group level.

The effective portion of fair value changes in financial derivatives designated as cash flow hedges are recognised in equity.

During the period the Group reclassified EUR 57 million (positive impact on profit or loss) including non-controlling interest from hedging reserves to profit or loss (2018: EUR 5 million (negative impact on profit or loss)).

The following table provides a reconciliation of amounts recorded in equity by category of hedging instrument:

<i>In millions of EUR</i>	<b>Commodity derivatives – cash flow hedge<sup>(1)</sup></b>	<b>Interest rate swaps – cash flow hedge</b>	<b>Currency forwards – cash flow hedge<sup>(2)</sup></b>	<b>Equity accounted investees – cash flow hedge</b>	<b>Total</b>
<b>Balance at 1 January 2019</b>	<b>(11)</b>	<b>(47)</b>	<b>152</b>	<b>354</b>	<b>448</b>
Cash flow hedges reclassified to profit or loss	(37)	6	(26)	-	(57)
Deferred tax – cash flow hedges reclassified to profit or loss	7	(1)	3	-	9
Revaluation of cash flow hedges	78	(93)	(11)	-	(26)
Deferred tax – cash flow hedges revaluation	(16)	18	1	-	3
Changes in hedging reserves recognized by equity accounted investees	-	-	-	(168)	(168)
<b>Balance at 31 December 2019</b>	<b>21</b>	<b>(117)</b>	<b>119</b>	<b>186</b>	<b>209</b>

(1) Including also hedge of foreign currency risk.

(2) As at 31 December 2019 cash flow hedge reserve related to currency forwards includes revaluation of both currency forwards that are recognised on balance sheet as at 31 December 2019 and currency forwards that were already derecognised in prior periods. The Group concluded that the future hedged cash flows are still highly probable, therefore the revaluation is retained in equity until the hedged forecast transaction occurs.

<i>In millions of EUR</i>	<b>Commodity derivatives – cash flow hedge<sup>(1)</sup></b>	<b>Interest rate swaps – cash flow hedge</b>	<b>Currency forwards – cash flow hedge<sup>(2)</sup></b>	<b>Equity accounted investees – cash flow hedge</b>	<b>Total</b>
<b>Balance at 1 January 2018</b>	<b>(9)</b>	<b>(5)</b>	<b>126</b>	<b>(1)</b>	<b>111</b>
Cash flow hedges reclassified to profit or loss	20	-	(15)	-	5
Deferred tax – cash flow hedges reclassified to profit or loss	(5)	-	2	-	(3)
Revaluation of cash flow hedges	(26)	(52)	45	-	(33)
Deferred tax – cash flow hedges revaluation	9	10	(6)	-	13
Changes in hedging reserves recognized by equity accounted investees	-	-	-	355	355
<b>Balance at 31 December 2018</b>	<b>(11)</b>	<b>(47)</b>	<b>152</b>	<b>354</b>	<b>448</b>

(1) Including also hedge of foreign currency risk.

(2) As at 31 December 2018 cash flow hedge reserve related to currency forwards includes revaluation of both currency forwards that are recognised on balance sheet as at 31 December 2018 and currency forwards that were already derecognised in prior periods. The Group concluded that the future hedged cash flows are still highly probable, therefore the revaluation is retained in equity until the hedged forecast transaction occurs.

Share of non-controlling interest on hedging reserve amounted to negative EUR 28 million (2018: negative EUR 27 million). Share of non-controlling interest on effective changes in fair value of cash flow hedges, net of tax, and reclassification of cash flow hedges to profit or loss amounted to negative EUR 1 million (2018: negative EUR 22 million).

*Cash flow hedges – hedge of foreign currency risk and commodity price risk of revenues of power production with financial derivatives*

The Group applies hedge accounting for hedging instruments designed to hedge the commodity price risk and the foreign currency risk of cash-flows from Group's power production sold to or commodities purchased from the third parties. This includes commodity derivatives with net settlement for commodity

risk. As a result of the hedge relationship on the Group level, the Group recorded a change in a foreign currency cash flow hedge reserve of negative EUR 10 million (2018: EUR 7 million). For risk management policies, refer to Note 37(d) and (e) – Risk management policies and disclosures.

*Cash flow hedges – hedge of commodity price risk of gas*

The Group applies hedge accounting for commodity hedging instruments designed to hedge cash flow from sales of gas. The hedging instruments are commodity swaps to hedge selling price for entities surplus of gas in-kind. A decline in the prices could result in a decrease in net income and cash flows. As a result of the hedge relationship on the Group level, the Group recorded a change in a cash flow hedge reserve of EUR 13 million (2018: negative EUR 7 million). For risk management policies, refer to Note 37 (d) and (e) – Risk management policies and disclosures.

The following tables provide details of cash flow hedge commodity derivatives gas and power for commodity price risk recorded by the Group as at 31 December 2019 and 2018:

<i>In millions of EUR</i>	<b>31 December 2019 Positive fair value</b>	<b>31 December 2019 Negative fair value</b>	<b>31 December 2019 Nominal amount hedged (buy)</b>	<b>31 December 2019 Nominal amount hedged (sell)</b>
Up to 3 months	18	16	88	88
3 months to 1 year	38	18	255	263
1–5 years	6	-	23	23
Over 5 years	-	1	12	13
<b>Total</b>	<b>62</b>	<b>35</b>	<b>378</b>	<b>387</b>

<i>In millions of EUR</i>	<b>31 December 2018 Positive fair value</b>	<b>31 December 2018 Negative fair value</b>	<b>31 December 2018 Nominal amount hedged (buy)</b>	<b>31 December 2018 Nominal amount hedged (sell)</b>
Up to 3 months	4	2	69	69
3 months to 1 year	21	38	390	305
1–5 years	9	3	105	165
Over 5 years	-	-	-	22
<b>Total</b>	<b>34</b>	<b>43</b>	<b>564</b>	<b>561</b>

The following tables provide details of cash flow hedge currency derivatives recorded by the Group as at 31 December 2019 and 2018:

<i>In millions of EUR</i>	<b>31 December 2019 Positive fair value</b>	<b>31 December 2019 Negative fair value</b>	<b>31 December 2019 Nominal amount hedged (buy)</b>	<b>31 December 2019 Nominal amount hedged (sell)</b>
Up to 3 months	-	1	53	54
3 months to 1 year	-	1	55	56
1–5 years	-	-	30	32
Over 5 years	-	-	-	-
<b>Total</b>	<b>-</b>	<b>2</b>	<b>138</b>	<b>142</b>

<i>In millions of EUR</i>	<b>31 December 2018 Positive fair value</b>	<b>31 December 2018 Negative fair value</b>	<b>31 December 2018 Nominal amount hedged (buy)</b>	<b>31 December 2018 Nominal amount hedged (sell)</b>
Up to 3 months	-	-	-	-
3 months to 1 year	-	-	39	39
1–5 years	-	-	-	-
Over 5 years	-	-	-	-
<b>Total</b>	<b>-</b>	<b>-</b>	<b>39</b>	<b>39</b>

*Cash flow hedges – hedge of interest rate risk*

The Group applies hedge accounting for hedging instruments designed to hedge interest rate risk of its debt financing. The hedging instruments are interest rate swaps used in order to hedge risk related to repricing of interest rates on its financing. As a result of the hedge relationship on the Group level, the Group recorded a change in interest rate cash flow hedge reserve of negative EUR 39 million (2018: negative EUR 24 million). For risk management policies, refer to Note 37 (c) – Risk management policies and disclosures.

The following tables provide details of cash flow hedge interest rate swaps recorded by the Group as at 31 December 2019 and 2018:

<i>In millions of EUR</i>	<b>31 December 2019 Positive fair value</b>	<b>31 December 2019 Negative fair value</b>	<b>31 December 2019 Nominal amount hedged (buy)</b>	<b>31 December 2019 Nominal amount hedged (sell)</b>
Up to 3 months	-	-	8	8
3 months to 1 year	-	5	38	38
1–5 years	-	91	239	239
Over 5 years	-	5	1,170	1,170
<b>Total</b>	<b>-</b>	<b>101</b>	<b>1,455</b>	<b>1,455</b>

<i>In millions of EUR</i>	<b>31 December 2018 Positive fair value</b>	<b>31 December 2018 Negative fair value</b>	<b>31 December 2018 Nominal amount hedged (buy)</b>	<b>31 December 2018 Nominal amount hedged (sell)</b>
Up to 3 months	-	-	11	11
3 months to 1 year	-	2	65	65
1–5 years	-	7	209	209
Over 5 years	-	73	2,103	2,103
<b>Total</b>	<b>-</b>	<b>82</b>	<b>2,388</b>	<b>2,388</b>

*Cash flow hedges – hedge of foreign currency risk with financial derivatives*

The Group applies hedge accounting for hedging instruments designed to hedge the foreign currency risk cash-flows from biomass purchases denominated in foreign currencies (USD and CAD). The hedging instruments are foreign currency forwards concluded with third parties. The hedged items are proportions of expected cash outflows in USD and CAD that are expected to occur and impact profit or loss in periods of 2019 to 2027. As a result of the hedge relationship, on the Group consolidated level, the Group reported a change in foreign currency cash flow hedge reserve of negative EUR 34 million (2018: EUR 26 million). For risk management policies, refer to Note 37(d) and (e) – Risk management policies and disclosures.

The following table provides details of cash flow hedge currency derivatives for foreign currency risk recorded by the Group as at 31 December 2019 and 2018:

<i>In millions of EUR</i>	<b>31 December 2019 Positive fair value</b>	<b>31 December 2019 Negative fair value</b>	<b>31 December 2019 Nominal amount hedged (buy)</b>	<b>31 December 2019 Nominal amount hedged (sell)</b>
Up to 3 months	-	-	-	-
3 months to 1 year	-	1	208	209
1–5 years	-	5	205	210
Over 5 years	-	8	315	323
<b>Total</b>	<b>-</b>	<b>14</b>	<b>728</b>	<b>742</b>

<i>In millions of EUR</i>	<b>31 December 2018 Positive fair value</b>	<b>31 December 2018 Negative fair value</b>	<b>31 December 2018 Nominal amount hedged (buy)</b>	<b>31 December 2018 Nominal amount hedged (sell)</b>
Up to 3 months	-	-	-	-
3 months to 1 year	-	4	36	36
1–5 years	-	9	80	80
Over 5 years	-	-	-	-
<b>Total</b>	<b>-</b>	<b>13</b>	<b>116</b>	<b>116</b>

#### *Cash flow hedges – equity accounted investees*

The joint venture LEAG group applies hedge accounting for commodity hedging instruments designed to hedge cash-flows to purchase emission rights. The hedging instruments are commodity derivatives designed to hedge purchase price for future purchases of emission rights. As a result of the hedge relationship, on the Group consolidated level, the Group reported a change in a cash flow hedge reserve of negative EUR 186 million (2018: EUR 382 million). Remaining change of cash flow hedges attributable to equity accounted investees of EUR 18 million (2018: negative EUR 27 million) was reported by associate Slovenské elektrárne, a.s. As the hedge accounting is applied by equity accounted investees, the hedging derivatives are not recognised on Group's consolidated statement of financial position.

#### **Fair value hedge**

The Group applies hedge accounting for hedging instruments designed to hedge changes in fair value arising from changes in interest rates and changes in price levels. The hedge is in place to cover inflation fluctuations for contract for difference and biomass purchases and exposures arising from external bank loans. The hedging instruments are interest rate swaps and CPI-linked interest rate derivatives. No hedge ineffectiveness was recognized for years ending 31 December 2019 and 2018. For more details on fair value hedge derivatives refer to Note 33 – Financial instruments.

### 38. Related parties

The Group has a related party relationship with its shareholders and other parties, as identified in the following table:

**(a) The summary of outstanding balances with related parties as at 31 December 2019 and 31 December 2018 was as follows:**

*In millions of EUR*

	Accounts receivable and other financial assets 2019	Accounts payable and other financial liabilities 2019	Accounts receivable and other financial assets 2018	Accounts payable and other financial liabilities 2018
Ultimate shareholders <sup>(1)</sup>	-	-	-	-
Companies controlled by ultimate shareholders	-	18	-	-
Associates and joint ventures	261	111	189	103
Key management personnel of the entity or its parent	-	-	-	-
Other related parties	-	-	-	-
<b>Total</b>	<b>261</b>	<b>129</b>	<b>189</b>	<b>103</b>

(1) Daniel Křetínský represents the ultimate shareholder.

**(b) The summary of transactions with related parties during the year ended 31 December 2019 and 31 December 2018 was as follows:**

*In millions of EUR*

	Revenues 2019	Expenses 2019	Revenues 2018	Expenses 2018
Ultimate shareholders <sup>(1)</sup>	-	-	-	-
Companies controlled by ultimate shareholders	-	-	4	4
Associates and joint ventures	394	453	189	238
Key management personnel of the entity or its parent	-	-	-	-
Other related parties	-	-	-	-
<b>Total</b>	<b>394</b>	<b>453</b>	<b>193</b>	<b>242</b>

(1) Daniel Křetínský represents the ultimate shareholder.

All transactions were performed under the arm's length principle.

### Transactions with the key management personnel

For the financial years ended 31 December 2019 and 2018 the EPH Group's key management personnel is represented by members of the Board of Directors of the following major entities: EP Energy, a.s., EP Infrastructure, a.s., Stredoslovenská energetika Holding, a.s. and its major subsidiaries, SPP Infrastructure, a.s., eustream, a.s., SPP – distribúcia, a.s., NAFTA a.s., NAFTA Germany GmbH, POZAGAS, a.s., Elektrárny Opatovice, a.s., Pražská teplotárenská a.s., United Energy, a.s., Plzeňská teplotárenská, a.s., SPP Storage, s.r.o., EP ENERGY TRADING, a.s, EP Power Europe, a.s., Lynemouth Power Limited, EP SHB Limited, EP Langage Limited, Energetický a průmyslový holding, a.s., EP Commodities, a.s., EP Produzione S.P.A. Group, EPNEI Group, EP Investment Advisors, s.r.o., JTSD - Braunkohlebergbau GmbH Group, EP Germany GmbH Group, Kraftwerk Mehrum GmbH and for financial year ended 31 December 2019 also EP Kilroot Limited, EP Ballylumford Limited, EP France Group and Tynagh Energy Limited.

Total compensation and related social and health insurance charges incurred by the respective entities were as follows:

<i>In millions of EUR</i>	<b>2019</b>	<b>2018</b>
Nr. of personnel	94	89
Compensation, fees and rewards	10	9
Compulsory social security contributions	<u>2</u>	<u>2</u>
<b>Total</b>	<b><u>12</u></b>	<b><u>11</u></b>

Other remuneration of Group management (management of all components within the Group) is included in Note 9 – Personnel expenses.

All transactions were performed under the arm's length principle.

