EPH

2018 Annual Report

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Positive market development

Cautious approach to expenses

Impact of new acquisitions

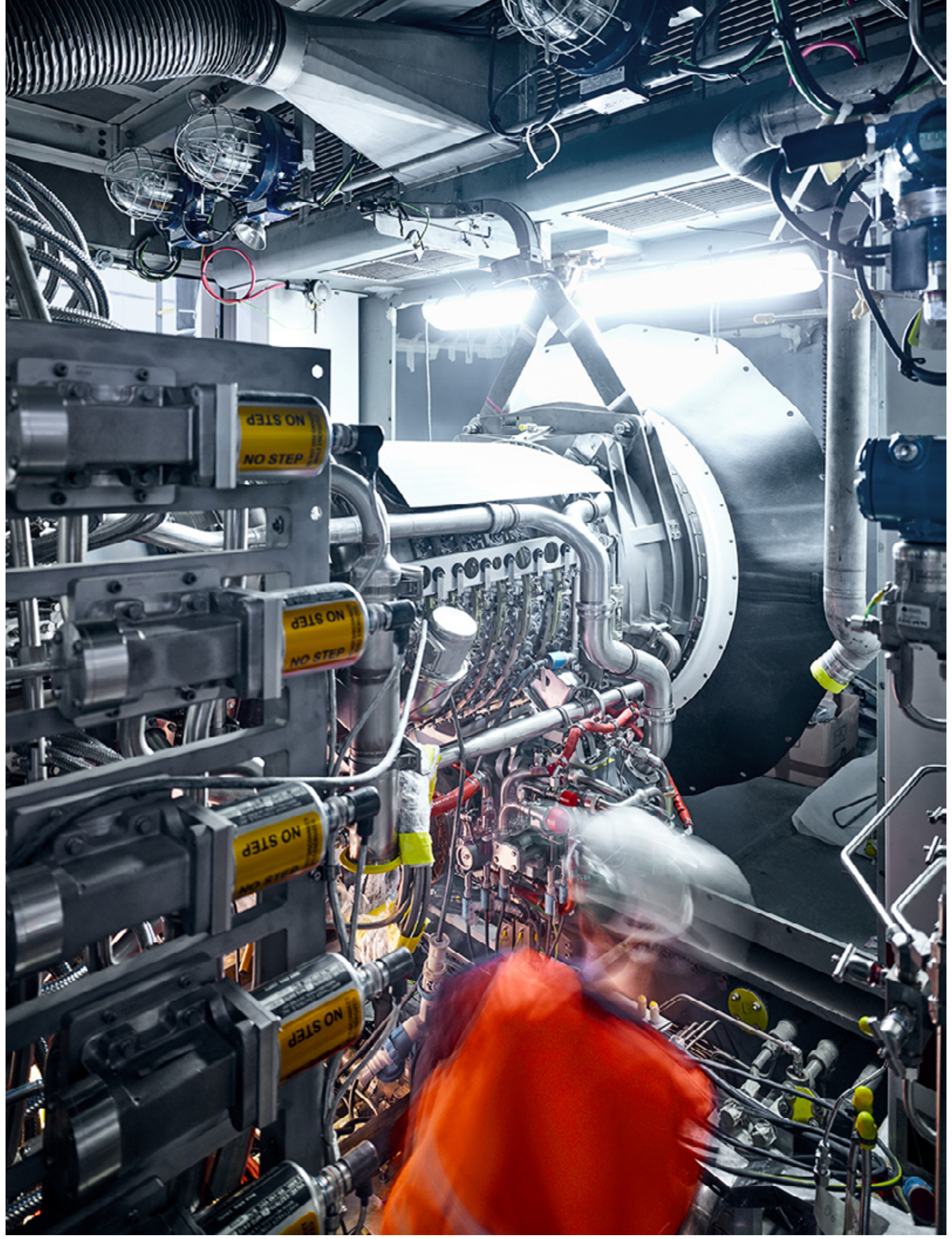
EPH

Energetický a průmyslový holding, a.s.

Consolidated Annual Report for the Year 2018

Annual Report 2018

Content



Total consolidated sales EUR 7 billion
EBITDA EUR 1.74 billion
Cash generated from operations EUR 1.49 billion

Eustream, KS05 Comppressor Station

Financial Highlights of the Year

		2018	2017	2016
INCOME STATEMENT				
Sales	€ million	6,998	6,005	4,931
Gross profit	€ million	2,728	2,713	2,492
Earnings before interest, taxes, depreciation and amortization (EBITDA)[1]	€ million	1,743	1,801	1,520
Earnings before interest and tax (EBIT)	€ million	1,190	1,323	966
Net financial result	€ million	(256)	(230)	(332)
Profit before tax	€ million	926	1,200	999
Profit for the year	€ million	630	872	800
BALANCE SHEET				
Balance sheet total	€ million	13,329	12,791	11,975
Equity total	€ million	3,137	2,675	3,094
Net working capital	€ million	463	300	141
Net financial debt[2]	€ million	5,020	5,366	4,474
CASH FLOW STATEMENT				
Cash flow from operating activities	€ million	1,492	1,181	1,524
Cash flow from investing activities	€ million	(861)	139	(740)
Cash flow from financing activities	€ million	(448)	(1,648)	(370)
Change in cash and cash equivalents	€ million	183	(328)	414
Cash and cash equivalents	€ million	1,006	816	1,136
Capital expenditures (CAPEX)	€ million	379	441	543
Tax paid	€ million	361	383	305

Financial Highlights of the Year

		2018	2017	2016
RATIOS				
EBITDA margin[3]	%	24.91%	29.99%	30.83%
Leverage[4]	x	2.9x	3.0x	2.9x
Cash conversion[5]	%	57.54%	54.25%	44.21%
Adjusted Cash conversion[6]	%	61.47%	66.02%	57.22%
Operating KPIs				
Average number of employees	#	10,711	10,237	10,310
Net installed capacity	MW	11,572	11,512	8,477
Net power production	TWh	28.2	23.3	17.4
Emissions intensity	t CO_2 /GWh	532	567	651

1 EBITDA has been prepared in accordance with the definition set out in the note 5 to the Consolidated financial statements.
2 Net financial debt = Loans and borrowings + Issued bills of exchange – Cash and cash equivalents
3 EBITDA margin = EBITDA / Sales
4 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.
5 Cash conversion = (EBITDA – CAPEX – Tax paid) / EBITDA
6 Calculated excluding operating and capital expenditures on Lynemouth biomass conversion project in 2017 and 2018.

> Apart from continued growth and strong operational and financial performance, we have demonstrated our capacity to be successful in active decarbonisation strategies.

Daniel Křetínský Chairman of the Board of Directors

Introduction by the Chairman of the Board of Directors

Dear shareholders, business partners, colleagues, friends,

I am proud to have the opportunity to state that 2018 was for EPH another successful year. Apart from continued growth and strong operational and financial performance, we have finalized several strategic acquisitions and also accomplished the conversion and started the operations one of the largest European biomass power plants, Lynemouth in the UK. This demonstrates our capacity to be successful in active decarbonisation strategies via smart and socially and economically advantageous industrial solutions. The acquisitions and Lynemouth commissioning further increased the share of renewable power generation within the group and at the same time, as a fully contracted asset, further enforces stability and predictability of the financial results of the group.

Both our operational pillars – EP Infrastructure (EPIF) and EPPE contributed to the strong results.

The total consolidated sales of EPH reached EUR 7 billion (compared to 6 billion in 2017), while EBITDA reached EUR 1.74 billion (compared to EUR 1.80 billion in 2017), where the decrease was stemming mainly from accounting treatment of certain items and only less favourable external factors (worse market spreads in merchant power generation) prevented year on year growth. The cash generated from operations reached EUR 1.49 bln (compared to EUR 1.18 bln in 2017). 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 2.9x EBITDA (compared to 3.0x in 2017) represents a conservative level, placing EPH among the least indebted energy groups in Europe.

1. EP INFRASTRUCTURE

In 2018, EP Infrastructure confirmed 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. In 2018 EPIF also successfully completed long-planned strategic acquisitions in the segments of renewable energy, heat infrastructure and gas storage.

The Gas Transmission segment has shown steady development, while maintaining its full technical capacity and availability of services for its customers. In 2018, the volume of natural gas transported by Eustream was almost 60 billion cubic meters. Within development projects focusing on the enhancement of energy security and the creation of new business opportunities, we achieved 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. In autumn 2018, Eustream also completed a feasibility study relating to the Eastring pipeline, primarily aimed at enhancing energy security and improving the conditions for a free market with natural gas in the EU if the project is approved to be implemented.

2018 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 exceeded 51 TWh, 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 almost 6.3 TWh of electricity, which is by 2% more than 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 81 million.

Companies operating within the Heat Infrastructure segment supplied more than 23 PJ of heat, which already includes heat annual volumes delivered by newly consolidated Plzeňská teplárenská. The strategic acquisition of a 35% share in Plzeňská teplárenská, achieved through merger with Plzenska energetika, associated with management control, is the result of long term strategic initiative that will bring to the EPIF Group, among other things, 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.

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, showing an increase of almost 20 TWh as a result of completing the acquisition of storage capacities in Bavaria, where NAFTA acquired three major underground storage facilities. In 2018, we also continued to invest heavily in operational security, storage technology modernization, automation enhancement and utilization of collected information to further optimize processes.

Owing to this and other positive factors, in 2018, the EPIF Group was awarded investment grade ratings by Moody's Investors Service, Fitch Ratings and S&P Global Ratings and these ratings were affirmed in 2019.

2. EP POWER EUROPE

Over the past years, EPH, has been mainly through EP Power Europe building its position as one of the most important power producers in the EU with the mission to provide our customers reliable and secure power supplies at affordable prices.

In 2018, the EPH subsidiaries produced in aggregate more than 105 TWh of power. Our generation fleet is well balanced with nearly a half of the total installed capacity of 22.4 GW coming from either completely emission free power plants, or from plants with low carbon emissions. Our focus on zero or low carbon emission generation capacities is clearly visible from our investments as well, when vast majority of invested capital was invested into these.

Over the last 30 months we have spent more than EUR 850 million in zero or low carbon emission generation capacities. We are excited by the fact that we have successfully commissioned a 400 MW Lynemouth pure biomass power plant in the UK that was converted from hard coal. Lynemouth belongs among the largest biomass power plants in the EU and contributes to decreasing the CO_2 emissions by saving more than 2.7 million tons of CO_2 annually. Another important initiative in this area was the finalization of the acquisition of two biomass power plants in Italy through the acquisition of Biomasse Italia S.P.A. and Biomasse Crotone S.P.A. and, more recently, acquisition of biomass power plant Fusine in early 2019.

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 environment, social and economic aspect relevant for our operations and do upmost 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.

Sincerely,

Daniel Křetínský

Chairman of the Board of Directors

55 Our generation fleet is well balanced with nearly a half of the total installed capacity coming from either emission free power plants, or from plants with low carbon emissions.

Lynemouth Power Station

Combined Review of Operations

1.1 Market development

MACROECONOMIC DEVELOPMENTS

The rate of annual growth of the global gross domestic product (GDP) in 2018 was 3.6%, according to the Organisation for Economic Co-operation and Development (OECD). The year-on-year GDP growth slowed down in the European Union (EU) where it decreased to a level of 1.9% (Eurostat), the lowest since 2014. Eurozone's economy performed similarly with a growth rate of 1.8%.