### 39. Group entities

The list of the Group entities as at 31 December 2019 and 31 December 2018 is set out below:

	Country of incorporation	31 December 2019		31 December 2018		2019 Consolidation method	2018 Consolidation method
		Ownership %	Ownership interest	Ownership %	Ownership interest		
Energetický a průmyslový holding, a.s.	Czech Republic	-	-	-	-	-	-
EP Power Europe, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
EPPE Germany, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
Lausitz Energie Kraftwerke AG	Germany	10	Direct	10	Direct	Equity	Equity
Lausitz Energie Bergbau AG	Germany	10	Direct	10	Direct	Equity	Equity
LEAG Holding, a.s. *	Czech Republic	50	Direct	50	Direct	Equity	Equity
Lausitz Energie Verwaltungs GmbH	Germany	100	Direct	100	Direct	Equity	Equity
Lausitz Energie Kraftwerke AG	Germany	80	Direct	80	Direct	Equity	Equity
Kraftwerk Schwarze Pumpe GmbH	Germany	100	Direct	100	Direct	Equity	Equity
Lausitz Energie Bergbau AG	Germany	80	Direct	80	Direct	Equity	Equity
GMB GmbH	Germany	100	Direct	100	Direct	Equity	Equity
Transport- und Speditionsgesellschaft Schwarze Pumpe mbH	Germany	100	Direct	100	Direct	Equity	Equity
Lausitz Energie Verwaltungsgesellschaft Brandenburg mbH <sup>(1)</sup>	Germany	100	Direct	100	Direct	Equity	Equity
Lausitz Energie Vorsorge- und Entwicklungsgesellschaft Brandenburg GmbH & Co. KG	Germany	100	Direct	-	-	Equity	-
Lausitz Energie Verwaltungsgesellschaft Sachsen mbH	Germany	100	Direct	-	-	Equity	-
Lausitz Energie Vorsorge- und Entwicklungsgesellschaft Sachsen mbH & Co. KG	Germany	100	Direct	-	-	Equity	-
NADURENE 2 a.s. <sup>(2)</sup>	Czech Republic	100	Direct	-	-	Equity	-
EP New Energy Italia S.R.L.	Italy	49	Direct	100	Direct	Full	Full
Fusine Energia S.r.L.	Italy	100	Direct	-	-	Full	-
Biomasse Crotone S.P.A.	Italy	100	Direct	100	Direct	Full	Full
Biomasse Italia S.P.A.	Italy	100	Direct	100	Direct	Full	Full
Fores Italia S.R.L.	Italy	50	Direct	50	Direct	At cost	At cost
Biomasse Servizi S.R.L.	Italy	49	Direct	100	Direct	At cost	At cost
EP New Energies GmbH	Germany	100	Direct	-	-	Full	-
EP Mehrum GmbH	Germany	100	Direct	100	Direct	Full	Full
Kraftwerk Mehrum GmbH	Germany	100	Direct	100	Direct	Full	Full
JTSD – Braunkohlebergbau GmbH	Germany	90	Direct	90	Direct	Full	Full
Mitteldeutsche Braunkohlengesellschaft mbH	Germany	100	Direct	100	Direct	Full	Full
MIBRAG Consulting International GmbH	Germany	100	Direct	100	Direct	Full	Full
GALA-MIBRAG-Service GmbH	Germany	100	Direct	100	Direct	Full	Full
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50	Direct	50	Direct	Equity	Equity
Fernwärme GmbH Hohenmölsen - Webau	Germany	48.96	Direct	48.96	Direct	Equity	Equity
Ingenieurbüro für Grundwasser GmbH	Germany	25	Direct	25	Direct	Equity	Equity
Bohr & Brunnenbau GmbH	Germany	100	Direct	100	Direct	Full	Full
Helmstedter Revier GmbH (Buschhaus)	Germany	100	Direct	100	Direct	Full	Full
Norddeutsche Gesellschaft zur Ablagerung von Mineralstoffen mbH (NORGAM mbH )	Germany	51	Direct	51	Direct	Full	Full
Terrakomp GmbH	Germany	100	Direct	100	Direct	Full	Full
MIBRAG Neue Energie GmbH	Germany	100	Direct	100	Direct	Full	Full
EP Germany GmbH *	Germany	100	Direct	100	Direct	Full	Full
Saale Energie GmbH	Germany	100	Direct	100	Direct	Full	Full
Kraftwerk Schkopau GbR	Germany	41.90	Direct	41.90	Direct	Equity	Equity
Kraftwerk Schkopau Betriebsgesellschaft mbH	Germany	44.40	Direct	44.40	Direct	Equity	Equity
EP UK Investments Limited	United Kingdom	100	Direct	100	Direct	Full	Full
Eggborough Power Limited	United Kingdom	100	Direct	100	Direct	Full	Full
Lynemouth Power Limited	United Kingdom	100	Direct	100	Direct	Full	Full
EP UK Power Development Ltd <sup>(3)</sup>	United Kingdom	100	Direct	100	Direct	Full	Full
EP SHB Limited	United Kingdom	100	Direct	100	Direct	Full	Full
Humberland Limited <sup>(3)</sup>	United Kingdom	100	Direct	100	Direct	At cost	At cost

Notes to the consolidated financial statements of Energetický a průmyslový holding, a.s. as at and for the year ended 31 December 2019

	Country of incorporation	31 December 2019		31 December 2018		2019	2018
		Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
EP Langage Limited	United Kingdom	100	Direct	100	Direct	Full	Full
EP Ballylumford Limited	United Kingdom	100	Direct	-	-	Full	-
EP Kilroot Limited	United Kingdom	100	Direct	-	-	Full	-
Tynagh Energy Limited	Ireland	80	Direct	-	-	Full	-
RVA Group Limited <sup>(1)</sup>	United Kingdom	100	Direct	100	Direct	At cost	At cost
RVA Consulting Engineers Limited <sup>(3)</sup>	United Kingdom	100	Direct	100	Direct	At cost	At cost
RVA GmbH	Germany	100	Direct	-	-	At cost	-
RVA Engineering Solutions Limited <sup>(3)</sup>	United Kingdom	100	Direct	100	Direct	At cost	At cost
EP UK Finance Limited	United Kingdom	100	Direct	100	Direct	Full	Full
Energy Scanner Limited <sup>*(3)</sup>	United Kingdom	-	-	100	Direct	-	Full
EP INVEST LIMITED <sup>(3)</sup>	United Kingdom	100	Direct	100	Direct	Full	Full
EP Commodities, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Produzione S.P.A.	Italy	100	Direct	-	-	Full	Full
Fiume Santo S.P.A.	Italy	100	Direct	100	Direct	Full	Full
EP Produzione Centrale Livorno Ferraris S.P.A.	Italy	75	Direct	75	Direct	Full	Full
Centro Energia Ferrara S.R.L.	Italy	100	Direct	58.35	Direct	Full	Full
Centro Energia Teverola S.R.L.	Italy	100	Direct	58.35	Direct	Full	Full
Ergosud S.P.A.	Italy	50	Direct	-	-	Equity	Equity
EPPE Italy N.V. <sup>(4)</sup>	Netherlands	-	-	100	Direct	-	Full
EP Produzione S.P.A.	Italy	-	-	100	Direct	Full	Full
Fiume Santo S.P.A.	Italy	100	Direct	100	Direct	Full	Full
EP Produzione Centrale Livorno Ferraris S.P.A.	Italy	75	Direct	75	Direct	Full	Full
Centro Energia Ferrara S.R.L.	Italy	100	Direct	58.35	Direct	Full	Full
Centro Energia Teverola S.R.L.	Italy	100	Direct	58.35	Direct	Full	Full
Ergosud S.P.A.	Italy	-	-	50	Direct	Equity	Equity
EP New Energy Italia S.R.L.	Italy	51	Direct	-	-	Full	Full
Fusine Energia S.r.L.	Italy	100	Direct	-	-	Full	-
Biomasse Crotone S.P.A.	Italy	100	Direct	100	Direct	Full	Full
Biomasse Italia S.P.A.	Italy	100	Direct	100	Direct	Full	Full
Fores Italia S.R.L.	Italy	50	Direct	50	Direct	At cost	At cost
Biomasse Servizi S.R.L.	Italy	51	Direct	-	-	At cost	-
NADURENE a.s. <sup>(2)</sup>	Czech Republic	-	-	100	Direct	-	Full
EP New Energy Italia S.R.L.	Italy	-	-	100	Direct	Full	Full
Fusine Energia S.r.L.	Italy	100	Direct	-	-	Full	-
Biomasse Crotone S.P.A.	Italy	100	Direct	100	Direct	Full	Full
Biomasse Italia S.P.A.	Italy	100	Direct	100	Direct	Full	Full
Fores Italia S.R.L.	Italy	50	Direct	50	Direct	At cost	At cost
Biomasse Servizi S.R.L.	Italy	-	-	100	Direct	At cost	At cost
EP France S.A.S.	France	100	Direct	-	-	Full	-
Gazel Energie Generation S.A.S.	France	100	Direct	-	-	Full	-
Aerodis, S.A.	France	100	Direct	-	-	Full	-
Surschiste, S.A.	France	100	Direct	-	-	Full	-
Société des Eaux de l'Est S.A.	France	25	Direct	-	-	At cost	-
Gazel Energie Renouvelables S.A.S.	France	100	Direct	-	-	Full	-
Gazel Energie Solaire S.A.S.	France	100	Direct	-	-	Full	-
Gazel Energie Solutions S.A.S.	France	100	Direct	-	-	Full	-
Kernaman S.A.S.	France	100	Direct	-	-	Full	-
EP Yuzivska B.V.	Netherlands	100	Direct	100	Direct	Full	Full
EP Ukraine B.V. (EP Sophievska B.V.) <sup>(5)</sup>	Netherlands	90	Direct	-	-	Full	-
EP Resources AG	Switzerland	100	Direct	-	-	Full	-
RUBY Equity Investments S.à r.l.	Luxembourg	-	-	100	Direct	-	Full
EP Hagibor, a.s.	Czech Republic	100	Direct	100	Direct	At cost	At cost

Notes to the consolidated financial statements of Energetický a průmyslový holding, a.s. as at and for the year ended 31 December 2019

	31 December 2019		31 December 2018		2019 Consolidation method	2018 Consolidation method
	Country of incorporation	Ownership %	Ownership interest	Ownership %		
CR-EP s.r.o.	Czech Republic	50	Direct	50	Direct	At cost
HG1 s.r.o.	Czech Republic	100	Direct	100	Direct	At cost
HG5 s.r.o.	Czech Republic	100	Direct	100	Direct	At cost
EP Fleet, k.s.	Czech Republic	0.10	Direct	0.10	Direct	Full
EP Investment Advisors, s.r.o.	Czech Republic	100	Direct	100	Direct	Full
EP Fleet, k.s.	Czech Republic	99.80	Direct	99.80	Direct	Full
EP Auto, s.r.o. *	Czech Republic	100	Direct	100	Direct	Full
EP Fleet, k.s.	Czech Republic	0.10	Direct	0.10	Direct	Full
WOOGEL LIMITED *	Cyprus	25	Direct	25	Direct	Full
MINING SERVICES AND ENGINEERING Sp. z o.o.	Poland	100	Direct	100	Direct	Full
Przedsiębiorstwo Górnictwa SILESIA Sp. z o.o.	Poland	38.93	Direct	38.93	Direct	Equity
SEDILAS ENTERPRISES LIMITED	Cyprus	100	Direct	100	Direct	Full
EPH Financing SK, a.s.	Slovakia	100	Direct	100	Direct	Full
EPH Financing CZ, a.s.	Czech Republic	100	Direct	100	Direct	Full
EP Coal Trading, a.s.	Czech Republic	100	Direct	100	Direct	Full
EOP & HOKA s.r.o.	Czech Republic	100	Direct	99.79	Direct	Full
SAJDOK a.s.	Czech Republic	100	Direct	100	Direct	Full
EOP HOKA SK, s.r.o.	Slovakia	50	Direct	50	Direct	Full
EOP HOKA POLSKA SPÓŁKA Z OGRANICZONA ODPOWIEDZIALNOSCIA	Poland	100	Direct	100	Direct	Full
EOP HOKA SK, s.r.o.	Slovakia	50	Direct	50	Direct	Full
Plzeňská teplárenská, AUTODOPRAVA s.r.o. <sup>(6)</sup>	Czech Republic	100	Direct	-	-	Full
EP COAL TRADING POLSKA S.A.	Poland	100	Direct	100	Direct	Full
EP Slovakia B.V. *	Netherlands	100	Direct	100	Direct	Full
Slovak Power Holding B.V. *	Netherlands	50	Direct	50	Direct	Equity
Slovenské elektrárne, a.s.	Slovakia	66	Direct	66	Direct	Equity
Centrum pre vedu a výskum, s.r.o.	Slovakia	100	Direct	100	Direct	Equity
Ochrana a bezpečnosť SE, a.s.	Slovakia	100	Direct	100	Direct	Equity
Slovenské elektrárne – energetické služby, s.r.o.	Slovakia	100	Direct	100	Direct	Equity
Slovenské elektrárne Česká republika, s.r.o.	Czech Republic	100	Direct	100	Direct	Equity
SE Služby inžinierskych stavieb, s.r.o.	Slovakia	100	Direct	100	Direct	Equity
REAKTORTEST, s.r.o.	Slovakia	49	Direct	49	Direct	Equity
ÚJV Řež, a.s.	Czech Republic	27.80	Direct	27.80	Direct	Equity
Energotel, a.s.	Slovakia	20	Direct	20	Direct	Equity
Nadácia EPH	Slovakia	100	Direct	100	Direct	Full
ADCONCRETUM REAL ESTATE DOO BEOGRAD-STARI GRAD	Serbia	100	Direct	100	Direct	Full
PGP Terminal, a.s. *	Czech Republic	-	-	60	Direct	-
PLAZMA LIPTOV, a.s.	Slovakia	-	-	50	Direct	-
EP Logistics International, a.s.	Czech Republic	100	Direct	100	Direct	Full
LOCON Logistik & Consulting AG	Germany	100	Direct	-	-	Full
LOCON Service GmbH	Germany	100	Direct	-	-	Full
LOCON Personalservice GmbH	Germany	100	Direct	-	-	Full
LOCON BENELUX B.V.	Germany	51	Direct	-	-	Full
LokoTrain s.r.o.	Czech Republic	65	Direct	65	Direct	Full
EP Cargo Deutschland GmbH	Germany	100	Direct	100	Direct	Full
EP Merseburg Transport und Logistik GmbH	Germany	51	Direct	-	-	Full
EP CARGO POLSKA S.A.	Poland	100	Direct	100	Direct	Full
EP Cargo Invest, a.s.	Czech Republic	100	Direct	100	Direct	Full
EP Intermodal a.s. (AVE SR Východ a.s.) <sup>(7)</sup>	Czech Republic	100	Direct	100	Direct	Full
SPEDICA GROUP COMPANIES, s.r.o.	Czech Republic	67.33	Direct	67.33	Direct	Full
SPEDICA LOGISTIC, s.r.o.	Czech Republic	67	Direct	67	Direct	Full
SGC-LOGISTIC GmbH	Germany	100	Direct	100	Direct	At cost
RAILSPED, s.r.o.	Czech Republic	100	Direct	100	Direct	Full

	Country of incorporation	31 December 2019		31 December 2018		2019	2018
		Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
RM LINES, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
SPEDICA, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
JTSD – Braunkohlebergbau GmbH	Germany	10	Direct	100	Direct	Full	Full
Mitteldeutsche Braunkohlengesellschaft mbH	Germany	100	Direct	100	Direct	Full	Full
MIBRAG Consulting International GmbH	Germany	100	Direct	100	Direct	Full	Full
GALA-MIBRAG-Service GmbH	Germany	100	Direct	100	Direct	Full	Full
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50	Direct	50	Direct	Equity	Equity
Fernwärme GmbH Hohenmölsen - Webau	Germany	48.96	Direct	48.96	Direct	Equity	Equity
Ingenieurbüro für Grundwasser GmbH	Germany	25	Direct	25	Direct	Equity	Equity
Bohr & Brunnenbau GmbH	Germany	100	Direct	100	Direct	Full	Full
Helmstedter Revier GmbH (Buschhaus)	Germany	100	Direct	100	Direct	Full	Full
Norddeutsche Gesellschaft zur Ablagerung von Mineralstoffen mbH (NORGAM mbH)	Germany	51	Direct	51	Direct	Full	Full
Terrakomp GmbH	Germany	100	Direct	100	Direct	Full	Full
MIBRAG Neue Energie GmbH	Germany	100	Direct	100	Direct	Full	Full
EP Germany GmbH *	Germany	100	Direct	100	Direct	Full	Full
Saale Energie GmbH	Germany	100	Direct	100	Direct	Full	Full
Kraftwerk Schkopau GbR	Germany	41.90	Direct	41.90	Direct	Equity	Equity
Kraftwerk Schkopau Betriebsgesellschaft mbH	Germany	44.40	Direct	44.40	Direct	Equity	Equity
DCR INVESTMENT a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
ABS PROPERTY LIMITED	Ireland	100	Direct	100	Direct	Full	Full
SLUGGERIA a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Properties, a.s.	Czech Republic	-	-	100	Direct	Full	Full
EP Real Estate, a.s. (PT Real Estate, a.s.) <sup>(8)</sup>	Czech Republic	100	Direct	-	-	Full	Full
RPC, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	IFRS 5
Nové Modřany, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties I, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties II, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties III, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties IV, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Kardašovská Properties a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Properties, a.s.	Czech Republic	100	Direct	-	-	Full	Full
EPIF Investments a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Infrastructure, a.s. *	Czech Republic	69	Direct	69	Direct	Full	Full
EP Energy, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
AISE, s.r.o.	Czech Republic	80	Direct	80	Direct	Full	Full
Pražská teplárenská a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Koncept, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
TERMONTA PRAHA a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
ENERGOPROJEKTA plan s.r.o.	Czech Republic	50.5	Direct	-	-	Full	-
PT Transit, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Tepllo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Distribuční, s.r.o. (Devátá energetická, s.r.o.) <sup>(9)</sup>	Czech Republic	100	Direct	-	-	Full	-
PT měření, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Holding Investment B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Pražská teplárenská Holding a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
NPTH, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EVO – Komořany, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Severočeská teplárenská, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy Moldova, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy Invest, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full

Notes to the consolidated financial statements of Energetický a průmyslový holding, a.s. as at and for the year ended 31 December 2019

	Country of incorporation	31 December 2019		31 December 2018		2019	2018
		Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
GABIT spol. s r.o.	Czech Republic	100	Direct	100	Direct	At cost	At cost
EP Sourcing, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP ENERGY TRADING, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
VTE Moldava II, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
MR TRUST s.r.o.*	Czech Republic	100	Direct	100	Direct	Full	Full
ARISUN, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Greeninvest Energy, a.s.	Czech Republic	41.70	Direct	41.70	Direct	Equity	IFRS 5
POWERSUN a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Triskata, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
VTE Pchery, s.r.o.	Czech Republic	64	Direct	64	Direct	Full	Full
CHIFFON ENTERPRISES LIMITED *	Cyprus	100	Direct	100	Direct	Full	Full
Claymore Equity, s.r.o. *	Slovakia	80	Direct	80	Direct	Full	Full
Alternative Energy, s.r.o.	Slovakia	90	Direct	90	Direct	Full	Full
Elektrárny Opatovice, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
V A H O s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
Stredoslovenská energetika Holding, a.s.	Slovakia	49	Direct	49	Direct	Full	Full
Stredoslovenská distribučná, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
Elektroenergetické montáže, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SSE – Metrologia s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Stredoslovenská energetika – Project Development, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SSE–Solar, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SPX, s.r.o.	Slovakia	33.33	Direct	33.33	Direct	Equity	Equity
Energotel, a.s.	Slovakia	20	Direct	20	Direct	Equity	Equity
SSE CZ, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
SPV100, s.r.o.	Slovakia	100	Direct	100	Direct	At cost	At cost
SSE – MVE, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Stredoslovenská energetika, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
EP ENERGY HR d.o.o.	Croatia	100	Direct	100	Direct	Full	Full
EP Cargo a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Budapesti Erömü Zrt.	Hungary	95.62	Direct	95.62	Direct	Full	Full
KÖBÁNYAHÓ Kft.	Hungary	25	Direct	25	Direct	At cost	At cost
ENERGZET SERVIS a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Plzeňská teplárenská, a.s.	Czech Republic	35	Direct	35	Direct	Full	Full
Plzeňská teplárenská, AUTODOPRAVA s.r.o. <sup>(6)</sup>	Czech Republic	-	-	100	Direct	Full	Full
Plzeňská teplárenská SERVIS IN a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Czech Gas Holding Investment B.V.*	Netherlands	100	Direct	100	Direct	Full	Full
NAFTA a.s.	Slovakia	40.45	Direct	40.45	Direct	Full	Full
Nafta Exploration s.r.o. v likvidácii	Slovakia	-	-	100	Direct	-	Full
Karotáz a cementace, s.r.o.	Czech Republic	51	Direct	51	Direct	At cost	At cost
POZAGAS a.s.	Slovakia	65	Direct	65	Direct	Full	Full
NAFTA Services, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Ukraine B.V. (EP Sophievska B.V.) <sup>(5)</sup>	Netherlands	10	Direct	-	-	Full	-
NAFTA International B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
NAFTA Germany GmbH	Germany	100	Direct	100	Direct	Full	Full
NAFTA Bavaria GmbH	Germany	100	Direct	100	Direct	Full	Full
NAFTA Speicher Management GmbH	Germany	100	Direct	100	Direct	Full	Full
NAFTA Speicher GmbH&Co. KG	Germany	100	Direct	100	Direct	Full	Full
NAFTA Speicher Inzenham GmbH	Germany	100	Direct	100	Direct	Full	Full
NAFTA RV	Ukraine	100	Direct	100	Direct	Full	Full
CNG Holdings Netherlands B.V.	Netherlands	50	Direct	50	Direct	Equity	Equity
CNG LLC	Ukraine	100	Direct	100	Direct	Equity	Equity
EPH Gas Holding B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Seattle Holding B.V. *	Netherlands	100	Direct	100	Direct	Full	Full

	Country of incorporation	31 December 2019		31 December 2018		2019	2018
		Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
Slovak Gas Holding B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
SPP Infrastructure, a.s.	Slovakia	49	Direct	49	Direct	Full	Full
eustream, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
Central European Gas HUB AG	Austria	15	Direct	15	Direct	At cost	At cost
eastring B.V.	Netherlands	100	Direct	100	Direct	Full	Full
Plynárenská metrológia, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SPP – distribúcia, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
SPP – distribúcia Servis, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
NAFTA a.s.	Slovakia	56.15	Direct	56.15	Direct	Full	Full
Nafta Exploration s.r.o. v likvidácii	Slovakia	-	-	100	Direct	-	Full
Karotáž a cementace, s.r.o.	Czech Republic	51	Direct	51	Direct	At cost	At cost
POZAGAS a.s.	Slovakia	65	Direct	65	Direct	Full	Full
NAFTA Services, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Ukraine B.V. (EP Sophievská B.V.) <sup>(5)</sup>	Netherlands	10	Direct	-	-	Full	-
NAFTA International B.V.*	Netherlands	100	Direct	100	Direct	Full	Full
NAFTA Germany GmbH	Germany	100	Direct	100	Direct	Full	Full
NAFTA Bavaria GmbH	Germany	100	Direct	100	Direct	Full	Full
NAFTA Speicher Management GmbH	Germany	100	Direct	100	Direct	Full	Full
NAFTA Speicher GmbH&Co. KG	Germany	100	Direct	100	Direct	Full	Full
NAFTA Speicher Inzenham GmbH	Germany	100	Direct	100	Direct	Full	Full
NAFTA RV	Ukraine	100	Direct	100	Direct	Full	Full
CNG Holdings Netherlands B.V.	Netherlands	50	Direct	50	Direct	Equity	Equity
CNG LLC	Ukraine	100	Direct	100	Direct	Equity	Equity
GEOTERM KOŠICE, a.s.	Slovakia	95.82	Direct	95.82	Direct	Full	Full
SPP Storage, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
POZAGAS a.s.	Slovakia	35	Direct	35	Direct	Full	Equity
SLOVGEOTERM a.s.	Slovakia	50	Direct	50	Direct	Equity	Equity
GEOTERM KOŠICE, a.s.	Slovakia	0.08	Direct	0.08	Direct	Full	Full
GALANTATERM spol. s r.o.	Slovakia	0.5	Direct	0.5	Direct	At cost	At cost
GALANTATERM spol. s r.o.	Slovakia	17.5	Direct	17.5	Direct	At cost	At cost
SPP Infrastructure Financing B.V.	Netherlands	100	Direct	100	Direct	Full	Full

\* Holding entity

- (1) On 29 November 2019 Lausitz Energie Erneuerbare Verwaltungs GmbH was renamed to Lausitz Energie Verwaltungsgesellschaft Brandenburg mbH.
- (2) On 17 December 2019 demerger of NADURENE, a.s. was registered with 1 January 2019 as an effective date of the demerger. As a result, NADURENE, a.s. ceased to exist and its assets were partially transferred to newly created NADURENE 2 a.s. and partially merged with EP Power Europe, a.s. On 31 July 2019, 49% share of NADURENE, a.s. (assets of NADURENE, a.s., that were transferred to NADURENE 2 a.s. concurrently with the demerger), were transferred to Lausitz Energie Bergbau AG under restructuring of ownership interests within the Group.
- (3) This company is exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts, by virtue of section 479A.
- (4) EPPE Italy N.V. merged with EP Power Europe, a.s. as at 1 January 2019 (the merger was registered on 27 December 2019, with 1 January 2019 as an effective date). EP Power Europe, a.s. is the successor company.
- (5) On 10 October 2019 EP Sophievská B.V. was renamed to EP Ukraine B.V.
- (6) On 23 December 2019 the shares of Plzeňská teplárenská, AUTODOPRAVA s.r.o. were transferred to EOP & HOKA, a.s. as a part of internal reorganization.
- (7) On 12 April 2019 AVE SR Východ a.s. was renamed to EP Intermodal a.s.
- (8) On 7 February 2019 PT Real Estate, a.s. was renamed to EP Real Estate, a.s.
- (9) On 3 October 2019 Devátá energetická, s.r.o. was renamed to PT Distribuční, s.r.o.

The structure above is listed by ownership of companies at the different levels within the Group.

## 40. Litigations and claims

### **Elektrárny Opatovice, a.s.**

Elektrárny Opatovice, a.s. is involved in a dispute with its former minority shareholders who claim that compensation received for their shares through a compulsory sell-out procedure (“squeeze-out”) was inadequate, and who are challenging the underlying expert valuation. As the compensation was not paid by Elektrárny Opatovice, a.s. but instead by its former majority shareholder (International Holdings, B.V.), any resulting liability is thus expected to be the responsibility of the former shareholder.

### **Stredoslovenská energetika, a.s. Group (“SSE Group”)**

The SSE Group is a party to various legal proceedings. As at 31 December 2019 no legal provisions were recorded. The Group management has decided not to disclose details in respect of material legal claims as they are currently ongoing, and disclosure may prejudice the SSE Group.

### **Regulatory proceedings by ERO against Pražská teplárenská (“PT”)**

PT is involved in regulatory proceedings commenced in October 2015 by ERO claiming that prices charged to customers of PT’s local small-scale heating infrastructures in 2011 were in breach of the Czech Act on Prices. In March 2016, ERO issued a decision ordering PT to pay EUR 9 million (CZK 240 million) consisting of a penalty in the amount of EUR 4.5 million (CZK 120 million) and restitution to affected customers in the amount of EUR 4.5 million (CZK 120 million). PT appealed the decision on 24 March 2016 with supplemental information provided on 14 April 2016. On 7 July 2016, PT received a resolution from ERO by which the Chairman of ERO returned the case again to the first instance for a new hearing. In November 2016 PT received new decision which confirmed the result of the court of the first instance. PT appealed again and on 23 December 2016 ERO issued a decision changing the amount to be paid to EUR 8 million (CZK 222 million) consisting of a penalty in the amount of EUR 4 million (CZK 111 million) and restitution to affected customers in the amount of EUR 4 million (CZK 111 million). On 26 January 2017 PT filed an appeal on the decision and applied for suspensive effect. At the same time PT submitted a fine of EUR 4 million to the ERO’s account. On 23 February 2017, the regional court satisfied the request for a suspensive effect in full and on 28 April 2017 the ERU returned the fine back to PT and PT again conservatively recorded a provision of EUR 4 million. On 7 March 2019, the regional court cancelled the ERO decision and returned the matter back to ERO for a new proceeding. On 24 April 2019 ERO filed a cassation complaint to the Supreme Administrative Court. In June 2019 PT filed a request to ERO to terminate the proceedings due to the limitation period.

In August 2018, Pražská teplárenská a.s. received a notice on the commencement of an investigation procedure concerning a possible breach under provisions of the Act on Prices, which PT, as the seller in the price location “Prague – local gas sources”, is alleged to have committed in 2014 by demanding from customers heat energy prices which amount did not comply with the conditions of price regulation. In September 2019, ERO issued a decision ordering PT to pay EUR 3,3 million (CZK 85,2 million) consisting of a penalty in the amount of EUR 1,65 million (CZK 42,6 million) and restitution to affected customers in the amount of EUR 1,65 million (CZK 42,6 million). PT filed an appeal against this decision, on the basis of which the ERO Council in December 2019 annulled the decision and returned the case to the first instance for a new hearing. In April 2020 PT filed a request to ERO to terminate the proceedings due to the limitation period.

### **Plzeňská teplárenská, a.s. (“PLTEP”)**

In August 2012, Škoda Investment a.s. (SI) filed a claim for unjust enrichment against Plzeňská energetika a.s. (“PE”; merged with Plzeňská teplárenská, a.s. effectively on 31 October 2018, until then Plzeňská energetika, a.s. is used in the paragraph) for approximately EUR 2 million. This unjust enrichment claim allegedly arises from the fact that Plzeňská energetika a.s. owns and operates utility distribution systems (e.g., for gas, water and heat), which lie on the property of Škoda Investment a.s., thereby illegally restricting the ownership of Škoda Investment a.s. In February 2016 both parties, i.e. PE as well as SI, received an official request from the court to settle the dispute by mediation. Following this request the hearing has been adjourned until further notice. In June 2016 SI has filed an additional claim for unjust enrichment against PE for approximately EUR 1 million. Additional claim covers period 2013 – 2014. The

claim was further extended in 2018 to the total of ca EUR 4 million. In January 2018, another court hearing was held and the Court ruled in favor of Plzeňská energetika, a.s. SI appealed and as a result of the appeal, the legal case was returned back to the District court, the hearing will take place in Q2 2020. Since the legal case is still open and after considering all the circumstances Plzeňská teplárenská, a.s. reported as of 31 December 2019 an adequate provision representing its best estimate of the outcome.