After a strong start in 2018, the Eurozone's economy fell to a near 2-year minimum in December in the wake of reduced external demand and political tensions. Although the annual industrial production of Eurozone increased by 1%, the end of the year saw a 4.2% downturn, making it the steepest decline since 2009 as output fell for all categories. The annual GDP increase in Germany (1.4%) has not been smaller over the past 5 years. Similarly, the GDP growth exhibited a decreasing trend throughout the last year in France and Italy, amounting to 1.5% and 0.9% year-on-year, respectively. The performance of the UK economy has not been weaker since 2012 with an annual growth of 1.4%. Central European economies performed better compared to the EU average. The increase of the Czech full-year GDP was 3%, its contributing factors attributed to fixed investment and household consumption. Hungarian full-year GDP grew at a highest rate since 2004 at 4.9%, driven primarily by market services. The annual expansion of the Slovak economy was the highest since 2015 at 4.1%. The inflation in the EU and Eurozone increased compared to 2017 to 1.9% and 1.7%, respectively. The yearly averaged EUR/USD rate was 1.18 in 2018, an increase by 4.5% compared to the previous year.

Stock markets worldwide exhibited considerable volatility in 2018, contrary to the steady rise during the previous year. While in general the markets performed well in the first three quarters, the major indexes plummeted at the end of the year and the yearly returns were the worst in a decade. Although both S&P 500 and DOW Jones Industrial Average reached their all-time records, they finished down on the yearly by 6.2% and 5.6%, respectively. Late 2018 was particularly grim for European equities as EuroStoxx 50 and Germany's DAX entered bear markets and finished on the yearly down by 14% and 18%, respectively. DAX experienced its worst year since the 2008 crisis amidst increased geopolitical concerns, global stock market sell-off as well as uncertainties on the German political scene. Although DAX started the year close to its all-time maximum from 2017 and saw a period of gradual increase throughout the second quarter, it turned bearish since the mid-year and closed with negative yearly returns.

Interest rates of AAA-rated Euro area government bonds remained negative for short-term maturities and positive below 1% for long-terms. Generally, interest rates finished the year slightly below the levels from the beginning of the year: 1-year and 10-year yield curves closed at -0.75% (down by 0.04%) and 0.32% (down by 0.22%), respectively. German bunds performed similarly with 10-year yield curve finishing at 0.24% while retaining normal convexity between long- and short-term maturities.

On a global perspective, the U.S. Treasury yield curve inverted at the end of 2018 when the 2-year yield rose above the 5-year one. Whilst the 2 vs 10-year curve did not invert before the end of year, it flattened throughout 2018 with the 10-2 year yield spread decreasing to 0.2%. Furthermore, the U.S. Federal Open Market Committee raised the Fed Funds Rate (FFR) from 1.5% to 2.5%,

closing in on the 10-year yield weekly average (2.75%). It is worth noting that every recession over past 70 years has been preceded by an inverted yield curve and an increase of the FFR above the 2 and 10-year treasuries.

ENERGY DEVELOPMENTS

ELECTRICITY CONSUMPTION

Compared to the previous year, the weather in Europe was warmer by 0.4 degrees Celsius in 2018 when ten months exhibited above normal temperatures (> 0.9 degree Celsius). Consequently, the year-on-year change in the overall electricity demand in the EU was small as higher air conditioning consumption during summer was overcompensated by a drop in the heating during warm winter months. The total consumption increased by only 0.2% (7 TWh) and the 2018 figures lag behind the 2010 consumption by 2%, notwithstanding a simultaneous rise in the GDP (13%) and population (2%).

In general, the electricity consumption increased in eastern European countries, e.g. Hungary (+8%), Slovakia (+7%) and Czech Republic (+3%). On the other hand, the demand in western Europe declined with the most prominent decrease recorded in UK (-8%). French consumption was down by 5%, German and Italian demand decreased by 3%.

CONVENTIONAL ELECTRICITY PRODUCTION

The overall electricity production in the EU amounted to 3,276 TWh in 2018 which marks a slight decrease of 0.3% with respect to 2017. The generation from conventional power plants made up 67.7% of the total production, dropping absolutely by almost 4% year-on-year due to an increase in renewable production. The output from fossil fuels alone experienced the most significant decline in 4 years amid rising renewables, improved hydrological situation and stable nuclear production. The latter contributed 829 TWh to the electricity mix, an amount only 0.3% less than previous year. The shutdown of the German Gundremmingen B at the end of 2017 was compensated by better availability of other nuclear power plants in 2018 and the considerable drop in Belgian nuclear generation (-13 TWh) was offset by improved availability of French power plants (+14 TWh).

Hard coal generation decreased by 9% to 324 TWh, a level that is 40% lower than in 2012. The decline in coal-generated power is attributed to strengthening position of renewables and recovery of hydrogeneration rather than transition to gas. The recent announcements of coal phase-outs in Germany and Spain mean that 75% of electricity generation from hard coal in Europe is realized under national phase-outs.

Lignite generation reduced by 3% to 300 TWh. Half of this production is covered by Germany which plans to phase-out also lignite power plants by 2038.

Gas-fired power plants generated 5% (614 TWh) less power than in 2017.

Net electricity imports into the EU countries rose by 16 TWh due to the increased exports from the western Balkan and Switzerland, backed by the improved hydrogeneration.

RENEWABLE ELECTRICITY PRODUCTION

Power generation from renewable sources increased by 2.3% in the EU in 2018, achieving a share of 32.3% (1,051 TWh) in the overall electricity mix. The 'Long Term Strategy' outlined by the European Commission in November 2018 calls for a rise in this share to 57% by 2030.

Wind remains to be the most important source of power generation among renewables, amounting to 12% (382 TWh) of the total electricity production. Although the rise of the wind generation was 6% in 2018, 90% of it occurred in only three countries (Germany, UK and France).

Solar power plant output made up 4% (127 TWh) of the total electricity production which was 7% higher than in 2017. A heatwave during the summer months accompanied by a period of drought caused not only a higher power demand but also a reduction of hydro generation, complications for river-cooled nuclear plants as well as waterborne deliveries to coal plants. The impact of the heatwave on the electricity production was mitigated by the above average solar during that period which exceeded all other means of generation.

In 2018, hydro generation recovered from its extremely low levels a year earlier and increased by 13% to 344 TWh. Higher water levels boosted the production mostly in southern Europe whereas the hydro output was below average in the north.

POWER PRICES

Electricity prices in Europe increased to 45–60 €/MWh in 2018 concurrently with the rise in the costs of coal (+15%), gas (+30%) and CO_2 (+170%). Solar and wind auction prices were in balance with the short-term costs of coal and gas power plants for the first time.

Increased fuel costs drove up electricity prices particularly in countries with high coal or gas share, such as Germany and UK where the average day-ahead wholesale prices were 45 (+11) and 65 (+13) €/MWh, respectively. The highest increase happened in northern Europe where prices rose by more than 14 €/MWh following worsened hydrological situation. The French average price was 50 (+5) €/MWh. In Central Europe, Czech and Slovak prices increased to 46 (+10) and 48 (+8) €/MWh, respectively, while average price in Hungary rose only slightly to 51 (+1) €/MWh. In Belgium, outages of nuclear power plants in the last quarter brought about considerable price spikes when the spread between Belgian and German wholesale prices frequently reached more than 50 €/MWh.

As of October 1, 2018, the German-Austrian electricity price zone split into respective country-wise zones. As a result, Austrian prices increased in Q4 and finished on average 7.5 €/MWh above those in Germany. It is worth noting that the high price spreads between both countries appeared to correlate with periods of enhanced wind generation in Germany.

COAL

The global coal primary energy demand increased annually by 0.7% to 5,397 Mcte during 2018. A reduction in OECD countries (that slowly switch to alternative power sources) was compensated by an increased demand on power-generating commodities due to the economic growth in several Asian countries, especially India (+5%) and China (+1%). The coal demand in Europe declined by 2.6% to 462 Mtce, mainly as a result of strengthening position of renewables in the power sector. In Germany, last hard coal mine closed in 2018.

In Europe, 2018 has been a volatile year for coal prices. API2 prices rose sharply during the year, however they lowered by the end of the year at a similar level at which they started it. Hard coal generation fell by 9% (34 TWh) within Europe. The increment in renewable generation in Germany and UK and the increase of hydro generation in Spain and Italy are some of the main causes of this reduction of coal-based power production. Also, 2018 has been the year with fewest coal plants closures since 2011, however more plants are expected to stop its generation in the following years, especially in Germany and Poland.

The situation is different with lignite, since its reduction on electricity generation fell only by 3% in 2018 (6 TWh). Half of lignite generation occurred in countries with phase-out policies, with Germany as the biggest generator, while others such as Czech Republic, Poland or Bulgaria still have not issued any phase-out policies on it.

OIL

Oil prices ended 2018 at the lowest level since October 2017, with Brent crude below 60 USD/barrel, with concerns on oversupply and on a slow growth on demand. The continuous growth in developing countries -mostly in Asia- played a fundamental role on the increasing demand of fossil fuels in 2018, a demand that met an increase in supply from OPEC and US exports, especially when it comes to OPEC, the main source of this increment of supply. The increment in OPEC production is partially related to the reduction of oil-dependency on its economies, allowing them to adopt more competitive strategies when it comes to exporting oil.

NATURAL GAS

Natural gas demand grows steadily all around the globe (+4.6%, 170 bcm), mostly for energy and industry purposes, but also for others such as transport. The switch from coal to gas in developing countries like China (consumption up by 17.7%) and the growing demand in other Asian developing countries explain partially this increase. LNG supply has increased during 2018, mostly because of the exports from US and Qatar, while the imports continue to be monopolized by Japan, Korea, China and India.

Gas demand in Europe decreased for the first time after two years to 599 bcm, a year-on-year drop by 1.9%. Electricity production from gas power plants decreased by 5%. Although the temperatures were below normal in February and March, most of the year was warmer than usual which contributed to the lower overall gas consumption for heating. However, the cold weather at the beginning of the year resulted in high gas withdrawals. These reached unprecedented levels as the stocks decreased below 10% of capacity in northwest Europe following a high UK consumption. The filling rate of 82.7% at the end of Q3 was lower by 1.8% compared to the same time in 2017. The natural gas production in the EU declined in 2018 with the Dutch output dropping after an earthquake in Groningen area early in the year and the subsequent government's decision to stop the production from this field as quickly as possible. Decreased production and depleted storages lead to record gas imports from Russia (> 200 bcm). The LNG imports decreased throughout 2018 amid high spot prices in Asia which diverted the deliveries to Europe.

Prices at the European gas hubs were driven by the cold weather in February and March, considerable increase in oil and power prices and a strong injection demand. In early March, an unusual gas price spike occurred on the Title Transfer Facility (TTF) when daily settlement prices rose above 70 €/MWh. The main factors behind this price movement can be attributed to cold temperatures and lower storage levels in UK as well as fallouts of some production sites. Spot prices during 2018 were generally higher compared to the same periods a year earlier and the monthly averaged price at the TTF reached 27.7 €/MWh in September, a maximum since 2013.

EUA

Total CO_2 emissions from fuel combustion in Europe amounted to 3,956 Mt in 2018, an annual decrease of 1.3%. The decrease in generated emissions was most prominent in Germany (-4.5%) with a drop in the combustion from oil and coal, most notably in the electricity production where conventional sources gave way to renewables (37% of the electricity mix). Similarly, increased renewables contributed to the decline of coal-powered generation in UK where emissions were at their minimum since the end of 19th century. Higher nuclear and hydro generation in France compared to the previous year also resulted in a decrease of power generation from conventional sources and, consequently, reduction of country's emissions.

European emission allowances started the year trading a little below 8 €/t. Throughout whole 2018, with exception of occasional bumps, EUA prices manifested a bullish trend and reached their 10-year maximum above 25 €/t in early September. Prices then fell rapidly during few days after Polish government's appeal to the European Commission (EC) for an intervention. The prices dwindled until November to a level around 16 €/t but rose again since then and finished the year close to the maximum. The main factor behind the EUA price increase in 2018 is attributed to the Market Stability Reserve (MSR) projected to come into force as of January 2019. MSR is an EC initiative to reduce the surplus of EUA in circulation by withholding 24% of the amount of allowances exceeding 833 million. In addition, introduction of a more stringent annual reduction (-2.2%) of the emission cap also played a role in the price development. On the demand side, the drivers for EUA prices were the continuing increase in the industrial activity and the summer heatwave when power generation from conventional facilities increased.