#### ***Waste incineration plant project and related bank guarantee***

PLTEP relationships with ČKD PRAHA DIZ, a.s., the former general supplier of the project ZEVO Plzeň (waste incineration plant, “ZEVO”), are primarily burdened by the year 2016 when PLTEP terminated a contract for work before the work itself was completed. In line with contractual documentation, PLTEP exercised a bank guarantee on completion of the work. ČKD PRAHA DIZ, a.s. has challenged this decision. ČKD PRAHA DIZ, a.s. is now in insolvency proceeding and is currently represented by an insolvency administrator. The bankruptcy was declared in May 2019. Based on an internal analysis, PLTEP recorded an accrual as at 31 December 2018 to account for the risk of return of the guarantee. In 2019 PLTEP almost fully used this accrual against realized payment. PLTEP currently considers the obligation to ČKD PRAHA DIZ a.s. as substantially settled.

#### **Mitteldeutsche Braunkohlengesellschaft mbH**

MIBRAG is involved in an ongoing dispute filed by 50Hertz Transmission GmbH (“50Hertz”) in Germany since 2011. 50Hertz operates an upstream transmission grid and seeks retroactive payment from MIBRAG for costs under the burden-sharing mechanism related to the promotion of renewable energies (the so-called EEG surcharge) between August 2004 and December 2008 under the German Renewable Energies Act (Erneuerbare Energien Gesetz).

The 50Hertz’s request for detailed data on the basis of which the calculation of the relevant electricity quantities could be calculated was granted by the highest court in 2015.

The decision of the Higher Regional Court in Naumburg concerning the obligation to off-take the EEG electricity is now legally binding. The scope of this is still subject in lawsuits at administrative court in Frankfurt and district court in Halle.

Based on MIBRAG’s analysis, a provision of EUR 17.4 million in total is recorded in the financial statements. Provision covers both the economic risk for MIBRAG with respect to this legal dispute as well as the costs of the proceedings, on the basis of the information available at the time of preparation of financial statements.

#### **EP Produzione S.P.A., Fiume Santo S.P.A. and EP Produzione Livorno Ferraris S.P.A.**

Over the last few months of 2018, EP Produzione S.P.A. and Fiume Santo S.P.A. were subject to a tax audit carried out by the Revenue Agency for the 2015 and 2016 tax years. Assisted by their external consultants, the companies provided all the necessary clarifications in each of the competent offices which will allow them to settle all the findings with limited financial impact. As for EPP, it has been possible to close in July 2019 a settlement agreement concerning direct tax issues while Fiume Santo reported some findings on indirect taxes in December 2019. As at 31 December 2019, a provision of EUR 4.2 million in total is recorded in the financial statements by both companies.

Moreover, Revenue Agency started on May 2019 a tax audit on EP Produzione Livorno Ferraris S.P.A. for the 2016 tax year. Company provided information to the Revenue Agency and is waiting for a feedback. As at 31 December 2019, there is no indication of negative outcome and therefore no provision was recorded.

#### **Gazel Energie Generation S.A.S.**

##### *Litigation on power trading invoices*

Gazel Energie Generation S.A.S. (“GEG”) is disputing certain invoices relating to power trading with a counterparty concerning 2019 operations. In this respect an aggregate litigation provision of EUR 16.4 million has been booked as at 31 December 2019 even though GEG believes that this claim is not justified.

*Biomass suppliers' litigations*

Due to the delay of the commissioning of Provence 4 Biomass, litigations occurred with a part of the wood suppliers in relation to the contractual penalties and in respect of which an aggregate provision of EUR 6.2 million has been booked as at 31 December 2019.

## 41. Subsequent events

### (a) Major acquisitions

#### *Acquisition of Humbly Grove gas storage*

On 20 March 2020, EP UK Investments Limited (“EPUKI”) acquired 100% shares in Humbly Grove Energy Limited and its subsidiary Humbly Grove Energy Service Limited in the United Kingdom from Petronas.

Humbly Grove owns and operates underground gas storage facilities (the Humbly Grove Oil Field) near Alton, Hampshire. The business operations are to be run in cooperation with EPUKI providing a long-term storage contract, NAFTA, a.s. (part of EPH Group) acting as a technical advisor and EP Commodities, a.s. (part of EPPE Group) being the end customer of the gas storage trading on the market.

### (b) Pandemic of coronavirus

Outbreak of new human-to-human airborne virus (“COVID-19”) was described by World Health Organization as pandemic on 11 March 2020. Government authorities of countries in which the Group operates, introduced various restrictions including restriction on cross-border movement of people, on free movement of people and their gathering, closing of retailers except those necessary to serve basic needs (as food, pharmacy, cleaning agents and similar), closing of restaurants, museums, cinemas, theatres, sport facilities, etc. Except the restrictions introduced by Government authorities, economies of countries will be influenced also by voluntary temporary shutdown of some factories or voluntary limitation of business operations.

The spread of COVID-19 has caused a serious situation across the whole society and global economy. The Group’s management has been critically monitoring and evaluating the impacts with having implemented relevant measures. Main focus of the Group is guaranteeing health and safety of its employees, which remains the Group’s top priority, and safeguarding the continuity of the essential energy security services in the countries where Group operates.

The Group has been implementing measures to mitigate the impact on employees and on the Group’s operations. The risks are monitored regularly and taken measures are adjusted accordingly, as the situation remains unclear and volatile. Main measures implemented by management notably include:

- Implementation of extensive home office program, where employees that do not necessarily have to work from office are asked to work from home;
- Special regime for employees working in critical areas of operation.

Furthermore, EPH Group has been securing constant internal communication from the first day of the emergency, in order to share with its employees the health and behavioral rules established by the authorities.

Based on information available currently, despite potential short-term results’ volatility caused by the pandemic, the Group’s performance is not expected to be significantly impaired in the medium- to long-term as the significant part of its operated assets remains regulated and/or long-term contracted.

The management cannot however preclude the possibility that any extension of the current measures, or any re-introduction or escalation of lockdowns, or a consequential adverse impact of such measures on the economic environment where the Group operates will not have an adverse effect on the Group, and its financial position and operating results, in the medium and longer term. The Group continues to monitor the situation closely and will respond to mitigate the impact of such events and circumstances as they occur.

### (c) Changes in EPH shareholder structure

On 24 January 2020, the general meeting decided on an increase in the share capital of EUR 18 million. Shares with a nominal value of CZK 1 each were assigned as follows:

- EP Investment S.à.r.l. EUR 9 million;
- EP Investment II S.à.r.l. EUR 9 million.

The increase in share capital was entered into the Commercial Register on 29 January 2020.

On 15 April 2020 EP Investment S.à.r.l. transferred all shares in EPH to EP Corporate Group, a.s. (on 10 January 2020 renamed from EP Group Investments a.s.) which has become the new 53% shareholder of the Company. However, this transaction has not resulted in a change of the ultimate shareholder of the Group.

**(d) Other subsequent events**

The draft law presented by the German federal government in January 2020 for the phase-out of lignite currently calls for the end of operations of the power plants Schkopau and Lippendorf, which receive lignite from Mibrag, in 2034 respectively 2035. For the lignite strip mine Schleenhain, which supplies the Lippendorf power plant, this leads to a maximum term through the end of 2035, thereby a further three-year reduction of operations as compared with the recommendations of the “Growth, Structural change and Employment” commission (KWSB) dated 26 January 2019. As a consequence of the shorter period for accumulation as well as changes in the terminal positions of the strip mines, the future use of these parameters will result in the need to record additional expenses, primarily for increase in the provision for the reclamation of the Schleenhain strip mine. The aforementioned draft law is also expected to lead to an increase in expenses recognized by the equity accounted investee LEAG for the same reasons.

On 14 January 2020, the Group signed a new bank financing agreement for the total amount of EUR 800 million. The funds comprise a term loan of EUR 400 million and a committed revolving credit facility of up to EUR 400 million; both are unsecured and have a five-year term. The Group used the funds to fully refinance the existing Group’s bank debt which was due in 2023 in full (EUR 500 million).

In February 2020, EPPE as owner of 42% stake in Schkopau power plant agreed with Uniper to acquire the remaining stake and take it over in October 2021. Completion of the transaction is still subject to the approval by the German Federal Cartel Office. Schkopau is a 900 MW lignite-fired power plant in Saxony-Anhalt, which is an important component of Central Germany’s energy supply sourced primarily by lignite produced in the Profen open-cast mine belonging to Mibrag.

On 5 March 2020, EPIF declared and paid a dividend of EUR 200 million to its shareholders.

On 17 March 2020, the subsidiary EPH Financing CZ, a.s. initiated an issue of 5-year bonds in the expected total nominal amount of CZK 5,000 million (approximately EUR 185 million) with a potential increase up to CZK 7,500 million (approximately EUR 278 million) at nominal of CZK 10,000 per unit. As of the date of signing of the consolidated financial statements a total of 500,000 units of the issue have been subscribed.

On 18 March 2020, the Group drawn the bank loan of EUR 400 million from the credit term facility described in Note 35. Bank loan is due in June 2022.

In the first quarter of 2020, EP Produzione S.P.A. extended repayment dates of its bilateral facilities in total amount of EUR 125 million.

During the first quarter of 2020, in the UK, the capacity market auction three years ahead of delivery (“T-3 auction”) for the 2022/2023 delivery year and the T-4 auction for the 2023/2024 delivery year were held. Both EP Langage and South Humber Bank secured capacity agreements at higher than expected clearing prices, which shall enable success operation of both power plants in future. Further, on 7 May 2020, power plants Ballylumford, Kilroot and Tynagh succeeded also in the T-4 capacity market auction securing the extension of their contracts for the energy supplies into the transmission grid across the island of Ireland. Lastly, the Group gained a 10-year capacity contract for Kilroot enabling the decommissioning of the current coal-fired block and replacing it with a low-emission gas-fired unit with installed capacity of more than 300 MW.

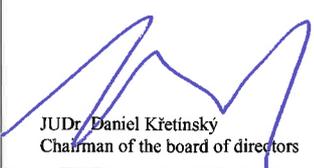
On 29 April 2020, Cabinet of Ministers of Ukraine approved EP Ukraine, 90% subsidiary of EPPE, as a winner of PSAs (profit sharing agreements) for Grunivska and Okhtyrka field in Ukraine representing an opportunity to participate in dynamic development of Ukraine energy sector.

Except for the matters described above and elsewhere in the Notes, the Company’s management is not aware of any other material subsequent events that could have an effect on the consolidated financial statements as at 31 December 2019.

## Appendices\*:

### Appendix 1 – Business combinations

\* *Information contained in the appendices form part of the complete set of these consolidated financial statements.*

Date:	Signature of the authorised representative	
11 June 2020	 JUDr. Daniel Křetínský Chairman of the board of directors	 Mgr. Pavel Horský Member of the board of directors

## Appendix 1 – Business combinations

The following tables provide further information on the amounts recognised for assets acquired and liabilities assumed as at the acquisition date for individually significant business combinations through step acquisitions and acquisitions.

### Effect of acquisitions

#### i. 31 December 2019

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of Fusine Energia S.r.L. are provided in the following table.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2019 Total</b>
Property, plant, equipment, land, buildings	9	-	9
Trade receivables and other assets	5	-	5
Financial instruments – assets	4	-	4
Deferred tax assets	2	-	2
Provisions	(1)	-	(1)
Loans and borrowings	(3)	-	(3)
Trade payables and other liabilities	(2)	-	(2)
<b>Net identifiable assets and liabilities</b>	<b>14</b>	<b>-</b>	<b>14</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(2)
<b>Cost of acquisition</b>			<b>12</b>
Consideration paid, satisfied in cash (A)			12
Consideration, other			-
<b>Total consideration transferred</b>			<b>12</b>
Less: Cash acquired (B)			-
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>(12)</b>

(1) Represents values at 100% share.

<i>In millions of EUR</i>	<b>2019 Total</b>
Revenue of the acquirees recognised since the acquisition date	5
Profit (loss) of the acquirees recognised since the acquisition date	1

<i>In millions of EUR</i>	<b>2019 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2019*	6
Profit (loss) of the acquirees recognised in the year ended 31 December 2019*	1

\* Before intercompany elimination; based on local statutory financial information.

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of EP Kilroot Limited and EP Ballylumford Limited are provided in the following table.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2019 Total</b>
Property, plant, equipment, land, buildings	89	99	188
Intangible assets	7	-	7
Trade receivables and other assets	41	(3)	38
Inventories	41	(15)	26
Cash and cash equivalents	24	-	24
Restricted cash	3	-	3
Deferred tax assets	2	24	26
Provisions	(14)	(123)	(137)
Deferred tax liabilities	(9)	(17)	(26)
Loans and borrowings	(1)	-	(1)
Trade payables and other liabilities	(33)	-	(33)
<b>Net identifiable assets and liabilities</b>	<b>150</b>	<b>(35)</b>	<b>115</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(10)
<b>Cost of acquisition</b>			<b>105</b>
Consideration paid, satisfied in cash (A)			105
Consideration, other			-
<b>Total consideration transferred</b>			<b>-</b>
Less: Cash acquired (B)			24
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>(81)</b>

(1) Represents values at 100% share.

<i>In millions of EUR</i>	<b>2019 Total</b>
Revenue of the acquirees recognised since the acquisition date*	131
Profit (loss) of the acquirees recognised since the acquisition date*	17

<i>In millions of EUR</i>	<b>2019 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2019*	274
Profit (loss) of the acquirees recognised in the year ended 31 December 2019*	19

\* Before intercompany elimination; based on local statutory financial information.

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of EP France Group are provided in the following table.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2019 Total</b>
Property, plant, equipment, land, buildings	208	182	390
Intangible assets	21	33	54
Trade receivables and other assets	556	-	556
Financial instruments – assets	4	-	4
Inventories	81	(25)	56
Cash and cash equivalents	75	-	75
Provisions	(420)	(51)	(471)
Deferred tax liabilities	-	(56)	(56)
Loans and borrowings	(52)	50	(2)
Trade payables and other liabilities	(600)	29	(571)
<b>Net identifiable assets and liabilities</b>	<b>(127)</b>	<b>162</b>	<b>35</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(28)
<b>Cost of acquisition</b>			<b>7</b>
Consideration paid, satisfied in cash (A)			7
Consideration, other			-
<b>Total consideration transferred</b>			<b>-</b>
Less: Cash acquired (B)			75
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>68</b>

(1) Represents values at 100% share.

<i>In millions of EUR</i>	<b>2019 Total</b>
Revenue of the acquirees recognised since the acquisition date*	1,106
Profit (loss) of the acquirees recognised since the acquisition date*	(30)

<i>In millions of EUR</i>	<b>2019 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2019*	2,823
Profit (loss) of the acquirees recognised in the year ended 31 December 2019*	(17)

\* Before intercompany elimination; based on local statutory financial information.

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of LOCON Group are provided in the following table.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2019 Total</b>
Property, plant, equipment, land, buildings	22	-	22
Trade receivables and other assets	8	-	8
Cash and cash equivalents	2	-	2
Loans and borrowings	(22)	-	(22)
Trade payables and other liabilities	(9)	-	(9)
<b>Net identifiable assets and liabilities</b>	<b>1</b>	<b>-</b>	<b>1</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			6
Negative goodwill on acquisition of new subsidiaries			-
<b>Cost of acquisition</b>			<b>7</b>
Consideration paid, satisfied in cash (A)			7
Consideration, other			-
<b>Total consideration transferred</b>			<b>7</b>
Less: Cash acquired (B)			2
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>(5)</b>

(1) Represents values at 100% share.