POLITICAL DEVELOPMENTS

BREXIT

In March, the Brexit negotiations between UK and EU advanced with the publishing of the Draft Withdrawal Agreement discussing the implementation period, citizen's rights and financial settlement. On November 14, the Withdrawal Agreement was agreed upon by the European Commission and UK representatives. Although endorsed by the British government and Prime Minister, the agreement was opposed by the UK parliament where it must pass the approval vote in order to be ratified. During the turmoil around the deal brokerage, several UK ministers and Brexit secretary resigned throughout 2018.

As the interconnectivity between United Kingdom and continental Europe increases, further cooperation between British and EU energy markets will be necessary in any Brexit scenario. This idea seems to be aligned with the Irish issue and the recent release of the I-SEM (Integrated Single Electricity Market) in October 2018, the new wholesale market following EU regulations on security of supply, transparency etc. involving the Republic of Ireland and Northern Ireland. The British Government declared its intention to continue with the common framework between the two Irelands, and the March 19th 2018 draft of the EU Withdrawal Treaty stated that certain EU laws regarding wholesale electricity markets would continue to apply in Northern Ireland after Brexit. Although both parties agree on the benefits of continuing with the participation of the United Kingdom in the IEM (Internal Energy Market), some positions seem to be incompatible with a full membership status of UK in it, therefore a new partnership should be defined and approved.

For Brexit to have a direct impact on gas prices export tariffs would have to be imposed on the flow between the European Union and the United Kingdom. On the other hand, the UK LNG import capacity is not fully utilized as of now, therefore any impact on gas could be limited by an increase on imports from other sources such as LNG.

Within the EU emissions trading scheme, Britain may well set its own equivalent system after Brexit. However, both parties agreed to enforce a transitional period until December 31st 2020, meaning that the United Kingdom would continue to remain in the emission trading system (ETS) at least until then.

OPEC OVERVIEW

The withdrawal of Qatar from OPEC effective January 1st 2019, announced in early December 2018, is probably the most relevant event in the organization. Although it was one of the smallest oil producers within the OPEC, it is the leading exporter of liquefied natural gas in the world, and it had been a member of OPEC for almost 60 years. While Qatar's government said the reason to abandon the organization is to focus on its own strategies related to gas on the long term, many observers believe it to be related with the boycott Saudi Arabia imposed on Qatar along with Bahrain and Egypt in mid-2017. The exit of Qatar from OPEC is interpreted as another consequence of tensions rise within the Persian Gulf in the last years, but also as movement against the factual leadership of Saudi Arabia on the organization.

If other small producers follow Qatar, the influence of OPEC in the world oil market would decrease. But still, the current members of OPEC control approximately 44% of the global supply of oil and 73% of proved reserves, according to EIA (U.S. Energy Information Administration), therefore its potential influence on prices is still significant.

VENEZUELA

The economic crisis in Venezuela seems to be far from being solved. This can have a considerable impact on the global oil prices as Venezuela is an OPEC member and one of the countries with largest oil production. The low oil prices for the last few years and the decrease of activities of foreign partners in Venezuelan oil sector have reduced significantly its production, and the country has had a marked dependency on oil exports for decades. Their GDP shrank about 12% in 2018 according to CEPAL estimations in contrast with the 1.5% growth in Latin America, and hyperinflation grew over one million per cent according to the Venezuela's "Asamblea Nacional", which leaves little hope for recovery in the short term.

IRAN

The political protests started in late 2017 continued to grow in 2018 in Iran, leaving dozens of deaths and, according to some sources, thousands of detainees. On May 8, 2018, Donald Trump announced the withdrawal of the United States from the Joint Comprehensive Plan of Action, unofficially known as the "Iran Nuclear Deal", and the return of the US sanctions against Iran and countries trading with them. As original signatories of the deal in 2015, UK, France and Germany amongst others oppose the sanctions, and the European Commission declared them illegal in August and banned European companies and citizens to comply with them.

Afterwards, in November 5th, all existing sanctions before the 2015 signing of the Nuclear Deal were reinstalled, hitting oil exports, shipping and banks. This leaves little margin to the European Union to continue building a stable trading framework with Iran, which could help reducing its dependency from Russian gas imports, as Iran owns the 2nd biggest natural gas reserves and is the 4th biggest oil producer.

TRADE WAR BETWEEN CHINA AND USA

The trade conflict initiated in early 2018 between United States and China has brought strong tariffs on a variety of products, including final goods such as airplanes and cars fabricated in the US (key to the growth of the middle-class in China), or solar panels (of which China is the biggest producer in the world), but also intermediate goods that are key for manufactories in both countries, such as steel, aluminium, fruits, nuts, chemicals, or soybeans.

There have been attempts to put the trade war on hold, however new tariffs have been imposed from the US side, interrupting negotiations between both parties more than once during 2018. In December, during the G20 Buenos Aires summit, Donald Trump and Xi Jinping announced a truce in the trade war, and new tariffs previously announced by the US were put on hold for 90 days to allow negotiations to take place.

According to the report by United Nations, countries with economies capable of substituting US and Chinese businesses are likely to profit from the trade war. This could be the case of EU whose exports may increase by up to $70 billion, amounting to 1% of total exports. On the other hand, some European businesses manufacturing in China for US or vice versa can suffer. For example, German carmakers have already experienced decreased demand in 2018.

ETS (EMISSION TRADING SYSTEM)

The European Commission published in May 2018 a reduction of the total number of allowances in circulation by almost 265 million allowances (around 16% of the total number of allowances in circulation) that will take place during the first eight months of 2019. Also, the European Council approved the reform of the EU emissions trading system for the period 2021-2030. This is a significant step towards the objective of cutting greenhouse gas emissions by 40% before 2030 agreed under the EU 2030 climate and energy framework. This reform includes a cap of the total volume of emissions that will be reduced by 2.2% every year.

The 2018 United Nations Climate Change Conference was hosted by the Polish city of Katowice between 2 and 15 December. The conference agreed on applying rules discussed in the 2015 Paris Agreement, that should come into force in 2020, specifying how governments will focus their efforts on cutting emissions. Strong contributions were made to the Green Climate Fund, which should be used to assist developing countries in their transition to practices that would allow them to emit fewer greenhouse gasses.

1.2 Major events

EVENTS IN THE REVIEWED FISCAL YEAR

A WAY TO NATURAL GAS EXTRACTION IN UKRAINE

EP Power Europe, a.s. ("EPPE", a subsidiary of EPH.) has approached the possibility of natural gas extraction in the east of Ukraine. On 18 December 2018, the Ukrainian government approved an agreement on the reallocation of gas extraction revenues between the state and the company Yuzgaz B.V., a company which in the past won the opportunity to extract gas under the so-called Yuzivska license.

Just the closure of this agreement was one of the conditions for EPPE to be able to complete the process of buying a 100% stake in the Yuzgaz company from the Luxembourg company Emerstone Energy S.C. At the same time, EPPE takes over all commitments to the Ukrainian government arising from existing agreements with Yuzgaz on reallocation of gas extraction revenues.

In Ukraine, the technical operator of this project, will be the Slovak company NAFTA, a.s. Its majority shareholder with 56.15% of shares SPP Infrastructure, a.s., in which the Slovak state holds 51% and EP Infrastructure, a.s. (“EPIF”) the remaining 49%. EPIF is also part of the EPH group. EPH, through EPIF, also controls about 40% of NAFTA shares.

NAFTA is already active in Ukraine. Next year, three wells will be drilled under the Uzhgorod license, where Nafta cooperates with CUB Energy Inc.

The license for Yuzivska gas field covers an area of almost eight thousand square kilometers in the territories Kharkov and Donetsk. According to the assumptions, the volume of mining should rise up in a row to billions cubic meters per year. The gas will be used mainly for internal needs of Ukraine and for strengthening the self-sufficiency of natural gas extraction in the country.

OTHER MAJOR EVENTS

On 5 February 2018, the General Meeting of EPH declared interim dividends of EUR 10 million (equivalent of CZK 247 million).

On 28 February 2018, EPH (as buyer) and WOOGEL LIMITED (as seller) signed Share Purchase Agreement for the acquisition of the 100% share in the company DCR INVESTMENT a.s. („DCRI“). The completion of the acquisition is expected to occur by the end of May 2018. On 26 April 2018, DCRI sold its 10% share in the company Veolia Energie ČR, a.s. to a third party.

On 2 March 2018, NAFTA a.s. entered with DEA Deutsche Erdoel AG into a share purchase agreement with the owner of German gas storage assets Inzenham, Wolfersberg and Breibrunn located in Bavaria. The total working gas volume of these storages is approximately 1.8 bcm and around three quarters of the total capacity is contracted under long-term contracts with a price revision clause entered into with standard utility companies based in Germany. The EPH Group believes that these assets fit the business strategy of the EPIF Group, supporting NAFTA´s clients with innovative products in the EU markets and representing long-term contracted assets, and they are in line with the risk and financial profile of the current activities of the EPIF Group. The transaction was completed on 31 December 2018 after receiving all necessary regulatory approvals.

On 19 April 2018, the company EP Infrastructure, a.s., EPH subsidiary, issued bonds with nominal value of EUR 750 million with interest rate of 1.659% and maturity in 2024. Proceeds from the bonds were used to partially settle outstanding bank loan on the company level resulting in optimized maturity profile and lower interest cost.

On 25 April 2018, the EPH Group drawn EUR 250 million of bullet bank financing due in December 2022.

On 1 May 2018, the loan proceeds together with own funds of EUR 348 million were used to repay the due EP Energy bonds of EUR 598 million.

On 2 May 2018, the General Meeting of EPH decided to reduce the share capital of the Company from the current balance totalling of CZK 5,050 million to the amount of CZK 3,535 million. The purpose

of reducing the share capital is to cancel own shares by destroying them, healing the state where the Company owns shares that have not been disposed of. The entry of the share capital reduction to the Commercial Register was expected after all legal obligations had been met (September 2018).

EPH decided to cease EGGBOROUGH POWER LIMITED’s operations and launch process of power plant decommissioning during 2018.

EVENTS THAT OCCURRED AFTER THE REPORTING DATE

ACQUISITION OF A BIOMASS POWER PLANT FUSINE

On 7 February 2019, EPPE Group is getting 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 by the Holcim Italia Group (100%).

ACQUISITION OF KILROOT AND BALLYLUMFORD POWER STATIONS

On 13 June 2019, EP UK Investments Limited (“EPUKI”) acquired generation assets at Ballylumford and Kilroot, with a combined installed capacity of 1.4GW, 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 will acquire 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.

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.

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, EP Infrastructure, a.s. 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, EP Infrastructure, a.s. 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 21 May 2019, EP Infrastructure, a.s., signed new EUR 265 million term facility agreement. Together with previously issued privately placed EUR 70 million notes and EUR 183 million issue of Schuldschein, EP Infrastructure secured sufficient funding for repayment of EP Energy 2019 Notes due in November 2019.

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 2018.

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 was 80 bcm with no change from 2016. The capacity utilisation was slightly lower by some 7% with gas transmission volume of 59.7 bcm (64.2 bcm in 2017).

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 (4.9 bcm in 2017) and 6.3 TWh of power (6.2 TWh in 2017).

The Group supplied 26.3 PJ of heat (25.3 PJ in 2017), that represents an increase of 4%. 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	2018	2017	2018 - 2017	%
Performance of EPH infrastructure assets					
Gas Transmission Capacity	bcm	80.0	80.0	-	-%
Gas Transmission	bcm	59.7	64.2	(4.5)	(7%)
Gas Storage Capacity	bcm	5.6	3.8	1.8	47%
Gas Storage Sales*	bcm	3.6	4.0	(0.4)	(10%)
Gas Distribution	bcm	4.8	4.9	(0.1)	(2%)
Power Distribution	TWh	6.3	6.2	0.1	2%
Heat Supply	PJ	26.3	25.3	1.0	4%

* Presented Gas Storage Sales figures are higher than Gas Storage Capacity, due to interruptible and other structured products contracted and also 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 11.6 GW of net installed power capacity (11.5 GW in 2017). The capacities generated 28.2 TWh of power (23.3 TWh in 2017).

EPIF Group consolidates 1.5 GW of net installed power capacity, which is by 0.2 GW more than in 2017 due to merger or Plzeňská teplárenská and Plzeňská energetika. The highly efficient CHP plants, with minor renewable wind, solar and biogas generation capacities, represent majority of this. EPIF Group generated 3.8 TWh of power (3.6 TWh in 2017). This 6% increase is driven mainly by the merger mentioned above.

EPPE Group consolidates 10.1 GW of net installed power capacity in Germany, the UK and Italy (10.2 GW in 2017). These assets generated 24.4 TWh power (19.7 TWh in 2017). Despite there was only slight change in installed capacity, a significant increase in net power production based on year-on-year comparison occurred. The overall increase in generation equal to 4.7 TWh was mainly driven by the new acquisitions from 2017 and the fact that LYNEMOUTH started its production from biomass after finishing coal conversion project in 2018. Contrary to this, EGGBOROUGH closing and market situation in Italy where more production came from hydro stations in 2018 lead to drop in production.

KPI	Unit	2018	2017	2018 - 2017	%
Net installed capacity – Electricity – Total					
EPIF Group					
Czech Republic	MW	1,031	868	163	19%
Slovakia	MW	67	67	-	-%
Hungary	MW	396	396	-	-%
Total – EPIF Group	**MW**	**1,494**	**1,331**	**163**	**12%**
EPPE Group					
Germany	MW	1,157	1,157	-	-%
UK	MW	4,637	4,625	12	-%
Italy	MW	4,284	4,399	(115)	(3%)
Total – EPPE Group	**MW**	**10,078**	**10,181**	**(103)**	**(1%)**
Total – EPH Group	**MW**	**11,572**	**11,512**	**60**	**1%**

KPI	Unit	2018	2017	2018 - 2017	%
Net power production – Total					
EPIF Group					
Czech Republic	TWh	2.6	2.3	0.3	13%
Slovakia	TWh	0.0	0.0	-	-%
Hungary	TWh	1.2	1.3	(0.1)	(8%)
Total – EPIF Group	**TWh**	**3.8**	**3.6**	**0.2**	**6%**
EPPE Group					
Germany	TWh	3.2	1.0	2.2	220%
UK	TWh	7.9	3.7	4.2	114%
Italy	TWh	13.3	15.0	(1.7)	(11%)
Total – EPPE Group	**TWh**	**24.4**	**19.7**	**4.7**	**24%**
Total – EPH Group	**TWh**	**28.2**	**23.3**	**4.9**	**21%**

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 2017) and generated 77.2 TWh power (76.7 TWh in 2017). Major share of this is represented by LEAG Group and Slovenské elektrárne Group.

SUSTAINABILITY PERFORMANCE

EMISSIONS AND ENVIRONMENTAL PROTECTION ACTIVITIES

EPH Group produced 17.7 million tons of CO_2 emissions (16.0 million tons in 2017) with intensity of 532 ton CO_2/GWh (567 ton CO_2/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 4.8 million tons of CO_2 emissions (4.7 million tons in 2017) with intensity of 545 ton CO_2/GWh (564 ton CO_2/GWh in 2017). The slight increase of 0.1 million tons followed increases in power and heat generation in the Czech Republic due to merger of Plzeňská teplárenská and Plzeňská energetika (as already mentioned above).

EPPE Group produced 13.0 million tons of CO_2 emissions (11.3 million tons in 2017) with intensity of 527 ton CO_2/GWh (568 ton CO_2/GWh in 2017). The increase of 2.6 million tons is attributable to increase in power production of acquired companies in 2017 and presenting their annual data, compensated by decrease in UK due to decommissioning programme and start of LYNEMOUTH production from biomass. Small decrease of emissions intensity is attributable to improved fuel mix.

KPI	Unit	2018	2017	2018 - 2017	%
Direct GHG Emissions (Scope 1)					
EPIF Group					
Czech Republic	million tons CO_2 eq.	3.8	3.5	0.3	9%
Slovakia	million tons CO_2 eq.	0.3	0.4	(0.1)	(25%)
Hungary	million tons CO_2 eq.	0.7	0.8	(0.1)	(13%)
Total – EPIF Group	**million tons CO_2 eq.**	**4.8**	**4.7**	**0.1**	**2%**
EPPE Group					
Germany	million tons CO_2 eq.	3.3	1.4	1.9	136%
UK	million tons CO_2 eq.	2.9	2.0	0.9	45%
Italy	million tons CO_2 eq.	6.8	7.9	(1.1)	(14%)
Total – EPPE Group	**million tons CO_2 eq.**	**13.0**	**11.3**	**1.7**	**15%**
Total – EPH Group	**million tons CO_2 eq.**	**17.7**	**16.0**	**1.8**	**11%**

KPI	Unit	2018	2017	2018 - 2017	%
Emissions intensity – Including heat component					
EPIF Group					
Czech Republic	ton CO_2 eq./GWh	714	797	(83)	(10%)
Slovakia	ton CO_2 eq./GWh	185	27	158	585%
Hungary	ton CO_2 eq./GWh	247	250	(3)	(1%)
Total – EPIF Group	**ton CO_2 eq./GWh**	**545**	**564**	**(19)**	**(3%)**
EPPE Group					
Germany	ton CO_2 eq./GWh	949	1,045	(96)	(9%)
UK	ton CO_2 eq./GWh	368	551	(183)	(33%)
Italy	ton CO_2 eq./GWh	510	529	(19)	(4%)
Total – EPPE Group	**ton CO_2 eq./GWh**	**527**	**568**	**(41)**	**(7%)**
Total – EPH Group	**ton CO_2 eq./GWh**	**532**	**567**	**(35)**	**(6%)**

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 0.4 mil ton CO_2 in both 2017 and 2018.

In 2018, the EPH Group continued to be very active in terms of environmental protection. The companies within the EPPE 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.

A number of 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, EPPE Group is subject to regulations that impose strict limits on emissions of carbon dioxide (CO_2), sulphur oxides (SO_x), nitrogen oxides (NO_x), 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 2018, the Group invested considerable amounts into the restructuring of several plants. For example:

In 2018, 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, completion work was carried out on a modernisation project centred on cooling technology and the removal of bottom ash of the

K8 boilers, the modernisation of a steam high-pressure part of the TG4 condensing turbine and the renovation of the combustion gas dust-off at the K6 and K7 boilers. Another step in optimising the operation of boilers was the installation of an air ventilator control at the K7 boiler using a high-voltage converter.

In 2018, during a supervisory audit, Elektrárny Opatovice, 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., SPP – Distribúcia, a.s. or NAFTA a.s.

In 2018, Pražská teplárenská a.s. started preparations for the project focused on ecologisation of a TMA3 hot-water source. The ecologisation start is planned for the half of 2019 and will involve the change of existing gas-burners for low-emission burners and adjustments of the inflow of natural gas and combustion air.

In 2018, Pražská teplárenská a.s. successfully passed the inspection relating to its Safe Enterprise title – during the audit performed by the Regional Labour Inspectorate it was ascertained that the Company fulfils all the reviewed criteria set by the programme.

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 2018, 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 2018, SPP – Distribúcia, a.s. performed the local redevelopment and hydrogeological explorations at seven facilities under the supervision of the Slovak Environmental Inspectorate. The result of all redevelopment work was the conversion of the location into its original state based on the Slovak Environmental Inspectorate's report on performing and completing redevelopment and hydrogeological explorations.

For NAFTA a.s., 3D seismic measurements taken around the city of Trnava the previous year were interpreted. These 3D seismic measurements were conducted over a 250 square kilometres area with a partner from Vermillion Energy Inc. Drilling projects were identified in the Trnava exploration area and preparations have begun for drilling projects in 2019. At the same time, there was enhanced cooperation with a partner in the area adjacent to this exploration area and NAFTA acquired the new 1 190 square kilometres Topoľčany exploration area.

In exploration conducted in eastern Slovakia, NAFTA managed to acquire the new 770 square kilometres Beša exploration area. To maintain the potential for reserves, NAFTA carried out three geological repairs of wells in western Slovakia and opened a horizon for another well in eastern Slovakia without using workovers. In the area of technical underground well repairs, the company used its experience both to develop own activities, repairing 26 production and storage wells, and to carry out another 26 repairs for external parties in Slovakia and abroad.

NAFTA's team concentrated in 2018 on upgrading machinery, focusing on a general overhaul of the BIR 8005 drilling rig and installing an anti-sand filter on the well arm to protect production technology against sand and dust.

NAFTA's attention has been focused on the environment and in 2018 work was carried out to close the drilling site in western Slovakia. NAFTA will continue in 2019 to clean up the site and biologically reclaim it. NAFTA is also meeting its responsibility to dispose of assets whose useful life and efficient use has ended and a total of 19 wells were closed down last year.

In underground gas storage, NAFTA joined the hydrogen initiative, whose goal is to maximize the potential of hydrogen produced from renewable resources. Hydrogen has the potential as an energy carrier to cover uneven production of renewable electricity, where storing hydrogen in underground storage facilities will bring additional flexibility for the energy market.

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 2018 eustream a.s. completed projects focused on the transmission system development with total investment costs of more than €50 million, including commencing 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 which is expected to be completed in 2019.

The companies of the EPIF Group have a municipal waste collection system established. Recycling, reuse of material, composting are 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 for the production of electrical energy.

The EPPE Group is an environmentally and socially responsible operator of our power plans. 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 2018, no reportable damage or harm was caused to the environment during the performance of the EPH Group business activities.

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 takes into account 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 2018 was 10,711 (10,237 in 2017), of which 246 were executives (229 in 2017). Male employees covered for 82% of EPH employees, the same share as in 2017. 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 2018 was 6,593 (6,323 in 2017), of which 128 were executives (118 in 2017). The increase of employees is predominantly driven by the merger of Plzeňská teplárenská and Plzeňská energetika.

The average number of employees in EPPE Group during 2018 was 3,622 (3,416 in 2017), of which 68 were executives (81 in 2017). The increase of employees is mainly attributable to the method of employees count of the entities acquired in 2017 – in 2017 the employees were counted proportionally from the acquisition date, whereas in 2018 they are counted fully.

The average number of employees in EPH Other during 2018 was 496 (498 in 2017), of which 50 were executives (30 in 2017).

KPI	Unit	2018	2017	2018 - 2017	%
Headcount					
EPIF Group					
Czech Republic	#	2,111	1,878	233	12%
Slovakia	#	4,217	4,235	(18)	0%
Hungary	#	203	210	(7)	(3%)
Germany	#	60	-	60	-
Netherlands	#	2	-	2	-
Total – EPIF Group	**#**	**6.593**	**6,323**	**270**	**4%**
EPPE Group					
Czech Republic	#	72	65	7	11%
Germany	#	2,591	2,434	157	6%
UK	#	393	414	(21)	(5%)
Italy	#	566	503	63	13%
Total – EPPE Group	**#**	**3,622**	**3,416**	**206**	**6%**
EPH Other					
Czech Republic	#	334	369	(35)	(9%)
Poland	#	153	129	24	19%
Other	#	9	-	9	-
Total – EPH Other	**#**	**496**	**498**	**(2)**	**-%**
Total – EPH Group	**#**	**10,711**	**10,237**	**474**	**5%**

KPI	Unit	2018	2017	2018 - 2017	%
Headcount					
EPIF Group					
Executives	#	128	118	10	8%
Other Employees	#	6,465	6,205	260	4%
Total – EPIF Group	**#**	**6,593**	**6,323**	**270**	**4%**
EPPE Group					
Executives	#	68	81	(13)	(16%)
Other Employees	#	3,554	3,335	219	7%
Total – EPPE Group	**#**	**3,622**	**3,416**	**206**	**6%**
EPH Other					
Executives	#	50	30	20	67%
Other Employees	#	446	468	(22)	(5%)
Total – EPH Other	**#**	**496**	**498**	**(2)**	**-%**
EPH Group					
Executives	#	246	229	17	7%
Other Employees	#	10,465	10,008	457	5%
Total – EPH Group	**#**	**10,711**	**10,237**	**474**	**5%**

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 into 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 strives to operate all its facilities safely and in compliance with licensing regulations at all times. The compliance with such systems is ensured with regular on-site checks. In addition, the Company regularly undertake analyses and evaluations of environmental issues in order to assess their relevance for its companies. The main focus of our internal compliance management is to raise the level of awareness among its employees in order 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 6,998 million (EUR 6,005 million in 2017). The 17% increase in sales is attributable largely to EPPE Group.