<i>In millions of EUR</i>	<b>2019 Total</b>
Revenue of the acquirees recognised since the acquisition date*	22
Profit (loss) of the acquirees recognised since the acquisition date*	2

<i>In millions of EUR</i>	<b>2019 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2019*	55
Profit (loss) of the acquirees recognised in the year ended 31 December 2019*	2

\* Before intercompany elimination; based on local statutory financial information.

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of Tynagh Energy Limited are provided in the following table.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2019 Total</b>
Property, plant, equipment, land, buildings	114	(51)	63
Intangible assets	8	-	8
Trade receivables and other assets	10	(6)	4
Inventories	14	-	14
Cash and cash equivalents	34	-	34
Restricted cash	4	-	4
Provisions	(8)	-	(8)
Deferred tax liabilities	(10)	7	(3)
Loans and borrowings	(37)	-	(37)
Trade payables and other liabilities	(18)	-	(18)
<b>Net identifiable assets and liabilities</b>	<b>111</b>	<b>(50)</b>	<b>61</b>
Non-controlling interest			(12)
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(21)
<b>Cost of acquisition</b>			<b>28</b>
Consideration paid, satisfied in cash (A)			28
Consideration, other			-
<b>Total consideration transferred</b>			<b>-</b>
Less: Cash acquired (B)			34
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>6</b>

(1) Represents values at 100% share.

<i>In millions of EUR</i>	<b>2019 Total</b>
Revenue of the acquirees recognised since the acquisition date*	22
Profit (loss) of the acquirees recognised since the acquisition date*	2

<i>In millions of EUR</i>	<b>2019 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2019*	144
Profit (loss) of the acquirees recognised in the year ended 31 December 2019*	12

\* Before intercompany elimination; based on local statutory financial information.

*ii. 31 December 2018*

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of SAJDOK a.s. are provided in the following table.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment<sup>(2)</sup></b>	<b>2018 Total</b>
Property, plant, equipment, land, buildings	1	-	1
Trade receivables and other assets	1	-	1
Trade payables and other liabilities	(1)	-	(1)
<b>Net identifiable assets and liabilities</b>	<b>1</b>	<b>-</b>	<b>1</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			1
Negative goodwill on acquisition of new subsidiaries			-
<b>Cost of acquisition</b>			<b>2</b>
Consideration paid, satisfied in cash (A)			2
<b>Total consideration transferred</b>			<b>2</b>
Less: Cash acquired (B)			-
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>(2)</b>

(1) Represents values at 100% share.

(2) The result of purchase price allocation was not significant and therefore management of the Group decided not to recognise any fair value adjustment resulting from business combinations in 2018.

<i>In millions of EUR</i>	<b>2018 Total</b>
Revenue of the acquirees recognised since the acquisition date	5
Profit (loss) of the acquirees recognised since the acquisition date	-

<i>In millions of EUR</i>	<b>2018 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2018*	5
Profit (loss) of the acquirees recognised in the year ended 31 December 2018*	-

\* Before intercompany elimination; based on local statutory financial information.

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of Plzeňská teplárenská, a.s. are provided in the following table.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2018 Total</b>
Property, plant, equipment, land, buildings	199	(63)	136
Intangible assets	3	1	4
Trade receivables and other assets	9	-	9
Financial instruments – assets	2	2	4
Inventories	2	-	2
Cash and cash equivalents	32	-	32
Deferred tax assets	-	6	6
Provisions	(14)	(16)	(30)
Deferred tax liabilities	(10)	10	-
Loans and borrowings	(33)	-	(33)
Trade payables and other liabilities	(8)	-	(8)
<b>Net identifiable assets and liabilities</b>	<b>182</b>	<b>(60)</b>	<b>122</b>
Non-controlling interest			(79)
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			-
<b>Cost of acquisition</b>			<b>43</b>
Consideration paid, satisfied in cash (A)			-
Consideration, other			43
<b>Total consideration transferred</b>			<b>43</b>
Less: Cash acquired (B)			32
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>32</b>

(1) Represents values at 100% share.

<i>In millions of EUR</i>	<b>2018 Total</b>
Revenue of the acquirees recognised since the acquisition date*	22
Profit (loss) of the acquirees recognised since the acquisition date*	2

\* These figures include information after merger of Plzeňská energetika a.s. and Plzeňská teplárenská, a.s.

<i>In millions of EUR</i>	<b>2018 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2018*	71
Profit (loss) of the acquirees recognised in the year ended 31 December 2018*	16

\* Before intercompany elimination; based on local statutory financial information.

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of NAFTA Germany GmbH are provided in the following table.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2018 Total</b>
Property, plant, equipment, land, buildings	104	76	180
Trade receivables and other assets	4	-	4
Inventories	1	-	1
Cash and cash equivalents	43	-	43
Deferred tax assets	6	-	6
Provisions	(73)	(6)	(79)
Deferred tax liabilities	-	(20)	(20)
Trade payables and other liabilities	(17)	-	(17)
<b>Net identifiable assets and liabilities</b>	<b>68</b>	<b>50</b>	<b>118</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(5)
<b>Cost of acquisition</b>			<b>113</b>
Consideration paid, satisfied in cash (A)			118
Consideration, other			(5)
<b>Total consideration transferred</b>			<b>113</b>
Less: Cash acquired (B)			43
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>(75)</b>

(1) Represents values at 100% share.

<i>In millions of EUR</i>	<b>2018 Total</b>
Revenue of the acquirees recognised since the acquisition date	-
Profit (loss) of the acquirees recognised since the acquisition date	-

<i>In millions of EUR</i>	<b>2018 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2018*	44
Profit (loss) of the acquirees recognised in the year ended 31 December 2018*	16

\* Before intercompany elimination; based on local statutory financial information.

As at the date of publication of the 2018 consolidated financial statements, the purchase price allocation process for NAFTA Germany GmbH had not been completed and provisional amounts were reported as at and for the year ended 31 December 2018. The purchase price allocation process was completed in 2019 and no significant differences between final figures and provisional figures, initially recorded for the year ended 31 December 2018, were noted.

## **5. STATUTORY FINANCIAL STATEMENTS**

**Energetický a průmyslový holding, a.s.**  
**STATUTORY FINANCIAL STATEMENTS**  
**Year ended 31 December 2019**



**KPMG Česká republika Audit, s.r.o.**

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This document is an English translation of the Czech auditor's report.  
Only the Czech version of the report is legally binding.

**Independent Auditor's Report to the Shareholders of  
Energetický a průmyslový holding, a.s.**

***Opinion***

We have audited the accompanying separate financial statements of Energetický a průmyslový holding, a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the separate balance sheet as at 31 December 2019, the separate income statement, the statement of changes in equity, and the cash flow statement for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the separate financial statements.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2019, of its unconsolidated financial performance, and its unconsolidated cash flows for the year then ended in accordance with Czech accounting legislation.

***Basis for Opinion***

We conducted our audit in accordance with the Act on Auditors and Auditing 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 Audit of the Separate 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.



### ***Other Information***

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

As described in Note 2(i) to the separate financial statements, Energetický a průmyslový holding, a.s. has not prepared an annual report as at 31 December 2019, as it plans to include the respective information in a consolidated annual report. Consequently, this auditor's report does not include out statement on the other information.

### ***Responsibilities of the Statutory Body and Supervisory Board for the Separate Financial Statements***

The statutory body is responsible for the preparation and fair presentation of the separate financial statements in accordance with Czech accounting legislation and for such internal control as the statutory body determines is necessary to enable the preparation of separate financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the separate financial statements, the statutory body 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 statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

### ***Auditor's Responsibilities for the Audit of the Separate Financial Statements***

Our objectives are to obtain reasonable assurance about whether the separate 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 separate financial statements.

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

- Identify and assess the risks of material misstatement of the separate 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 statutory body.
- Conclude on the appropriateness of the statutory body'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 separate 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 separate financial statements, including the disclosures, and whether the separate 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.

***Statutory Auditor Responsible for the Engagement***

Karel Charvát is the statutory auditor responsible for the audit of the separate financial statements of Energetický a průmyslový holding, a.s. as at 31 December 2019 based on which this independent auditor's report has been prepared.

Prague  
29 May 2020

*KPMG Česká republika Audit*

KPMG Česká republika Audit, s.r.o,  
Registration number 71

Karel Charvát  
Partner  
Registration number 2032

**BALANCE SHEET**

full version

Energetický a průmyslový holding a.s

Corporate ID 283 56 250

As of  
31.12.2019  
(in CZK thousand)Pařížská 130/26  
Josefov  
110 00 Praha 1

		31.12.2019			31.12.2018
		Gross	Adjustment	Net	Net
	<b>TOTAL ASSETS</b>	<b>143 001 010</b>	<b>10 864 952</b>	<b>132 136 058</b>	<b>137 884 927</b>
<b>B.</b>	<b>Fixed assets</b>	<b>116 276 048</b>	<b>1 999 613</b>	<b>114 276 435</b>	<b>114 193 306</b>
<i>B.I.</i>	<i>Intangible fixed assets</i>	137	137		
B.I.4.	Other intangible fixed assets	137	137		
<i>B.II.</i>	<i>Tangible fixed assets</i>	<b>676</b>	<b>330</b>	<b>346</b>	<b>162</b>
B.II.2.	Tangible movable assets and sets of tangible movable assets	676	330	346	162
<i>B.III.</i>	<i>Non-current financial assets</i>	<b>116 275 235</b>	<b>1 999 146</b>	<b>114 276 089</b>	<b>114 193 144</b>
B.III.1.	Equity investments - controlled or controlling entity	114 165 721		114 165 721	114 089 238
B.III.3.	Equity investments in associates	1 999 146	1 999 146		
B.III.5.	Other non-current securities and investments	110 368		110 368	103 906
<b>C.</b>	<b>Current assets</b>	<b>26 717 222</b>	<b>8 865 339</b>	<b>17 851 883</b>	<b>23 686 777</b>
<i>C.I.</i>	<i>Inventories</i>	<b>14 567</b>		<b>14 567</b>	<b>9 554</b>
C.I.2.	Work in progress and semifinished goods	14 567		14 567	9 554
<i>C.II.</i>	<i>Receivables</i>	<b>24 713 382</b>	<b>8 865 339</b>	<b>15 848 043</b>	<b>18 508 379</b>
C.II.1.	Long-term receivables	<b>4 303 412</b>	<b>3 990 352</b>	<b>313 060</b>	<b>1 721 181</b>
C.II.1.1.	Trade receivables				15 000
C.II.1.2.	Receivables - controlled or controlling entity	297 150		297 150	109 030
C.II.1.5.	<i>Receivables - other</i>	<b>4 006 262</b>	<b>3 990 352</b>	<b>15 910</b>	<b>1 597 151</b>
C.II.1.5.4.	Sundry receivables	4 006 262	3 990 352	15 910	1 597 151
<i>C.II.2.</i>	<i>Short-term receivables</i>	<b>20 409 970</b>	<b>4 874 987</b>	<b>15 534 983</b>	<b>16 787 198</b>
C.II.2.1.	Trade receivables	186 716		186 716	624 846
C.II.2.2.	Receivables - controlled or controlling entity	14 308 314		14 308 314	11 342 558
C.II.2.3.	Receivables - associates	4 874 987	4 874 987		3 184 440
C.II.2.4.	<i>Receivables - other</i>	<b>1 039 953</b>		<b>1 039 953</b>	<b>1 635 354</b>
C.II.2.4.1.	Receivables from partners	25 513		25 513	
C.II.2.4.3.	State - tax receivables	16 270		16 270	24 464
C.II.2.4.4.	Short-term prepayments made	39 362		39 362	5 280
C.II.2.4.5.	Estimated receivables	36 653		36 653	803
C.II.2.4.6.	Sundry receivables	922 155		922 155	1 604 807
<i>C.IV.</i>	<i>Cash</i>	<b>1 989 273</b>		<b>1 989 273</b>	<b>5 168 844</b>
C.IV.1.	Cash on hand	25		25	22
C.IV.2.	Cash at bank	1 989 248		1 989 248	5 168 822
<b>D.</b>	<b>Other assets</b>	<b>7 740</b>		<b>7 740</b>	<b>4 844</b>
D.1.	Deferred expenses	7 740		7 740	4 844

		31.12.2019	31.12.2018
	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>132 136 058</b>	<b>137 884 927</b>
<b>A.</b>	<b>Equity</b>	<b>100 234 922</b>	<b>120 029 433</b>
<i>A.I.</i>	<i>Share capital</i>	<i>3 535 135</i>	<i>3 535 135</i>
A.I.1.	Share capital	3 535 135	3 535 135
<i>A.II.</i>	<i>Share premium and capital funds</i>	<i>-351 738</i>	<i>-295 899</i>
A.II.2.	<i>Capital funds</i>	<i>-351 738</i>	<i>-295 899</i>
A.II.2.2.	Gains or losses from the revaluation of assets and liabilities (+/-)	-351 738	-295 899
<i>A.IV.</i>	<i>Retained earnings (+/-)</i>	<i>94 142 586</i>	<i>114 303 952</i>
A.IV.1.	Other reserve funds	94 142 586	114 303 952
A.V.	<i>Profit or loss for the current period (+/-)</i>	<i>2 908 939</i>	<i>2 486 245</i>
<b>B.+C.</b>	<b>Liabilities</b>	<b>31 900 660</b>	<b>17 849 373</b>
<b>B.</b>	<b>Reserves</b>	<b>210 584</b>	<b>84 112</b>
B.2.	Income tax reserve	209 601	82 765
B.4.	Other reserves	983	1 347
<b>C.</b>	<b>Payables</b>	<b>31 690 076</b>	<b>17 765 261</b>
<i>C.I.</i>	<i>Long-term payables</i>	<i>15 258 671</i>	<i>10 890 524</i>
C.I.2.	Payables to credit institutions	2 083 620	2 282 275
C.I.5.	Long-term bills of exchange to be paid	845 168	1 195 365
C.I.6.	Payables - controlled or controlling entity	12 269 883	7 400 948
C.I.9.	<i>Payables - other</i>	<i>60 000</i>	<i>11 936</i>
C.I.9.3.	Sundry payables	60 000	11 936
<i>C.II.</i>	<i>Short-term payables</i>	<i>16 431 405</i>	<i>6 874 737</i>
C.II.1.	<i>Bonds issued</i>	<i>2 048 277</i>	
C.II.1.2.	Other bonds	2 048 277	
C.II.2.	Payables to credit institutions	3 011 081	182 316
C.II.4.	Trade payables	96 282	107 529
C.II.5.	Short-term bills of exchange to be paid	2 108 372	931 763
C.II.6.	Payables - controlled or controlling entity	8 662 305	4 959 491
C.II.8.	<i>Other payables</i>	<i>505 088</i>	<i>693 638</i>
C.II.8.1.	Payables to partners	464 865	
C.II.8.3.	Payables to employees	2 690	2 386
C.II.8.4.	Social security and health insurance payables	883	1 294
C.II.8.5.	State - tax payables and subsidies	637	561
C.II.8.6.	Estimated payables	10 430	479 646
C.II.8.7.	Sundry payables	25 583	209 751
<b>D.</b>	<b>Other liabilities</b>	<b>476</b>	<b>6 121</b>
D.1.	Accrued expenses	476	5 969
D.2.	Deferred income		152

**PROFIT AND LOSS ACCOUNT**  
structured by the nature of expense method

**Energetický a průmyslový holding a.s**  
Corporate ID 283 56 250

Year ended  
31.12.2019  
(in CZK thousand)

Pařížská 130/26  
Josefov  
110 00 Praha 1

		Year ended 31.12.2019	Year ended 31.12.2018
I.	Sales of products and services	76 702	50 413
A.	Purchased consumables and services	317 837	299 990
A.2.	Consumed material and energy	1 158	869
A.3.	Services	316 679	299 121
B.	Change in internally produced inventory (+/-)	-5 013	-8 582
D.	Staff costs	56 586	53 544
D.1.	Payroll costs	45 303	43 244
D.2.	Social security and health insurance costs and other charges	11 283	10 300
D.2.1.	Social security and health insurance costs	11 270	10 295
D.2.2.	Other charges	13	5
E.	Adjustments to values in operating activities	95	62
E.1.	Adjustments to values of intangible and tangible fixed assets	95	62
E.1.1.	Adjustments to values of intangible and tangible fixed assets - permanent	95	62
III.	Other operating income	3 349 530	575 080
III.3.	Sundry operating income	3 349 530	575 080
F.	Other operating expenses	3 374 799	587 792
F.3.	Taxes and charges	30 285	11
F.4.	Reserves relating to operating activities and complex deferred expenses	-365	939
F.5.	Sundry operating expenses	3 344 879	586 842
*	<b>Operating profit or loss (+/-)</b>	<b>-318 072</b>	<b>-307 313</b>
IV.	Income from non-current financial assets - equity investments	9 398 949	4 907 403
IV.1.	Income from equity investments - controlled or controlling entity	9 398 949	4 907 403
G.	Costs of equity investments sold	69 500	
VI.	Interest income and similar income	891 466	699 288
VI.1.	Interest income and similar income - controlled or controlling entity	197 212	291 116
VI.2.	Other interest income and similar income	694 254	408 172
I.	Adjustments to values and reserves relating to financial activities	6 604 288	1 924 838
J.	Interest expenses and similar expenses	859 706	812 758
J.1.	Interest expenses and similar expenses - controlled or controlling entity	528 656	519 658
J.2.	Other interest expenses and similar expenses	331 050	293 100
VII.	Other financial income	1 691 092	1 381 964
K.	Other financial expenses	937 840	1 362 032
*	<b>Financial profit or loss (+/-)</b>	<b>3 510 173</b>	<b>2 889 027</b>
**	<b>Profit or loss before tax (+/-)</b>	<b>3 192 101</b>	<b>2 581 714</b>
L.	Income tax	283 162	95 469
L.1.	Due income tax	283 162	95 469
**	<b>Profit or loss net of tax (+/-)</b>	<b>2 908 939</b>	<b>2 486 245</b>
***	<b>Profit or loss for the current period (+/-)</b>	<b>2 908 939</b>	<b>2 486 245</b>
*	Net turnover for the current period	15 407 739	7 614 148

**STATEMENT OF  
CHANGES IN EQUITY**

**Energetický a průmyslový holding a.s**  
**Corporate ID 283 56 250**

Year ended  
31.12.2019  
(in CZK thousand)

Pařížská 130/26  
Josefov  
110 00 Praha 1

	Share capital	Treasury shares	Share premium	Gains or losses from the revaluation of assets	Accumulated profits brought forward	Profit or loss for the current period	Profit share prepayments declared	TOTAL EQUITY
<b>Balance at 31 December 2017</b>	<b>5 050 193</b>	<b>-1 515 058</b>	<b>-62 993 801</b>	<b>-287 042</b>	<b>128 948 453</b>	<b>53 685 628</b>	<b>-2 439 243</b>	<b>120 449 130</b>
Distribution of profit or loss					53 685 628	-53 685 628		
Cash increase in share capital	-1 515 058	1 515 058						
Share premium set-off against retained of assets			62 993 801		-62 993 801			
Profit share prepayments declared					-247 458			-247 458
Dividends declared					-5 088 870		2 439 243	-2 649 627
Gains or losses from the revaluation of assets				-8 857				-8 857
Profit or loss for the current period						2 486 245		2 486 245
<b>Balance at 31 December 2018</b>	<b>3 535 135</b>			<b>-295 899</b>	<b>114 303 952</b>	<b>2 486 245</b>		<b>120 029 433</b>
Distribution of profit or loss					2 486 245	-2 486 245		
Dividends declared					-22 647 611			-22 647 611
Gains or losses from the revaluation of assets				-55 839				-55 839
Profit or loss for the current period						2 908 939		2 908 939
<b>Balance at 31 December 2019</b>	<b>3 535 135</b>			<b>-351 738</b>	<b>94 142 586</b>	<b>2 908 939</b>		<b>100 234 922</b>

# CASH FLOW STATEMENT

Energetický a průmyslový holding a.s  
Corporate ID 283 56 250

Year ended  
31.12.2019  
(in CZK thousand)

Pařížská 130/26  
Josefov  
110 00 Praha 1

		Year ended 31.12.2019	Year ended 31.12.2018
<b>P.</b>	<b>Opening balance of cash and cash equivalents</b>	<b>5 168 844</b>	<b>701 830</b>
	<i>Cash flows from ordinary activities (operating activities)</i>		
Z.	Profit or loss from ordinary activities before tax	3 192 101	2 581 714
A.1.	Adjustments for non-cash transactions	-3 194 752	-2 871 824
A.1.1.	Depreciation of fixed assets	95	62
A.1.2.	Change in provisions and reserves	6 599 275	1 916 256
A.1.3.	Profit/(loss) on the sale of fixed assets	-180 745	
A.1.4.	Revenues from profit shares	-9 148 704	-4 907 403
A.1.5.	Interest expense and interest income	-31 760	113 470
A.1.6.	Adjustments for other non-cash transactions	-432 913	5 791
<b>A.*</b>	<b>Net operating cash flow before changes in working capital</b>	<b>-2 651</b>	<b>-290 110</b>
A.2.	Change in working capital	31 693	251 848
A.2.1.	Change in operating receivables and other assets	393 493	114 252
A.2.2.	Change in operating payables and other liabilities	-361 800	137 596
<b>A.**</b>	<b>Net cash flow from operations before tax</b>	<b>29 042</b>	<b>-38 262</b>
A.3.	Interest paid	-794 387	-700 471
A.4.	Interest received	243 807	674 308
A.5.	Income tax paid from ordinary operations	-156 326	27 734
<b>A.***</b>	<b>Net operating cash flows</b>	<b>-677 864</b>	<b>-36 691</b>
	<i>Cash flows from investing activities</i>		
B.1.	Fixed assets expenditures	-194 592	-1 329 599
B.2.	Proceeds from fixed assets sold	249 891	17 700
B.3.	Loans and borrowings to related parties	-5 988 112	-1 491 755
	Received profit shares	323 900	302 800
<b>B.***</b>	<b>Net investment cash flows</b>	<b>-5 608 913</b>	<b>-2 500 854</b>
	<i>Cash flow from financial activities</i>		
C.1.	Change in payables from financing	22 230 949	10 001 487
C.2.	Impact of changes in equity	-19 123 743	-2 996 928
C.2.6.	Profit shares paid	-19 123 743	-2 996 928
<b>C.***</b>	<b>Net financial cash flows</b>	<b>3 107 206</b>	<b>7 004 559</b>
<b>F.</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>-3 179 571</b>	<b>4 467 014</b>
<b>R.</b>	<b>Closing balance of cash and cash equivalents</b>	<b>1 989 273</b>	<b>5 168 844</b>

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

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# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

## 1. Incorporation and description of the Company

Energetický a průmyslový holding, a.s. ("the Company" or "EPH") was registered in the Commercial Register on 10 August 2009 by subscription of the registered capital in the form of a non-monetary contribution of 100% of shares of Bauliga, a.s., Honor Invest, a.s. and Masna Holding Limited.

Energetický a průmyslový holding is a leading Central European energy group that owns and operates assets in the Czech Republic, the Slovak Republic, Germany, Italy, the UK, Hungary, Poland, and Switzerland. EPH focuses on energy infrastructure (regulated or over the long-term contracted assets in the areas of natural gas transmission, power, gas and heat distribution and gas storage), power generation, coal mining, trading in power industry commodities and logistics.

### *Ownership structure*

The shareholders of the Company as at 31 December 2019 are:

	Interest in registered capital	Voting rights
	%	%
EP Investment S.à r.l.	53%	53%
EP Investment II S.à r.l.	47%	47%
<b>Total</b>	<b>100%</b>	<b>100%</b>

### *Registered office*

Energetický a průmyslový holding, a.s.

Pařížská 130/26, Josefov

110 00 Praha 1

Czech Republic

### *Identification number*

283 56 250

### *Members of the Board of Directors and Supervisory Board as at 31 December 2019*

#### *Members of the Board of Directors*

JUDr. Daniel Křetínský (Chairman)

Mgr. Marek Spurný

Mgr. Pavel Horský

Ing. Jan Špringl

#### *Members of the Supervisory Board*

Mgr. Petr Sekanina (Chairman)

Mgr. Tereza Štefunková

Mgr. Martin Fedor

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

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## 2. Basis of accounting and general accounting policies applied by the Company

The accompanying financial statements have been prepared in compliance with Act No. 563/1991 Coll., on Accounting, as amended, and relevant regulations and decrees applicable to entrepreneurs, in particular Decree No. 500/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting.

The financial statements have been prepared on the historical cost basis.

The financial statements of the Company have been prepared as at the balance sheet date of 31 December 2019 for the 2019 calendar year ("the year" or "the accounting period").

All amounts are shown in thousands of Czech crowns ("TCZK"), unless stated otherwise.

### (a) Tangible and intangible fixed assets

#### *Valuation method*

Purchased fixed assets are valued at prices pursuant to Section 47 of Decree No. 500/2002. Tangible fixed assets costing up to TCZK 40 and intangible fixed assets costing up to TCZK 60 are not recognised in the balance sheet and are expensed in the year that they are acquired.

Assets generated by the Company's own activity are valued at cost, which includes direct material and personnel expenses and overheads related to the production of assets. Interest and other financial expenses are capitalised during the period of acquisition of the assets, i.e. until the assets are put to use. Afterwards, they are part of financial costs.

Intangible and tangible fixed assets acquired free of charge are valued at their replacement cost and posted in the Other capital funds account (not depreciated) and in asset accounts against accumulated depreciation (depreciated).

The temporary impairment of fixed intangible and tangible assets is shown through adjustments, which are reported in the correction column of the balance sheet along with depreciation.

Costs of technical improvement increases the cost of intangible and tangible fixed assets. Repair and maintenance costs are charged to current year expenses.

#### *Depreciation*

Tangible and intangible fixed assets are depreciated based on their acquisition cost and estimated useful lives on a straight-line and monthly basis, depreciation starts in the month following the month in which a relevant asset is put into use and ends in the month in which the asset is disposed. For technical improvements that become part of the depreciated assets, depreciation starts in the month in which a relevant technical improvement is put into use (this does not apply to technical improvements made to fixed assets of another).

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

Assets are depreciated using the following methods over the following periods:

Assets	Method	Period
Computer technology	Straight-line	3 years
Other intangible assets (trademark)	Straight-line	6 years

Land, works of art and fixed assets under construction are not depreciated.

## (b) Non-current financial assets

Non-current financial assets include equity investments in subsidiaries and associated companies, debt securities that the Company has the intent and ability to hold to maturity, and other long-term securities for which the Company's intent is not known upon acquisition.

Securities are initially stated at cost defined under Section 48 of Decree No. 500/2002 Coll. The cost of securities does not include interest on loans taken for their acquisition and expenses associated with their holding.

Equity investments are valued at acquisition cost at the balance sheet date. Where a particular equity investment has been impaired, an adjustment is established based on performed impairment tests. Impairment tests are carried out in the form of discounted operating cash flows.

Ownership interests contributed to the Company's registered capital are valued based on an expert opinion of an independent expert appointed by court.

Available-for-sale securities and ownership interests are valued at fair value, if the value can be determined. A change in fair value of available-for-sale securities is recognised in gains or losses from the revaluation of assets and liabilities in equity, if this is a change in fair value that is unlikely to be permanent. Impairment that is likely to be permanent is recognised as current period costs. If fair value of available-for-sale securities demonstrably increases after the impairment is recognised in finance cost accounts, the increase in fair value recognised up to the amount of formerly recognised impairment is recognised as revenue of the relevant period. The market value of securities as at the date of financial statements is used as the fair value.

If securities are held in foreign currencies, they are translated as at the balance sheet date using the current rates of exchange announced by the Czech National Bank against gains or losses from the revaluation of assets and liabilities in equity.

## (c) Receivables

Receivables are accounted for at their nominal value, assigned receivables are stated at acquisition cost, i.e. including other related costs (Section 25 of Act No. 563/1991 Coll.). As at the balance sheet date, a temporary impairment of doubtful receivables is accounted for using adjustments that are debited to

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

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expenses and are shown in the correction column in the balance sheet. Adjustments are established to receivables based on an analysis of the credit status of individual customers.

The value of receivables from provided loans is increased by uncollected interest (except for default interest).

(d) Derivatives

*Trading derivatives*

As at the balance sheet date, derivatives held for trading are recognised at fair value under "Sundry receivables" or "Sundry payables", and gains (losses) from changes in their fair values are recorded in profit or loss.

(e) Loans received and granted

Short-term and long-term loans are initially recorded at their nominal value upon receipt. Upon the preparation of the financial statements the loan balances are increased by unpaid interest charged by banks or other parties. A part of long-term loans due within one year from the balance sheet date is classified as short-term loan.

(f) Foreign currency transactions

The Company applies the Czech National Bank official rate effective on the date of acquisition of an asset or the occurrence of a liability to foreign currency transactions. Realised foreign exchange gains and losses are recognised in the income statement.

As at the balance sheet date, foreign currency assets and liabilities are translated at the prevailing Czech National Bank official rates and all foreign exchange differences arising from gains or losses from assets and liabilities were recorded in financial revenues or financial expenses (except for equity investments - see section b).

(g) Recognition of expenses and revenues

Revenues and expenses are recognised on an accrual basis, i.e. in the period to which they relate in terms of substance and timing. In compliance with the principle of prudence, provisions and adjustments are created to cover all risks, losses and impairment known as at the balance sheet date and are debited to expenses.

(h) Income tax

Current income tax is calculated using the effective tax rate and the accounting profit increased or decreased by permanent or temporary non-deductible expenses and non-taxable revenues (e.g. the

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

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creation and utilisation of other provisions and adjustments, representation costs, differences between accounting and tax depreciation).

Deferred income tax is determined for companies constituting a group of companies and for all accounting entities subject to the obligation of having their financial statements audited. It is based on the balance sheet approach, i.e. the temporary differences between the tax base of assets and liabilities and their book value in the balance sheet, multiplied by the income tax rate expected to be valid for the subsequent accounting period.

A deferred tax asset is recognised only if it is probable that it will be utilised in future accounting periods.

An income tax provision is established as the financial statements are prepared before the tax liability is determined. In the subsequent accounting period, the Company releases this provision and records the actual tax liability determined.

In the balance sheet, the income tax reserve is reduced by income tax prepayments, and the net receivable (if any) is recorded in State – tax receivables, the net payable (if any) is recorded in Income tax reserve.