Sales of EPIF Group reached EUR 2,995 million (EUR 3,048 million in 2017).

Sales of EPPE Group reached EUR 3,749 million (EUR 2,765 million in 2017). The extensive increase is attributable to Renewable Energy segment. Where significant positive impact on sales had first full year consolidation of acquired Italian biomass assets at the end of the last year and change from conversion project to start of Lynemouth production from biomass. A decrease in sales due to decommissioning programme in UK was compensated by positive impact of first full year consolidation of the UK and in Germany assets acquired last year. Another steep increase reflected extended flows channelled via the in-house trading entity EP Commodities, a.s.

Across all financial indicators, EPH Other segment saw positive development impacted by new acquisition as well as increase in service deliveries on the existing companies in transportation and logistics businesses.

External Sales	Unit	2018	2017	2018 - 2017	%
EPIF Group					
Gas Transmission	million EUR	658	705	(47)	(7%)
Gas and Power Distribution	million EUR	1,669	1,705	(36)	(2%)
Gas Storage	million EUR	159	150	9	6%
Heat Infra	million EUR	499	479	20	4%
EPIF Other	million EUR	10	9	1	11%
Total EPIF Group	**million EUR**	**2,995**	**3,048**	**(53)**	**(2%)**
EPPE Group					
Generation and Mining	million EUR	3,343	2,696	647	24%
Renewable Energy	million EUR	406	69	337	488%
EPPE Other	million EUR	-	-	-	-%
Total EPPE Group	**million EUR**	**3,749**	**2,765**	**984**	**36%**
EPH Other	**million EUR**	**252**	**191**	**61**	**32%**
Holding Entities	million EUR	2	1	1	100%
Total EPH Group	**million EUR**	**6,998**	**6,005**	**993**	**17%**

EBITDA

EBITDA of EPH Group reached EUR 1,743 million (EUR 1,801 million in 2017). 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 1,418 million (EUR 1,522 million in 2017). The 7% decrease in EBITDA is largely attributable to negative impact of System operation tariff (SOT) settlement in the Gas and Power Distribution segment. This settlement relates to legal obligation to connect green energy producers to our power distribution network in Slovakia. Differences and fluctuations in power consumption by end costumers and power generation by renewable sources are causing a mismatch between the amounts of subsidies paid and the compensation received throught SOT and it results in accumulation of deficit.

EBITDA of EPPE Group reached EUR 340 million (EUR 293 million in 2017). The slight increase is attributable mainly to the positive impact of first full year consolidation of acquired generation assets in the Italy, UK and Germany last year.

EBITDA	Unit	2018	2017	2018 - 2017	%
EPIF Group					
Gas Transmission	million EUR	663	664	(1)	-%
Gas and Power Distribution	million EUR	461	551	(90)	(16%)
Gas Storage	million EUR	140	144	(4)	(3%)
Heat Infra	million EUR	148	157	(5)	(6%)
EPIF Other	million EUR	6	6	-	-%
Total EPIF Group	**million EUR**	**1,418**	**1,522**	**(104)**	**(7%)**
EPPE Group					
Generation and Mining	million EUR	303	328	(25)	(8%)
Renewable Energy	million EUR	37	(34)	71	
EPPE Other	million EUR	-	(1)	1	
Total EPPE Group	**million EUR**	**340**	**293**	**47**	**16%**
EPH Other	**million EUR**	**19**	**16**	**-**	**-%**
Holding Entities	million EUR	(26)	(29)	3	**19%**
Inter-segment eliminations	million EUR	(8)	(1)	(7)	
Total EPH Group	**million EUR**	**1,743**	**1,801**	**(58)**	**(3%)**

CAPEX

CAPEX of EPH Group reached EUR 379 million (EUR 441 million in 2017). Of this amount, EUR 65 million (EUR 200 million in 2017) was represented by the Lynemouth biomass conversion project. 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 189 million (EUR 145 million in 2017). The 30% 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 179 million (EUR 293 million in 2017). The 39% decrease in CAPEX is mainly driven by Renewable Energy segment where the LYNEMOUTH biomass conversion project was substantially completed in 2018. While in Generation and Mining sector, the replacing of turbine parts for the 3 gas turbines in UK was under way.

CAPEX	Unit	2018	2017	2018 - 2017	%
EPIF Group					
Gas Transmission	million EUR	51	14	37	264%
Gas and Power Distribution	million EUR	81	77	4	5%
Gas Storage	million EUR	6	5	1	20%
Heat Infra	million EUR	50	48	2	4%
EPIF Other	million EUR	1	1	-	-%
Total EPIF Group	**million EUR**	**189**	**145**	**44**	**30%**
EPPE Group					
Generation and Mining	million EUR	113	93	20	22%
Renewable Energy	million EUR	66	200	(134)	(67%)
EPPE Other	million EUR	-	-	-	-%
Total EPPE Group	**million EUR**	**179**	**293**	**(114)**	**(39%)**
EPH Other	**million EUR**	**11**	**2**	**9**	**450%**
Holding Entities	million EUR	-	1	(1)	(100%)
Inter-segment eliminations	million EUR	-	-	-	-%
Total EPH Group	**million EUR**	**379**	**441**	**(62)**	**(14%)**

NET FINANCIAL DEBT, LEVERAGE AND CASH CONVERSION

Net financial debt stood at EUR 5,020 million at the end of the year under review (EUR 5,366 million in 2017). 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 6% decrease in Net financial debt was strong cash flow generation of the EPH Group despite still large investments in the renewable segment of the EPPE Group.

Leverage stood at 2.9x in 2018, with slight decrease from the previous year, as the discussed 6% decrease in Net financial debt was accompanied by a slight decrease of simple EBITDA (not adjusted for one off and exceptional items, not pro forma for acquisitions etc). In case the full year contribution of new acquisitions and expected performance of the Lynemouth biomass plant are taken into account together with adjustment for the one-off items, the Leverage would be noticeably lower.

Net financial debt and Leverage	Unit	2018	2017	2018 - 2017	%
Loans and borrowings	million EUR	5,943	6,121	(178)	(3%)
Issued bills of exchange	million EUR	83	61	22	36%
Cash and cash equivalents	million EUR	1,006	816	190	23%
Net financial debt	**million EUR**	**5,020**	**5,366**	**(346)**	**(6%)**
EBITDA	million EUR	1,743	1,801	(58)	(3%)
Leverage	**million EUR**	**2,9**	**3.0**	**(0.1)**	**(3%)**

Cash conversion was 57.54% (54.25% in 2017). Netting for effect of Lynemouth conversion project, the Adjusted Cash conversion was 61.47% (66.02% in 2017). 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	2018	2017	2018 - 2017	%
EBITDA	million EUR	1,743	1,801	(58)	(3%)
CAPEX	million EUR	(379)	(441)	62	-
Tax paid	million EUR	(361)	(383)	22	-
Cash conversion	**%**	**57.54%**	**54.25%**	**3.30%**	
Adjusted Cash conversion[1]	**%**	**61.47%**	**66.02%**	**(4.55%)**	

1 Calculated excluding operating and capital expenditures on Lynemouth biomass conversion project.

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 oddzial w Polsce located in Poland; and
- Spedica, s.r.o., organizačná zložka Slovensko located in Slovakia.

RESEARCH AND DEVELOPMENT ACTIVITIES

In 2018, 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 2018, 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

Now, the exact conditions of Brexit and post-Brexit cooperation between United Kingdom and European Union 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 debut Sustainability report for 2018 during summer 2019. 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 2019

EPH Group intends to continue to develop its activities in both its key sub-holdings EPIF Group and EPPE Group and expects to achieve positive financial results in the following years.

Profitability in the EPIF Group should remain stable, as majority of its business is regulated or long term contracted. Minor deviations might occur depending on development of weather and market conditions during the following years. Overall, stable development is expected for 2019.

Profitability in the EPPE Group shall increase as a result of integration of new acquisitions as well as positive earnings impact expected with the commissioning of the Lynemouth biomass power plant or expected resumption of capacity market in the UK

Our teams are the key asset and strength of our group. Their skills, expertise and personal and collective contributions lead to success we achieved in 2018.

NAFTA Speicher

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 2018, 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 2018. 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, 17 June 2019

JUDr. Daniel Křetínský

Chairman of the Board of Directors

Mgr. Pavel Horský

Member of the Board of Directors

Natural gas demand grows steadily all around the globe, mostly for energy and industry purposes, but also for others such as transport.

Eustream, DS Veľké Kapušiany

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**")

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 2018 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: 39A, Avenue J.F. Kennedy, L – 1855 Luxembourg, 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 in order 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 entities hold a majority share of voting rights in Energetický a průmyslový holding, a.s. over which they exercise a controlling influence.

IV. OVERVIEW OF ACTS SPECIFIED BY SECTION 82 (2) (D) OF ACT NO. 90/2012 COLL., THE CORPORATIONS ACT

During the 2018 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 2018, 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 Górnicze "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 17 June 2013, a loan agreement was signed by and between EP Energy, a.s. as the creditor and EP Germany GmbH as the debtor. On 1 April 2016, the receivable was assigned by virtue of an agreement on assignment of receivable to Energetický a průmyslový holding, a.s.

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 30 June 2014, a loan agreement was signed by and between JTSD – Braunkohlebergbau GmbH as the debtor and EP Energy, a.s. as the creditor. On 1 April 2016, the receivable was assigned by virtue of an agreement on assignment of receivable to Energetický a průmyslový holding, a.s.

On 25 September 2014, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Investment Advisors, s.r.o. as the debtor.

On 1 July 2015, 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 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.

On 24 August 2015, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Commodities, a.s. as the debtor.

On 31 August 2015, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and WOOGEL LIMITED as the debtor.

On 30 September 2015, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPH Financing CZ, a.s. as the creditor.

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 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 13 April 2016, 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. (formerly RILENTAR a.s.) as the debtor.

On 13 April 2016, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and LEAG Holding, a.s. (formerly CARBURO NOSTRA a.s.) as the debtor.

On 24 June 2016, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EP Produzione S.p.A. as the creditor. On 14 September 2018, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the assignor and EP Power Europe, a.s. as the assignee, against EP Produzione S.p.A.

On 30 August 2016, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Logistics International, a.s. as the debtor.

On 16 November 2016, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and Eggborough Power Ltd 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 31 January 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and SLUGGERIA 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 13 November 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Coal Trading, a.s. as the debtor.

On 14 November 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 29 November 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 6 December 2017, 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 17 January 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 20 February 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 28 February 2018, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EP Mehrum GmbH as the creditor.

On 13 March 2018, 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 9 April 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 24 April 2018, 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 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 27 June 2018, 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 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. 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 30 July 2018, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EP Commodities, 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 24 August 2018, 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 27 September 2018, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EP Power Europe, a.s. as the creditor.

On 09 October 2018, 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 23 October 2018, a loan agreement 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 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 was signed by and between Energetický a průmyslový holding, a.s. 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 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 2018, THE FOLLOWING AGREEMENTS ON THE SET-OFF OF RECEIVABLES AND PAYABLES WERE CONCLUDED:

On 14 May 2018, 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 6 September 2018, 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 14 September 2018, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Power Europe, a.s.