(i) Consolidation

The Company prepares its consolidated financial statements in accordance with the International Financial Reporting Standards adopted by the EU. The Czech translation of the consolidated financial statements, along with the consolidated annual report, will be published in the Commercial Register in accordance with Section 21a of the Accounting Act and stored at the Company's registered office and on the webpage [www.epholding.cz](http://www.epholding.cz).

The consolidated financial statements for the widest group of entities for the year 2019 are prepared by EP Investment S.à r.l, with its registered office at Avenue John F. Kennedy 39, L-1855 Luxembourg.

(j) External financing costs

Costs incurred to obtain external financing (including other associated costs) are charged to current year expenses on a one-off basis.

(k) Dividends

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established. Profit share prepayments are recognised in current year revenues, i.e. in the period when the profit share prepayment was declared.

### 3. Change in accounting policies and procedures

In 2019, no changes were made to the Company's accounting policies and procedures.

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

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(All amounts are shown in thousands of Czech crowns "TCZK")

## 4. Cash flow statement

The cash flow statement was prepared using the indirect method. Cash equivalents present short-term liquid assets easily convertible into cash in an amount agreed in advance. Cash and cash equivalents can be analysed as follows:

(in TCZK)

	Balance as at 31/12/2019	Balance as at 31/12/2018
Cash on hand	25	22
Cash at bank	1 989 248	5 168 822
<b>Total</b>	<b>1 989 273</b>	<b>5 168 844</b>

Cash flows from operating, investment or financial activities presented in the cash flow statement are not off-set.

## 5. Non-current financial assets

As at 31 December 2019 and 31 December 2018

### Equity investments – controlled or controlling entity

	Total profit (+) loss (-) for 1/1/2019 - 31/12/2019 (in thousands of CZK/EUR/PLN/RSD)	Equity at 31/12/2019 (in thousands of CZK/EUR/PLN/R SD)	Acquisition cost as at 31/12/2019 (in TCZK)	Acquisition cost as at 31/12/2018 (in TCZK)
SEDILAS ENTERPRISES LIMITED*	-12 (EUR)	69 (EUR)	25	26
Mining Services and Engineering Sp. z o.o.*	77 (PLN)	3 581 (PLN)	304	305
EPIF Investments a.s.	8 381 135 (CZK)	91 062 634 (CZK)	91 059 000	91 059 000
EP Investment Advisors, s.r.o.*	9 767 (CZK)	264 740 (CZK)	437 000	437 000
EP Logistics International, a.s.*	-2 175 (CZK)	68 925 (CZK)	68 070	68 070
JTSD Braunkohlebergbau GmbH ("JTSD")	16 880 (EUR)	212 029 (EUR)	396 437	401 351
Nadácia EPH*	0 (EUR)	6 (EUR)	169	170
EPH Financing SK, a.s.	145 (EUR)	7 114 (EUR)	178 637	777
EP Slovakia B.V.*	-21 (EUR)	157 436 (EUR)	4 039 631	4 085 850
EPH Financing CZ, a.s.	2 047 (CZK)	8 385 (CZK)	12 000	12 000
EP Coal Trading, a.s.*	197 516 (CZK)	317 974 (CZK)	141 000	141 000
EP Power Europe, a.s. *	5 030 329 (CZK)	32 354 063 (CZK)	16 362 800	16 362 800
PGP Terminal, a.s.*	-	-	-	9 189
Adconcretum real estate Ltd.*	-1 567 (RSD)	218 625 (RSD)	88 671	89 770
ABS PROPERTY LIMITED*	49 395 (CZK)	93 035 (CZK)	54 407	55 081
SLUGGERIA a.s.*	-64 (CZK)	1 246 (CZK)	1 971	1 971
EP Properties, a.s.	-	-	-	60 000
WOOGEL LIMITED*	-208 (CZK)	23 797 (CZK)	6	7

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

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(All amounts are shown in thousands of Czech crowns "TCZK")

DCR INVESTMENT a.s., v likvidaci **	367(CZK)	2 195 (CZK)	2 562	2 562
EP Real Estate, a.s. (formerly PT Real Estate, a.s.)*	72 807 (CZK)	1 022 007 (CZK)	1 300 000	1 300 000
RUBY Equity Investment S. á r.l.*	-	-	-	309
EP Hagibor a.s.*	-197 (CZK)	22 737 (CZK)	23 031	2 000
<b>Total</b>			<b>114 165 721</b>	<b>114 089 238</b>

\* Data derived from non-audited financial statements as at 31 December 2019.

\*\* Data derived from non-audited financial statements as at 31 December 2019. The Company entered into the liquidation process on 1 February 2020.

Except for WOOGEL LIMITED (25%) and JTSD (10%), all equity investments are fully owned.

At 31 December 2019 and 31 December 2018

## Equity investments in associates

	<b>Total profit (+) loss (-) for 1/1/2019 - 31/12/2019 (in TPLN)</b>	<b>Equity at 31/12/2019 (in TPLN)</b>	<b>Acquisition cost as at 31/12/2019 (in TCZK)</b>	<b>Acquisition cost as at 31/12/2018 (in TCZK)</b>
Przedsiębiorstwo Górnictwa Silesia Sp. z o.o.* ("PGS")	-1 112 087	-1 210 256	1 999 146	2 002 496
<b>Total</b>			<b>1 999 146</b>	<b>2 002 496</b>

\*Data derived from non-audited financial statements as at 31 December 2019.

The interest in share capital of PGS is 38.93%.

The Company recorded a valuation allowance in the amount of TCZK 1 999 146 to its equity investment in PGS (as at 31 December 2018: TCZK 2 002 496). Valuation adjustment was recorded as a result of the impairment test of PGS, which reflects the current conditions on the Polish hard coal market.

Registered offices of the companies as at 31 December 2019 were as follows:

SEDILAS ENTERPRISES LIMITED, Akropoleos, 59 – 61, SAVVIDES CENTER, 1 <sup>st</sup> Floor, Flat/Office 102, P. C. 2012, Nicosia, Cyprus
WOOGEL LIMITED, Kyriakou Matsi, 16, Eagle House, 8th Floor, Agioi Omologites, P.C. 1082, Nicosia, Cyprus
Adconcretum real estate Ltd., Belgrade, Vuka Karadzica 6, Serbia
ABS PROPERTY LIMITED, 7 Argyle Square, Morehampton Road, Donnybrook, Dublin 4, D04K3H0, Ireland
JTSD Braunkohlebergbau GmbH, Glück-Auf-Straße 1, 06711 Zeitz, Germany
EP Logistics International, a.s., náměstí Hrdinů 1693/4a, Nusle, 140 00 Praha 4, Czech Republic
EP Real Estate, a.s. (formerly PT Real Estate, a.s.), Partyzánská 1/7, Holešovice, 170 00 Praha 7, Czech Republic
EP Power Europe, a.s., Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
EP Hagibor a.s., Partyzánská 1/7, Holešovice, 170 00 Praha 7, Czech Republic
SLUGGERIA a.s., Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

DCR INVESTMENT a.s., v likvidaci, Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
EPF Investments a.s., Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
EP Investment Advisors, s.r.o., Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
Mining Services and Engineering Sp. z o.o., ul. Górnicza 60, 43-502, Czechowice-Dziedzice, Poland
Przedsiębiorstwo Górnictwa Silesia Sp. z o.o., ul. Górnicza 60, 43-502, Czechowice-Dziedzice, Poland
Nadácia EPH, Cukrová 2272/14, Bratislava – Staré Mesto, 811 08, Slovakia
EPH Financing SK, a.s., Dúbravská cesta 14, Bratislava - mestská časť Karlova Ves, 841 04, Slovakia
EPH Financing CZ, a.s., Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
EP Slovakia B.V., Schiphol Boulevard 477 C-4, 1118BK, Schiphol, Netherlands
EP Coal Trading, a.s., Českobratrská 3321/46, Moravská Ostrava, 702 00 Ostrava, Czech Republic

In 2019, there were the following changes in non-current financial assets:

- On 7 February 2019, the Company increased its shareholding in EP Hagibor, a.s. in the form of a capital contribution in the amount of TCZK 21 031.
- On 28 February 2019, the Company sold its 100% interest in EP Properties, a.s. in the amount of TCZK 60 000 to EP Real Estate, a.s.
- On 22 March 2019, the Company increased its shareholding in EPH Financing SK, a.s. in the form of a capital contribution in the amount of TCZK 180 075.
- On 12 April 2019, the Company sold its 100% interest in PGP Terminal, a.s. in the amount of TCZK 9 189 to CABD s.r.o.
- On 10 October 2019, the Company sold its 100% interest in RUBY Equity Investment S. á r.l. in the amount of TCZK 311 to CZECH MEDIA INVEST a.s.
- On 18 December 2019, the Company increased its shareholding in EP Slovakia B.V. in the form of a capital contribution of TCZK 3 824.

Other non-current securities include acquired profit participation certificates valued at fair value of TCZK 110 358 (as at 31 December 2018: TCZK 103 896).

## 6. Long-term receivables

- (a) Receivables – controlled and controlling entity

31 December 2019				(in TCZK)
Counterparty	Principal	Outstanding interest	Due date	
EP Logistics International, a.s.	109 030	-	2027	
EP Logistics International, a.s.	188 034	86	2022	
<b>Total</b>	<b>297 064</b>	<b>86</b>		

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

31 December 2018				(in TCZK)
Counterparty	Principal	Outstanding interest	Due date	
EP Logistics International, a.s.	109 030	-	2027	
<b>Total</b>	<b>109 030</b>	<b>-</b>		

## (b) Other receivables

Other receivables primarily include loans provided to a third party, including outstanding interest, which are due in 2024 and bear a fixed interest rate, in the amount of TCZK 3 990 352 (TCZK 3 835 101 as at 31 December 2018), and receivables from positive fair values of derivatives in the amount of TCZK 15 910 as stated below (31 December 2018: TCZK 180).

As at 31 December 2019, as a result of the carried out credit analysis, the Company recorded a valuation allowance in the amount of TCZK 3 990 352 (TCZK 2 238 130 as at 31 December 2018) to Other receivables as the Company has doubts about a borrower's ability to fully settle its debts towards EPH.

31 December 2019				(in TCZK)
Forward exchange contracts	Counterparty	Due date	Fair value	
Currency swap	Bank no. 1	2022	7 898	
Interest rate swap	Bank no. 2	2022	8 012	
<b>Total</b>			<b>15 910</b>	

31 December 2018				(in TCZK)
Forward exchange contracts	Counterparty	Due date	Fair value	
Currency swap	Bank no. 1	2022	180	
<b>Total</b>			<b>180</b>	

## 7. Short-term receivables

### (a) Trade receivables

Trade receivables amounting to TCZK 186 716 (TCZK 624 846 as at 31 December 2018). None of the trade receivables is due in more than five years as at the balance sheet date.

Short-term receivables also include intercompany debit advices resulting from provided guarantees in the amount of TCZK 1 495 (TCZK 47 164 as at 31 December 2018).

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

(b) Receivables – controlled and controlling entity

31 December 2019			(in TCZK)
Counterparty	Principal	Outstanding interest	
Mining Services and Engineering Sp. z o.o.	26 865	12 563	
EP Power Europe, a.s.	14 231 692	37 194	
<b>Total</b>	<b>14 258 557</b>	<b>49 757</b>	

31 December 2018			(in TCZK)
Counterparty	Principal	Outstanding interest	
Mining Services and Engineering Sp. z o.o.	26 910	10 548	
EP Properties, a.s.	3 750	1	
ABS PROPERTY LIMITED	36 273	23 117	
EP Power Europe, a.s.	10 663 530	14 012	
EP Coal Trading, a.s.	471 786	3 019	
EP Logistics International, a.s.	33 957	2	
EP Hagibor a.s.	54 666	109	
<b>Total</b>	<b>11 290 872</b>	<b>50 808</b>	

(c) Receivable – significant influence

31 December 2019				(in TCZK)
Counterparty	Principal	Outstanding interest	Due date	
Przedsiębiorstwo Górnicze Silesia Sp. z o.o.	4 236 225	638 762	2020	
<b>Total</b>	<b>4 236 225</b>	<b>638 762</b>		

31 December 2018				(in TCZK)
Counterparty	Principal	Outstanding interest	Due date	
Przedsiębiorstwo Górnicze Silesia Sp. z o.o.	2 836 549	367 465	2019	
<b>Total</b>	<b>2 836 549</b>	<b>367 465</b>		

The Company recognised a valuation allowance in the amount of TCZK 4 874 987 (as at 31 December 2018: TCZK 19 574).

(d) Receivables from partners

As at 31 December 2019, receivables from partners include the outstanding dividend receivable from EP Coal Trading, a.s. in the amount of TCZK 25 513 which was announced on 21 October 2019 and paid out in January 2020.

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

(e) State – tax receivables

State – tax receivables also include a value added tax receivable.

(f) Other receivables

Other receivables primarily include loans granted to non-related entities in the amount of TCZK 797 084 (as at 31/12/2018: TCZK 1 547 726), other receivables from operating business in the amount of TCZK 1 149 (as at 31/12/2018: TCZK 13 972) and receivables from positive fair value of derivatives in the amount of TCZK 123 922 as stated below (as at 31/12/2018: TCZK 43 109).

31 December 2019

(in TCZK)

<b>Forward exchange contracts</b>	<b>Counterparty</b>	<b>Due date</b>	<b>Fair value</b>
Currency swap	Bank no. 1	2020	18 583
Currency swap	Bank no. 2	2020	93 769
Currency forward	Bank no. 3	2020	11 570
<b>Total</b>			<b>123 922</b>

31 December 2018

(in TCZK)

<b>Forward exchange contracts</b>	<b>Counterparty</b>	<b>Due date</b>	<b>Fair value</b>
Currency forward	Bank no. 1	2019	4 472
Currency forward	Bank no. 2	2019	12 096
Currency forward	Bank no. 3	2019	10 799
Currency forward	Bank no. 4	2019	12 471
Currency forward	Bank no. 5	2019	3 271
<b>Total</b>			<b>43 109</b>

## 8. Equity

The change in Gains or losses from the revaluation of assets and liabilities is due to a foreign exchange differences arising from the revaluation of foreign currency shareholdings.

On 26 June 2019, the General meeting of the Company decided to transfer the profit for the year 2018 to the Retained earnings and declare the dividends to its shareholders in the amount of TCZK 10 474 335.

In July, October, November and December 2019, General meeting of the Company decided to declare the dividends to its shareholders in the amount of TCZK 12 173 276, which were paid in cash, except for the dividends as described in note 11 (e).

As at the date of approval of these financial statements, the proposal for distribution of the profit for the year 2019 has not been in place yet. The proposal will be prepared by the Board of Directors for the Company's shareholders and subsequently discussed and approved by the General meeting.

In 2019, the Company did not acquire own shares or ownership interests.

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

## 9. Income tax provision

As at 31 December 2019, the Company recognised an income tax reserve in the amount of TCZK 290 000 (as at 31/12/2018: TCZK 97 000), which was reduced by income tax prepayments in the amount of TCZK 80 399 (as at 31/12/2018: TCZK 14 235).

## 10. Long-term payables

### (a) Payables to credit institutions

31 December 2019					(in TCZK)
Bank	Principal	Interest	Form of security	Due date	
Bank no. 1	508 200	2 640	• None	2021	
Bank no. 2	508 200	810	• None	2021	
Bank no. 3	1 245 090	-	• None*	2025	
<b>Total</b>	<b>2 261 490</b>	<b>3 450</b>			

\*Procedurally secured with a blank bill.

31 December 2018					(in TCZK)
Bank	Principal	Interest	Form of security	Due date	
Bank no. 1	514 500	1 591	• None	2021	
Bank no. 2	507 250	650	• None*	2020	
Bank no. 3	1 440 600	-	• None*	2025	
<b>Total</b>	<b>2 462 350</b>	<b>2 241</b>			

\*Procedurally secured with a blank bill.

A short-term portion of the bank loan in the amount of TEUR 7 000 (TCZK 177 870), (as at 31 December 2018: TEUR 7 000 (TCZK 180 075)) is presented together with accrued interest in the short-term Payables to credit institutions.

### (b) Long-term bills of exchange to be paid

31 December 2019			(in TCZK)
	Nominal value	Interest	
Bills maturing in 2021	809 843	35 325	
<b>Total</b>	<b>809 843</b>	<b>35 325</b>	

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

31 December 2018			(in TCZK)
	Nominal value	Interest	
Bills maturing in 2020	716 945	8 654	
Bills maturing in 2021	465 000	4 766	
<b>Total</b>	<b>1 181 945</b>	<b>13 420</b>	

(c) Payables – controlled or controlling entity

31 December 2019				(in TCZK)
Counterparty	Principal	Outstanding interest	Due date	
EPH Financing SK, a.s.	177 870	3 957	2022	
EPH Financing CZ, a.s.	10 000	199*	2022	
EPH Financing CZ, a.s.	2 601 000	51 223	2022	
DCR INVESTMENT a.s., v likvidaci	1 779	1	2021	
EP Investment Advisors, s.r.o.	45 000	5	2022	
EP Power Europe, a.s.	9 434 035	853	2023	
<b>Total</b>	<b>12 269 684</b>	<b>56 238</b>		

\* The interest is due together with the principal.

31 December 2018				(in TCZK)
Counterparty	Principal	Outstanding interest	Due date	
EPH Financing SK, a.s.	1 929 375	22 885	2020	
EPH Financing CZ, a.s.	3 000 000	6 125	2020	
EPH Financing CZ, a.s.	2 424 000	36 395	2022	
DCR INVESTMENT a.s., v likvidaci	2 573	46	2021	
EP Investment Advisors, s.r.o.	45 000	207	2022	
<b>Total</b>	<b>7 400 948</b>	<b>65 658</b>		

The outstanding interest as at 31 December 2019 and 31 December 2018 is presented in the Short-term payables - controlled or controlling entity".

(d) Sundry payables

As at 31 December 2019, long-term sundry payables include financial borrowings in the amount of TCZK 60 000. In 2019, the long-term forward exchange contracts with positive fair value existed and therefore they are presented in Other Long-term receivables in note 6 (b) (as at 31 December 2018: TCZK 11 936).

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

31 December 2018			(in TCZK)
Forward exchange contract	Counterparty	Due date	Fair value
Interest rate swap	Bank no. 1	2022	6 349
Interest rate swap	Bank no. 2	2022	5 587
<b>Total</b>			<b>11 936</b>

## 11. Short-term payables

(a) Other bonds

31 December 2019				(in TCZK)
Bonds	Principal	Accrued interest	Maturity	
Bond 1	1 572 827	12 233	2020	
Bond 2	457 380	5 837	2020	
<b>Total</b>	<b>2 030 207</b>	<b>18 070</b>		

Bonds have not a prospect and are not listed on any public market.

(b) Payables to credit institutions

31 December 2019					(in TCZK)
Bank	Principal	Interest	Form of security	Due date	
Bank no. 1	504 100	646	• None*	2020	
Bank no. 2	1 448 370	-	• None	2020	
Bank no. 3	482 790	-	• None	2020	
Bank no. 4	393 855	-	• None	2020	
<b>Total</b>	<b>2 829 115</b>	<b>646</b>			

\*Procedurally secured with a blank bill.

This position also includes the short-term portion of the bank loan and accrued interest (see note 10 (a)).

(c) Trade payables

None of the trade payables is due in more than five years as at the balance sheet date.

(d) Short-term bills of exchange to be paid

31 December 2019			(in TCZK)
Bill holder	Nominal value	Interest	
Bills maturing in 2020	2 055 911	52 461	
<b>Total</b>	<b>2 055 911</b>	<b>52 461</b>	

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

31 December 2018			(in TCZK)
Bill holder	Nominal value	Interest	
Bills maturing in 2019	912 833	18 930	
<b>Total</b>	<b>912 833</b>	<b>18 930</b>	

(e) Payables – controlled or controlling entity

31 December 2019			(in TCZK)
Counterparty	Principal	Outstanding interest	
SEDILAS ENTERPRISES LIMITED	1 971	3	
DCR INVESTMENT a.s., v likvidaci	1 779*	1	
EP Investment Advisors, s.r.o.	45 000*	5	
EP Commodities, a.s.	1 905 750	78	
WOOGEL LIMITED	22 869	493	
EP Real Estate, a.s.	200 831	751	
EP Mehrum GmbH	877 006	58	
EPH Financing CZ, a.s.	10 000*	199*	
EPH Financing CZ, a.s.	2 601 000*	51 223	
EPH Financing CZ, a.s.	3 000 000	6 125	
EPH Financing SK, a.s.	177 870*	3 957	
EPH Financing SK, a.s.	1 905 750	22 604	
EPPE Italy N.V. (formerly Czech Gas Holding N.V.)	625 688	36 289	
EP Power Europe, a.s.	9 434 035*	853	
<b>Total as at 31/12/2019</b>	<b>20 809 549</b>	<b>122 639</b>	

\* The loan principal totalling TCZK 12 269 684 and interest of TCZK 199 are presented in long-term payables - - controlled or controlling entity (see note 10 (c)).

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

31 December 2018			(in TCZK)
Counterparty	Principal	Outstanding interest	
SEDILAS ENTERPRISES LIMITED	2 466	40	
DCR INVESTMENT a.s., v likvidaci	2 573*	46	
EP Investment Advisors, s.r.o.	45 000*	207	
EP Commodities, a.s.	2 217 495	2 528	
WOOGEL LIMITED	23 152	57	
EP Coal Trading, a.s.	70 000	144	
EP Real Estate, a.s.	448 000	223	
EP Mehrum GmbH	1 355 708	18 130	
RUBY Equity Investment S. á r.l.	86 879	73	
EPH Financing CZ, a.s.	5 424 000*	42 520	
EPH Financing CZ, a.s.	10 000**	-	
EPH Financing SK, a.s.	1 929 375*	22 885	
EPPE Italy N.V. (formerly Czech Gas Holding N.V.)*	633 444	25 494	
<b>Total as at 31/12/2018</b>	<b>12 248 092</b>	<b>112 347</b>	

\* The loan principal totalling TCZK 7 400 948 is presented in the long-term payables - controlled or controlling entity (see note 10 (c)).

\*\* The payable arising from the decision on the capital contribution in December 2018.

## (f) Payables to partners

As at 31 December 2019, payables to partners include unpaid dividend in the amount of TCZK 464 865 declared on 19 December 2019 and paid in January 2020.

## (g) Estimated payables

Estimated payables primarily include non-invoiced expenses from the insurance company in the amount of TCZK 9 621 (as at 31/12/2018: TCZK 479 340).

## (h) Sundry payables

Sundry payables in the amount of TCZK 25 583 primarily include the fair value of the derivative transactions in the amount of TCZK 24 548 (as at 31 December 31/12/2018: TCZK 6 494):

31 December 2019				(in TCZK)
Forward exchange contract	Counterparty	Due date	Fair value	
Currency swap	Bank no. 1	2020	6 201	
Currency forward	Bank no. 2	2020	1 455	
Currency forward	Bank no. 3	2020	3 262	
Currency swap	Bank no. 4	2020	2 231	
Currency forward	Bank no. 5	2020	11 399	
<b>Total</b>			<b>24 548</b>	

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

31 December 2018			(in TCZK)
Forward exchange contract	Counterparty	Due date	Fair value
Currency forward	Bank no. 1	2019	437
Currency forward	Bank no. 2	2019	5 223
Currency forward	Bank no. 3	2019	834
<b>Total</b>			<b>6 494</b>

As at 31 December 2018, short-term sundry payables also include short-term financial borrowings in the amount of TCZK 203 025.

## 12. Revenues and expenses

The increase in revenues was influenced by centralised intercompany services provided, mainly in the area of controlling, financial management, legal advisory, central procurement, and information technologies.

Services relate specially to costs for accounting, audit, consolidation, legal services, attorney-at-law services, and travel expenses.

Other operating revenues and other operating costs are formed in particular by a ceded receivable and further by revenues and expenses from re-invoicing, respectively.

Income from equity investments - controlled or controlling entity include the revenues from the dividend declared by EPIF Investments a.s. in the amount of TCZK 8 377 576, by RUBY Equity Investment S. á r.l. in the amount of TCZK 378 710, by DCR INVESTMENT a.s., v likvidaci in the amount of TCZK 763, by EP Coal Trading, a.s. in the amount of TCZK 296 011, and by EP Real Estate, a.s. in the amount of TCZK 95 644 and revenues from the sale of equity investments (see note 5) in the amount of TCZK 250 245.

Adjustments to values and reserves relating to financial activities in 2019 and 2018 represent valuation allowances to equity investments and receivables described in notes 5 and 6.

Other financial expenses and other financial revenues primarily include foreign exchange losses, losses from revaluation and settlement of derivatives and banking fees, and foreign exchange gains, gains from revaluation and settlement of derivatives and revenues from guarantees.

## 13. Related parties (except for balances presented above)

In compliance with Section 39b(8) of Decree No. 500/2002 Coll., the Company does not disclose transactions (revenues and expenses) between related entities within EPH Group that are wholly owned by the Company.

# Energetický a průmyslový holding, a.s.

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(All amounts are shown in thousands of Czech crowns "TCZK")

In addition to revenues from re-invoicing and revenues described in detail in the other notes above, the Company reported the following revenues from related parties which are not fully owned by the Company:

	(in TCZK)			
	Revenues 2019	Expenses 2019	Revenues 2018	Expenses 2018
Revenue / interest expense	290 689	-	226 554	57
Other operating revenues / expenses	6	-	4 504	16 420
Other financial revenues / expenses	9 638	-	10 287	-
<b>Total</b>	<b>300 333</b>	<b>-</b>	<b>241 345</b>	<b>16 477</b>

## 14. Employees and executives

As at 31 December 2019, the Company had 22 employees (17 employees in 2018). The members of the Board of Directors and the Supervisory Board received no remuneration or loans in relation to their function.

Social security and health insurance liabilities are not overdue.

## 15. Fees payable to statutory auditors

This information is disclosed in the notes to the consolidated financial statements as at 31 December 2019.

## 16. Income tax

(a) Current tax

The Company created an income tax reserve for 2019 in the amount of TCZK 290 000 (2018: TCZK 97 000). The difference between income tax liability for 2018 and release of the reserve established as at 31 December 2018 is in the amount of TCZK -52. The Company further filed an additional tax return for 2018 in the amount of TCZK -6 786.

## 17. Significant off-balance sheet transactions

The Company has received commitments from EPIF Investments a.s. in the amount of TCZK 10 164 000 (31/12/2018: TCZK 0) and from bank institutions of up to TCZK 4 808 220 (31/12/2018: TCZK 3 267 075).

In addition, the Company recognises receivables in the amount of TCZK 13 212 827 (31/12/2018: TCZK 17 445 522) and liabilities in the amount of TCZK 13 060 148 (31/12/2018: TCZK 17 371 706) related to currency and commodity derivatives in off-balance sheet accounts.

The Company guarantees for all liabilities related to bonds issued by EPH Financing SK, a.s. and EPH Financing CZ, a.s. The amount of the bonds issued as at 31 December 2019 amounted to

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

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(All amounts are shown in thousands of Czech crowns "TCZK")

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TCZK 5 601 000 (31/12/2018: TCZK 5 242 000) for EPH Financing CZ, a.s. and TEUR 75 000 (TCZK 1 905 750) (31/12/2018: TEUR 75 000; TCZK 1 929 375) for EPH Financing SK, a.s.

As the ultimate parent company of the whole EPH Group, the Company issues guarantees for the liabilities of its subsidiaries up to the cumulated amount of TCZK 31 384 724 (31/12/2018: TCZK 32 396 746) in favour of third-party beneficiaries.

## 18. Material subsequent event

On 17 March 2020, the Company issued bonds with a fixed interest revenue of 2.50% p.a. at the total nominal value of the issue of TEUR 44 500. The bonds mature in 2023 and their ISIN is CZ0003524613. Bonds have not prospect and are not listed in any public market.

On 19 March 2020, the Company received a loan from EPH Financing CZ, a.s.

On 19 March 2020, the Company received a loan from EPIF Investments a.s.

On 1 April 2020, the Company sold its 100% interest in company EP Hagibor, a.s.

On 11 March 2020, the World Health Organization declared the spread of the new virus a pandemic. On 12 March 2020, the Czech Government declared a state of emergency. Within days, the spread of the COVID-19 caused a serious situation throughout the whole society and the global economy. The state administration authorities have introduced various measures which are gradually released as of the date of these financial statements, depending on the development of the pandemic, including the end of the state of emergency on 17 May 2020.

In order to ensure the uninterrupted operation of the Company, the management has implemented relevant measures. These include, in particular, implementation of extensive home-office program on the basis of the regular rotation, training in the observance of strict preventive measures, including social distancing measures, adjustment of work procedures, etc.

The Company's management considered the potential impact of COVID-19. Due to the nature of its activities and businesses (ie. management of financial investments and financial flows in the Group), it was concluded that the virus does not have a significant impact on its financial situation and operational results in the medium and long-term horizon.

In addition, the Company did not identify any significant impact on the financial statements for the year 2019 and also does not anticipate any significant negative impact on the value of financial investments and loans granted in 2020. However, it cannot be excluded that possible re-establishment or tightening of closure or their consequent impact on economic environment, in which the Company and Group operates, will have a negative impact on the Company, its financial situation and operational results in the medium and long-term horizon. Therefore, the Company's management continues to closely monitor the situation and will respond in order to mitigate the impact of these events and circumstances according to current developments.

# Energetický a průmyslový holding, a.s.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)

Year ended 31 December 2019

(All amounts are shown in thousands of Czech crowns "TCZK")

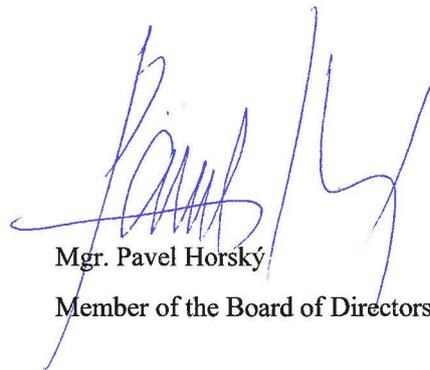
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Apart from the events described above and in other notes to these financial statements, the Company's management is not aware of any other events that have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2019.

Prepared on: 29 May 2020



JUDr. Daniel Křetínský  
Chairman of the Board of Directors



Mgr. Pavel Horský  
Member of the Board of Directors