On 6 November 2018, 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 30 November 2018, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Power Europe, a.s.

V. 1. 3. THE FOLLOWING GUARANTEE ISSUANCE AGREEMENTS AND GUARANTEE FEE AGREEMENTS WERE VALID BETWEEN ENERGETICKÝ A PRŮMYSLOVÝ HOLDING, A.S. AND THE RELATED ENTITIES IN 2018:

EP Commodities, a.s.

Eggborough Power Ltd

EPPE Italy N.V. (formerly Czech Gas Holding N.V.)

EP Coal Trading, a.s.

JTSD - Braunkohlenbergbau GmbH

EP Germany GmbH

Lausitz Energie Kraftwerke AG

Przedsiębiorstwo Górnicze ‘SILESIA’ Sp. z o.o.

Lynemouth Power Limited

Mining Services and Engineering Sp. Z. o. o.

EP Cargo Deutschland GmbH

EP Coal Trading Polska S.A

EP Cargo Invest a.s.

EP UK Investments Ltd

EP UK Power Development Ltd

EP Power Europe, a.s.

EP Mehrum GmbH

V.1.4. OTHER CONTRACTS VALID IN 2018:

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 September 2018, an agreement on the provision of an additional contribution was signed by and between Energetický a průmyslový holding, a.s. as the shareholder and EP Properties, a.s.

On 14 September 2018, an agreement on assumption of debt was signed by and between EP Produzione S.p.A. as the creditor, Energetický a průmyslový holding, a.s. as the debtor and EP Power Europe, a.s. as the new debtor.

On 25 October 2018, a Shareholder resolution on the provision of an additional contribution was signed by Energetický a průmyslový holding, a.s. as the shareholder for the benefit of EP Slovakia B.V.

On 12 December 2018, an agreement on the provision of an additional contribution was signed by and between Energetický a průmyslový holding, a.s. as the shareholder and EPH Financing CZ, a.s.

On 20 December 2018, a Shareholder resolution on the provision of an additional contribution was signed by Energetický a průmyslový holding, a.s. as the shareholder for the benefit of EP Slovakia B.V.

V.1.5. IN 2018, 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 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 including amendments.

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

Financial debt guarantee 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 as the mediator, s.r.o. 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 guarantee 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 Energy, 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 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 guarantee 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 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 Properties, 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 guarantee 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 EP Hagibor a.s. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 31 August 2018.

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 2018 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 2018 to 31 December 2018, 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 as a result of the actions of the controlling entity or of any entity controlled by the same entity. All transactions between the controlled entity and the controlling entity/entities controlled by the same controlling entity were concluded at arm's length. The contractual and other relations with related parties resulted in no loss or financial advantage or disadvantage to Energetický a průmyslový holding, a.s.

In Prague, on 29 March 2019

JUDr. Daniel Křetínský

Chairman of the Board of Directors

Mgr. Pavel Horský

Member of the Board of Directors

„ Our focus on zero or low carbon emission generation capacities is clearly visible from our investments, the vast majority of which was invested into sectors such as biomass.

Eustream, Poland – Slovakia interconnection

Consolidated Financial Statements

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

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 2018, 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 2018, 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 separate and consolidated annual report other than 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 the oversight of 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

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 2018, based on which this independent auditor's report has been prepared.

Prague
19 June 2019

KPMG Česká republika Audit

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

Karel Charvát

Karel Charvát
Partner
Registration number 2032

EPH

Consolidated Financial Statements as of and for the year ended 31 December 2018

and Notes to the Consolidated Financial Statements

PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EUROPEAN UNION

ANNUAL REPORT 2018

Consolidated statement of comprehensive income

For the year ended 31 December 2018
In millions of EUR ("MEUR")

	Note	2018	(1)2017
Sales: Energy	7	6,680	5,674
of which: Electricity		*3,828*	*3,043*
Gas		*2,156*	*1,989*
Heat		*354*	*345*
Coal		*337*	*294*
Other energy products		*5*	*3*
Sales: Other	7	404	357
Gain (loss) from commodity derivatives for trading with electricity and gas, net	7	(86)	(26)
Total sales		**6,998**	**6,005**
Cost of sales: Energy	8	(3,914)	(3,039)
Cost of sales: Other	8	(356)	(253)
Total cost of sales		**(4,270)**	**(3,292)**
Subtotal		**2,728**	**2,713**
Personnel expenses	9	(506)	(482)
Depreciation and amortisation	16, 17	(558)	(527)
Repairs and maintenance		(65)	(55)
Emission rights, net	10	(156)	(1)(122)
Negative goodwill	6	5	(1)49
Taxes and charges	11	(82)	(67)
Other operating income	12	138	109
Other operating expenses	13	(314)	(295)
Profit (loss) from operations		**1,190**	**1,323**
Finance income	14	46	36
Finance expense	14	(234)	(234)
Profit (loss) from financial instruments	14	(68)	(1)(32)
Net finance income (expense)		**(256)**	**(230)**
Share of profit (loss) of equity accounted investees, net of tax	19	(9)	107
Gain (loss) on disposal of subsidiaries	6	1	-
Profit (loss) before income tax		**926**	**1,200**
Income tax expenses	15	(296)	(328)
Profit (loss) for the year		**630**	**872**

	Note	2018	(1)2017
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences from foreign operations	15	24	(139)
Foreign currency translation differences from presentation currency	15	(38)	126
Effective portion of changes in fair value of cash-flow hedges, net of tax	15	336	3
Fair value reserve included in other comprehensive income, net of tax	15	21	(9)
Other comprehensive income for the year, net of tax		**343**	**(19)**
Total comprehensive income for the year		**973**	**853**
Profit (loss) attributable to:			
Owners of the Company		186	436
Non-controlling interest		444	436
Profit (loss) for the year		**630**	**872**
Total comprehensive income attributable to:			
Owners of the Company		557	411
Non-controlling interest		416	442
Total comprehensive income for the year		**973**	**853**
Total basic and diluted earnings per share in EUR	28	**0.05**	**0.12**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries.

The notes presented on pages 86 to 273 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2018
In millions of EUR ("MEUR")

	Note	2018	(1)2017
Assets			
Property, plant and equipment	16	8,532	8,430
Intangible assets	17	213	218
Goodwill	17	149	151
Investment property	18	3	3
Equity accounted investees	19	1,061	707
Restricted cash	24	1	23
Financial instruments and other financial assets	33	149	111
Trade receivables and other assets	22	190	161
Deferred tax assets	20	67	(1)64
Total non-current assets		**10,365**	**9,868**
Inventories	21	251	247
Extracted minerals and mineral products		155	172
Trade receivables and other assets	22	907	942
Contract assets	7	37	-
Financial instruments and other financial assets	33	365	563
Prepayments and other deferrals		50	38
Tax receivables	25	163	132
Restricted cash	24	29	8
Cash and cash equivalents	23	1,006	816
Assets/disposal groups held for sale	26	1	5
Total current assets		**2,964**	**2,923**
Total assets		**13,329**	**12,791**
Equity			
Share capital	27	152	152
Share premium	27	64	64
Reserve for own shares	27	-	(1,444)
Other reserves	27	337	(38)
Retained earnings		1,080	(1)2,426
Total equity attributable to equity holders		**1,633**	**1,160**
Non-controlling interest	29	1,504	1,515
Total equity		**3,137**	**2,675**

	Note	2018	(1)2017
Liabilities			
Loans and borrowings	30	4,915	5,060
Financial instruments and financial liabilities	33	154	31
Provisions	31	968	918
Deferred income	32	112	195
Contract liabilities	7	94	-
Deferred tax liabilities	20	1,009	1,033
Trade payables and other liabilities	34	149	125
Total non-current liabilities		**7,401**	**7,362**
Trade payables and other liabilities	34	1,080	1,230
Contract liabilities	7	74	-
Loans and borrowings	30	1,028	1,061
Financial instruments and financial liabilities	33	201	151
Provisions	31	374	255
Deferred income	32	10	19
Current income tax liability		24	37
Liabilities from disposal groups held for sale	26	-	1
Total current liabilities		**2,791**	**2,754**
Total liabilities		**10,192**	**10,116**
Total equity and liabilities		**13,329**	**12,791**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries.

The notes presented on pages 86 to 273 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2018
In millions of EUR ("MEUR")

	Attributable to owners of the Company												
	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[1]	Total	Non-controlling interest	Total Equity
Balance as at 1 January 2018[1]	**152**	**64**	**(1,444)**	**23**	**8**	**(94)**	**(38)**	**(54)**	**117**	**2,426**	**1,160**	**1,515**	**2,675**
Adjustment on initial application of IFRS 9 (net of tax)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(7)**	**(7)**	**(2)**	**(9)**
Adjusted balance as at 1 January 2018 (A)	**152**	**64**	**(1,444)**	**23**	**8**	**(94)**	**(38)**	**(54)**	**117**	**2,419**	**1,153**	**1,513**	**2,666**
Total comprehensive income for the year:													
Profit or loss (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**186**	**186**	**444**	**630**
Other comprehensive income:													
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**
Total other comprehensive income (C)	**-**	**-**	**-**	**-**	**-**	**(8)**	**21**	**-**	**358**	**-**	**371**	**(28)**	**343**
Total comprehensive income for the year (D) = (B + C)	**-**	**-**	**-**	**-**	**-**	**(8)**	**21**	**-**	**358**	**186**	**557**	**416**	**973**
Contributions by and distributions to owners:													
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)	-	-	**-**
Total contributions by and distributions to owners (E)	**-**	**1,444**	**-**	**4**	**-**	**-**	**-**	**-**		**(1,538)**	**(90)**	**(526)**	**(616)**
Changes in ownership interests in subsidiaries:													
Effect of changes in shareholding on non-controlling interests	-	-	-	-	-	-	-	-	-	13	13	[2](23)	**(10)**
Effect of acquisitions through business combinations	-	-	-	-	-	-	-	-	-	-	-	[2]125	**125**
Effect of disposed entities	-	-	-	-	-	-	-	-	-	-	-	(1)	**(1)**
Total changes in ownership interests in subsidiaries (F)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**13**	**13**	**101**	**114**
Total transactions with owners (G) = (E + F)	**-**	**-**	**1,444**	**-**	**4**	**-**	**-**	**-**	**-**	**(1,525)**	**(77)**	**(425)**	**(502)**
Balance as at 31 December 2018 (H) = (A + D + G)	**152**	**64**	**-**	**23**	**12**	**(102)**	**(17)**	**(54)**	**475**	**1,080**	**1,633**	**1,504**	**3,137**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries.
(2) For more information refer to Note 6(a) – Acquisitions and step acquisitions.

The notes presented on pages 86 to 273 form an integral part of these consolidated financial statements.

For the year ended 31 December 2017
In millions of EUR ("MEUR")

	Attributable to owners of the Company												
	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	Total	Non-controlling interest	Total Equity
Balance as at 1 January 2017 (A)	**208**	**64**	**-**	**23**	**2**	**(83)**	**(30)**	**(54)**	**112**	**1,145**	**1,387**	**1,707**	**3,094**
Total comprehensive income for the year:													
Profit or loss (B)[(1)]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**436**	**436**	**436**	**872**
Other comprehensive income:													
Foreign currency translation differences for foreign operations	-	-	-	-	-	(60)	-	-	-	-	(60)	(79)	**(139)**
Foreign currency translation differences from presentation currency	-	-	-	-	-	55	-	-	-	-	55	71	**126**
Revaluation reserve included in other comprehensive income, net of tax	-	-	-	-	-	-	(9)	-	-	-	(9)	-	**(9)**
Effective portion of changes in fair value of cash-flow hedges, net of tax	-	-	-	-	-	-	-	-	(11)	-	(11)	14	**3**
Total other comprehensive income (C)	**-**	**-**	**-**	**-**	**-**	**(5)**	**(9)**	**-**	**(11)**	**-**	**(25)**	**6**	**(19)**
Total comprehensive income for the year (D) = (B + C)	**-**	**-**	**-**	**-**	**-**	**(5)**	**(9)**	**-**	**(11)**	**436**	**411**	**442**	**853**
Contributions by and distributions to owners:													
Own shares acquired	(56)	-	(1,444)	-	-	-	-	-	-	-	(1,500)	-	**(1,500)**
Dividends to equity holders	-	-	-	-	-	-	-	-	-	(434)	(434)	(623)	**(1,057)**
Transfer to non-distributable reserves – creation of legal fund	-	-	-	-	6	-	-	-	-	(6)	-	-	**-**
Total contributions by and distributions to owners (E)	**(56)**	**-**	**(1,444)**	**-**	**6**	**-**	**-**	**-**	**-**	**(440)**	**(1,934)**	**(623)**	**(2,557)**
Changes in ownership interests in subsidiaries:													
Effect of changes in shareholding on non-controlling interests	-	-	-	-	-	(6)	1	-	16	1,285	1,296	(11)	**1,285**
Total changes in ownership interests in subsidiaries (F)	**-**	**-**	**-**	**-**	**-**	**(6)**	**1**	**-**	**16**	**1,285**	**1,296**	**(11)**	**1,285**
Total transactions with owners (G) = (E + F)	**(56)**	**-**	**(1,444)**	**-**	**6**	**(6)**	**1**	**-**	**16**	**845**	**(638)**	**(634)**	**(1,272)**
Balance as at 31 December 2017[(1)] (H) = (A + D + G)	**152**	**64**	**(1,444)**	**23**	**8**	**(94)**	**(38)**	**(54)**	**117**	**2,426**	**1,160**	**1,515**	**2,675**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries.

The notes presented on pages 86 to 273 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

Consolidated statement of cash flows

For the year ended 31 December 2018
In millions of EUR ("MEUR")

	Note	2018	2017
OPERATING ACTIVITIES			
Profit (loss) for the year		630	(1)872
Adjustments for:			
Income taxes	15	296	328
Depreciation and amortisation	16, 17	558	527
Dividend income	14	(18)	(10)
Impairment losses on property, plant and equipment, intangible assets and financial assets	13, 14	21	1
Impairment losses of other financial assets	14	74	17
Non-cash (gain) loss from commodity derivatives for trading with electricity, gas and emission rights, net	7, 10	86	21
(Gain) loss on disposal of property, plant and equipment, investment property and intangible assets	12	6	(18)
Emission rights	10	156	104
(Gain) loss on disposal of subsidiaries	6	(1)	-
Share of (profit) loss of equity accounted investees	19	9	(107)
(Gain) loss on financial instruments	14	(6)	33
Net interest expense	14	185	186
Change in allowance for impairment to trade receivables and other assets, write-offs		12	5
Change in provisions		(50)	28
Negative goodwill	6	(5)	(1)(49)
Other finance fees		(9)	(9)
Unrealised foreign exchange (gains) losses, net		41	32
Operating profit before changes in working capital		**1,985**	**1,961**
Change in trade receivables and other assets		(56)	(368)
Change in inventories (including proceeds from sale)		(1)	(18)
Change in extracted minerals and mineral products		17	3
Change in trade payables and other liabilities		94	179
Change in restricted cash		1	(2)
Cash generated from (used in) operations		**2,040**	**1,755**
Interest paid		(187)	(191)
Income taxes paid		(361)	(383)
Cash flows generated from (used in) operating activities		**1,492**	**1,181**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries.

	Note	2018	2017
INVESTING ACTIVITIES			
Dividends received, other		18	10
Purchase of financial instruments		(38)	-
Change in financial instruments		15	(26)
Loans provided to the owners		(318)	(428)
Loans provided to the other entities		(131)	(96)
Repayment of loans provided to other entities		35	-
Proceeds from sale of financial instruments – derivatives		32	(60)
Acquisition of property, plant and equipment, investment property and intangible assets	16, 17, 18	(379)	(441)
Purchase of emission rights	17	(120)	(23)
Proceeds from sale of emission rights		21	12
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		36	39
Acquisition of subsidiaries, net of cash acquired	6	(45)	(135)
Net cash inflow from disposal of subsidiaries	6	1	-
(Increase) decrease in participation in existing subsidiaries, joint-ventures and associates		(6)	1,285
Interest received		18	2
Cash flows from (used in) investing activities		**(861)**	**139**
FINANCING ACTIVITIES			
Acquisition of own shares		-	(1,500)
Proceeds from loans received		2,603	588
Repayment of borrowings		(2,882)	(479)
Proceeds from bonds issued, net of transaction fees		862	143
Repayments of bonds issued		(790)	-
Finance fees paid from repayment of borrowings		(13)	(9)
Other financing cash flows		(5)	(4)
Dividends paid		(223)	(387)
Cash flows from (used in) financing activities		**(448)**	**(1,648)**
Net increase (decrease) in cash and cash equivalents		*183*	*(328)*
Cash and cash equivalents at beginning of the year		**816**	**1,136**
Effect of exchange rate fluctuations on cash held		7	8
Cash and cash equivalents at end of the year		**1,006**	**816**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries.

The notes presented on pages 86 to 273 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.

On 24 February 2017 EPH completed the previously concluded agreement with a consortium of global institutional investors led by Macquarie Infrastructure and Real Assets (“MIRA”) on the sale of a 31% stake in EP Infrastructure, a.s., an energy infrastructure subholding focused on gas transmission, gas and power distribution, heat and power generation and gas storage (“EPIF”). The remaining 69% of EPIF remains with EPH, which will also retain management control over EPIF.

Following the sale of a minority shareholding in EPIF changes also occurred in the shareholder structure of EPH where at the end of the transaction Daniel Křetínský (94%) and selected members of the existing management of EPH (6%), became sole owners of EPH.

The consolidated financial statements of the Company for the year ended 31 December 2018 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 2018 were as follows:

In millions of EUR

	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
Total	**152**	**100.00**	**100.00**

The shareholders of the Company as at 31 December 2017 were as follows:

In millions of EUR

	Interest in share capital		Voting rights
	MEUR	%	%
EP Investment S.à.r.l.	81	37.10	53.00
EP Investment II S.à.r.l. (owned by Daniel Křetínský)	71	32.90	47.00
Own shares(1)	-	30.00	-
Total	**152**	**100.00**	**100.00**

(1) In 2017, EPH acquired 30% of its own shares, 2.17% from each MILEES LIMITED and EP Investment S.à.r.l. and 25.66% from BIQUES LIMITED. As at 31 December 2017, these shares were reported within EPH’s equity as the shares were not yet cancelled. These shares were cancelled on 19 September 2018.

The members of the Board of Directors as at 31 December 2018 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 2017

On 26 January EP Investment S.à.r.l. acquired 2.1% shares in EPH from MILEES LIMITED. At the same time, EPH purchased 2.17% of own shares from each EP Investment S.à.r.l. and MILEES LIMITED. Subsequently on 27 January EP Investment II S.à.r.l. (new shareholder to EPH, controlled by Daniel Křetínský) acquired all shares in EPH from MILEES LIMITED. As a result of these transactions share capital decreased by EUR 8 million and the voting rights changed as follows:

- EP Investment S.à.r.l. 38.78%
- BIQUES LIMITED 26.83%
- EP Investment II S.à.r.l. 34.39%

On 24 February EPH purchased remaining 25.66% of own shares from BIQUES LIMITED. Share capital decreased by EUR 48 million to final amount of EUR 152 million and the difference between the nominal value and purchase price in excess over the nominal value of EUR 1,444 million was presented as a reserve for own shares. The structure of voting rights changed as follows:

- EP Investment S.à.r.l. 53%
- EP Investment II S.à.r.l. 47%

As at 31 December 2017, own shares were reported within EPH's equity as the shares were not yet cancelled. These shares were cancelled on 19 September 2018.

In 2017 the Company carried out several acquisitions. The transactions are described in Note 6 – Acquisition and disposals of subsidiaries.

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.

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 17 June 2019.

B BASIS OF MEASUREMENT

This is the first set of Group's financial statements where IFRS 9 and IFRS 15 have 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:

- 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 JUDGMENTS

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 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:

- Note 2(e) i – judgements relating to recognition of revenues from customers;
- Notes 6 and 17 – accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill;
- Note 16 – assessment that IFRIC 12 is not applicable to the gas pipeline, transportation and distribution networks;
- Note 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 CO_2 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 2018 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 2018 and that have thus been applied by the Group for the first time.

IFRS 15 Revenue from Contracts with Customers and Clarifications to IFRS 15 Revenue from Contract with Customers

The Standard provides a framework that replaces existing revenue recognition guidance in IFRS.

The Group has adopted IFRS 15 using cumulative effect method with the effect of initial application of this standard recognised at the date of initial application (i.e. as of 1 January 2018) and accordingly the balances as presented on 31 December 2017 were not restated and are presented following standards and interpretations valid for periods starting prior to 1 January 2018.

Following table summarizes the effect on the Group's financial statements as of 31 December 2018:

In millions of EUR

	Amount without adoption IFRS 15	Impact of adoption IFRS 15	31 December 2018 as reported
Trade receivables and other assets	944	(37)	907
Contract assets	-	37	37
Other current assets	2,020	-	2,020
Total current assets	**2,964**	**-**	**2,964**
Trade payables and other liabilities	1,154	(74)	1,080
Contract liabilities	-	74	74
Other current liabilities	1,637	-	1,637
Total current liabilities	**2,791**	**-**	**2,791**
Deferred income	206	(94)	112
Contract liabilities	-	94	94
Other non-current liabilities	7,195	-	7,195
Total non-current liabilities	**7,401**	**-**	**7,401**

Major impacts of IFRS 15 application were as follows:

- reclassification of not invoiced part of fulfilled performance obligation from Trade receivables and other assets to Contract assets of EUR 37 million representing new class of assets presented in the statement of financial position;
- reclassification of received payments for services and goods where control over the assets was not transferred to customer from Trade payables and other liabilities to Contract liabilities of EUR 74 million;
- reclassification of Deferred income related to grid connection fees collected and free-of-charge non-current assets transferred from customers to Contract liabilities in total amount of EUR 94 million.

The Group adopted a five-step model to determine when to recognise revenue, and at what amount. The new 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 whether certain criteria are met, 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 electricity, gas, heat or other 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.

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 a 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 the benefits from contract is transferred to client, therefore equally over the time of contract.

- *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.

- *Grid balancing services*

The Group provides grid balancing services to transmission system operators ("TSO") primarily in Italy, Germany 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.

- *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.

Because of the timing and measurement of the Group's revenues and with respect to the nature of the Group's operations and the types of revenues it earns there is no material effect to the opening balance of the Group's equity as at 1 January 2018.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

The Group has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented in 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

The following table summarises the impact, net of tax, of transition to IFRS 9 on the opening balance of reserves, retained earnings and NCI.

In millions of EUR

	Impact of adopting IFRS 9 on opening balance
Retained earnings	
Recognition of expected credit losses under IFRS 9	(7)
Impact at 1 January 2018	(7)
Non-controlling interests	
Recognition of expected credit losses under IFRS 9	(2)
Impact at 1 January 2018	(2)

Detail of IFRS 9 impact on opening balances:

In millions of EUR

	31 December 2017 as reported	Impact of adopting IFRS 9	1 January 2018
Trade receivables	696	(3)	693
Advance payments	87	(1)	86
Loans to other than credit institutions	531	(1)	530
Financial assets accounted for by equity accounted investees	707	(4)	703
Total	**2,021**	**(9)**	**2,012**

The Group has carried out an assessment and has concluded that IFRS 9 does not have any significant impact on the methods of classification and measurement of financial assets. Financial assets consist predominantly of trade receivables and loan receivables measured at amortized cost and derivatives measured at fair value.

I. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is described below.

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI – debt instrument, FVOCI – equity instrument or FVTPL. The classification of financial asset under IFRS 9 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 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.

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. IMPAIRMENT OF FINANCIAL ASSETS

IFRS 9 replaces the “incurred cost” model in IAS 39 with an “expected credit loss” (“ECL”) model. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

Under IFRS 9, 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 (designated as 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 equity instrument are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The 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”). The Group implements forward-looking information into the calculation of ECL. 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 and the year-on-year change is recognised in income statement. For debt securities at FVOCI, the loss allowance is recognised in OCI.

IMPACT OF THE NEW IMPAIRMENT MODEL

For assets in the scope of the IFRS 9 impairment model, impairment losses are generally expected to increase and become more volatile, but the Group has determined that the application of IFRS 9 impairment requirements at 1 January 2018 resulted in non-significant additional impairment allowances.

III. HEDGE ACCOUNTING

For hedge accounting, the Group has chosen to apply requirements of IFRS 9 from 1 January 2018. The Group has determined that hedge accounting relationships applied prior to 1 January 2018 already met the requirements of IFRS 9 and were aligned with the Group’s risk management strategy and objectives. Therefore application of IFRS 9 had no impact on hedge accounting from 1 January 2018.

IFRIC 22 Foreign Currency Translations and Advance Consideration

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group has assessed the estimated impact of the adoption of IFRIC 22 on its consolidated financial statements. Based on the result of the assessment the Group concluded that the new Standard has not had a material impact on the financial statements.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group has assessed the estimated impact of the adoption of amendments to IFRS 2 on its consolidated financial statements. Based on the result of the assessment the Group concluded that the new Standard has not had a material impact on the financial statements.

Amendments to IAS 40 – Transfers of Investment Property

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Group concluded that the amendments has not had a material impact on the Group's financial statements because the Group transfers a property asset to, or from, investment property only when there is an actual change in use.

Amendments from the 2014–2016 cycle of annual improvements

The amendments affect the following standards: IFRS 1 (deleted the short-term exemptions in paragraphs E3-E7, because they have now served their intended purpose), IFRS 12 (clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10-B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5), IAS 28 (clarified that the lection to measure at FVTPL an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition).

The amendments have 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 2018 and thus have not been adopted by the Group:

IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019)

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

The Group plans to apply IFRS 16 initially on 1 January 2019, using the modified retrospective approach. Therefore the cumulative effect of IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019 with no restatement of comparative information.

The first-time application of the standard will lead to an increase in both property, plant and equipment (accounting for the rights of use) and financial liabilities (recognition of the corresponding lease liabilities) in the balance sheet. The impact of the transition on the amount of leasing liabilities and rights of use for continuing activities at the time of first-time application is expected to be EUR 110 million to EUR 130 million. As a result of this change in the balance sheet, net financial debt will increase slightly. Effect on retained earnings is expected to be immaterial.

In the future, instead of other operating expenses, depreciation of right-of-use assets and interest expenses will be recognised in income statement from the accretion of lease liabilities (unless they relate to expenses from short-term and low-value leases). This will lead to improved annual EBITDA which is expected to be higher by EUR 25 million to EUR 35 million.

This revised presentation of lease payments arising from operating leases will result in improved cash flows from operating activities and a deterioration in cash flow from financing activities as lease payments previously recognized as other operating expense and thus included within cash flow from operating activities will be presented as payments of principal of lease liabilities and included within cash flow from financing liabilities. Interest payments are presented in cash flow from operating activities.

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 Group has assessed the estimated impact of the adoption of IFRIC 23 on its consolidated financial statements. Based on the result of the assessment the Group expect that the new Standard will not have a material impact on the 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 will have no 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 will have no 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 will have no impact on the Group's financial statements.

Amendments to References to the Conceptual Framework in IFRS Standards
(Effective for annual periods beginning on or after 1 January 2020 (not adopted by EU yet))

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.

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 ins 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 will have no 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 (not adopted by EU yet))

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

Amendments to IAS 1 and IAS 8 – Definition of Material
(Effective for annual periods beginning on or after 1 January 2020 (not adopted by EU yet))

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 will probably have no material impact on the Group's financial statements.

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.

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 PRESENTATION OF INCOME STATEMENT

The change in fair value of commodity derivatives with emission rights previously included in line item "Profit (loss) from financial instruments" was reclassified to line item "Emission rights, net". The change has been made to align with Group accounting policy under which effect of transactions with emission rights is reported within a separate line item "Emission rights, net" of Consolidated statement of comprehensive income and classified under "Profit (loss) from operations" rather than under "Profit (loss) from financial instruments".

2017 comparative information have been restated to include the above mentioned modifications. For details of the restatement refer to Appendix 2 – Restated Consolidated statement of comprehensive income and Restated Consolidated statement of financial position.

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 available-for-sale equity instruments (except for impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss), 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. FINANCIAL STATEMENTS OF FOREIGN OPERATIONS

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.

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 disposals relevant part of translation reserve is recycled to financial income or expense in the statement of comprehensive income.

III. TRANSLATION TO PRESENTATION CURRENCY

These consolidated financial statements are presented in Euro which is the Company's presentation currency. 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. The relevant proportion of the translation difference is allocated to non-controlling interests if applicable. 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

POLICY APPLICABLE BEFORE 1 JANUARY 2018

Financial instruments at fair value through profit or loss are those that the Group principally holds for trading, that is, with the purpose of short-term profit taking. They include investments and contracts that are not designated as hedging instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, not quoted in an active market, which are not classified as available for sale or held to maturity or at fair value through profit or loss. Loans and receivables mainly comprise loans to other than credit institutions and trade and other receivables.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity.

Available-for-sale financial assets are non-derivative financial assets that are not designated as fair value through profit or loss, loans and receivables, cash and cash equivalents or as held to maturity.

POLICY APPLICABLE FROM 1 JANUARY 2018

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

POLICY APPLICABLE BEFORE 1 JANUARY 2018

Financial assets at fair value through profit or loss and available-for-sale assets are recognised on the date the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets including held-to-maturity assets are initially recognised on the trade date, when the Group becomes a party to the contractual provisions of the instrument.

Loans and receivables are recognised on the day they are originated.

POLICY APPLICABLE FROM 1 JANUARY 2018

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.

POLICY APPLICABLE BEFORE 1 JANUARY 2018

Subsequent to initial recognition, financial assets are measured at their fair value, except for loans and receivables and held-to-maturity instruments, which are measured at amortised cost, less any impairment loss.

In measuring the amortised cost, any difference between cost and redemption value is recognised in profit or loss over the period of the asset or liability on an effective interest rate basis.

For financial assets at fair value through profit or loss, gains and losses arising from a change in fair value are recognised in profit or loss.

For assets available for sale, changes in fair value, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an available-for-sale asset is derecognised, the cumulative gains and losses in other comprehensive income are transferred to profit or loss. Interest income and expense from available-for-sale securities are recorded in profit or loss by applying the effective interest rate method.

POLICY APPLICABLE FROM 1 JANUARY 2018

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. DE-RECOGNITION

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

V. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when the 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

POLICY APPLICABLE BEFORE 1 JANUARY 2018

The policy applicable before 1 January 2018 is similar to that applied after 1 January 2018 (as described below).

POLICY APPLICABLE FROM 1 JANUARY 2018

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 gains and losses 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, swaps and forward purchases and sales for physical delivery 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:

- a physical delivery takes place under such contracts;
- the volumes purchased or sold under the contracts correspond to the Group's operating requirements; and
- the contract cannot be considered a written option as defined by IFRS 9.

The Group thus considers that transactions negotiated with a view to balancing the volumes between emission rights and energy purchases and sale commitments are part of its ordinary business and do not therefore fall under the scope of IFRS 9.

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 (p) – 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)

POLICY APPLICABLE BEFORE 1 JANUARY 2018

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. IAS 39 does not provide clear guidance on what is significant relative to cost or what is a prolonged decline in the fair value. As such, the Group policy states that impairment should be considered if declines in equity markets have been, and continue to be, severe with many equity global indices down by nearly 50% from their 12-month highs for a period longer than 6 months (impairment criteria).

The recoverable amount of the Group's investment in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. In determining the recoverable amount for loans and receivables consideration is also given to the credit standing and performance of the borrower and the value of any collateral or third-party guarantee.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

POLICY APPLICABLE AFTER 1 JANUARY 2018

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 equity instrument are credit impaired. A financial asset is credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. The 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 (o) – 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

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.

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 (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.

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 polic y (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 2018 and 2017, 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.

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_2 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 (n) – 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_2 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 REVENUE

I. REVENUES FROM OWN PRODUCTS AND GOODS SOLD AND SERVICES RENDERED (APPLICABLE BEFORE 1 JANUARY 2018)

Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from the sale of own products and goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Discounts are recognised as a reduction of revenue as the sales are recognised, if it is probable that discounts will be granted and the amount can be measured reliably.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods.

Revenues from connection fees to transmission network are accounted for as deferred income which is released in to the revenue for an economic life of connection.

Revenues from capacity reservation fee are recognised at the time the capacity in transmission network is assigned to shipper.

Revenues from gas in kind received from shippers are recognised at the moment the gas is received by the Group at its fair value.

Revenues from the sale of energy comprise mainly revenues relating to production and sale of electricity, heat energy, coal and its distribution and sale of gas.

Other revenues represent revenues from non-energy activities.

REVENUES FROM SALE OF ELECTRICITY, HEAT AND GAS

Revenues from sales of electricity, heat and gas to customers are recognised at the time the electricity, heat or gas is supplied on the basis of periodic meter readings and also include an estimate of the value of electricity and consumption after the date of the last meter reading of the year. Revenues between the date of the meter reading and the end of the year are based on estimates of the daily consumption record, adjusted to take account of weather conditions and other factors that may affect estimated consumption such as:

- inputs to the distribution companies system (measured value)
- supply of high and very high voltage levels (measured value)
- estimation of network losses
- estimation of low voltage level supply

REVENUES FROM SALE OF COAL

Sales of coal are measured at the fair value of the consideration received, excluding any applicable taxes, excise duties, charges, discounts and rebates. Most of the sales are priced as carriage paid to (CPT), delivered at place (DAP) or delivered duty paid (DDP). The Group has concluded that it is acting as a principal in all of its sales arrangements, delivering complete supplies to specified places including responsibility for transportation, handling and potentially solving duty, tax issues and insurance. A significant proportion of Group production is sold under long-term contracts, which contain automatic price escalation formulae and/or are updated from time to time by amendments specifying pricing for the next period. However, the sales revenue is only recognised on an individual sale when all of the following criteria are met:

- the significant risks and rewards of ownership of the product have been transferred to the customer;
- the Group has retained neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the sale will flow to the Group; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

All these conditions are generally satisfied when the product is delivered to the destination specified by the customer and as such, the title passes to the customer. 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 (usually for better qualities of coal) in sales revenue recognised on the sale transaction.

ENERGY TRADING

Revenues from energy trading comprise both realised (settled) and unrealised (change in fair value) net gains and losses from trading in physical and financial energy contracts.

II. REVENUES FROM CONTRACTS WITH CUSTOMERS (APPLICABLE FROM 1 JANUARY 2018)

From 1 January 2018, the Group has applied IFRS 15 to recognise revenues from contracts with customers.

The Group adopted a five-step model to determine when to recognise revenue, and at what amount. The new 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’s 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.

- *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.

- *Grid balancing services*

The Group provides grid balancing services to transmission system operators (“TSO”) primarily in Italy, Germany 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.

- *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.

III. 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".

IV. 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.

V. 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.

VI. RENTAL INCOME

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

O 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.

P 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.

Q DIVIDENDS

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

R 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.

S 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.

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, Poland and Hungary. EPH is a vertically integrated energy company covering the complete value chain in the energy sector, including more than 50 companies operating in coal extraction, electricity and heat production from conventional and renewable sources, electricity and heat distribution, electricity and gas trade and their supply to final customers 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.

Following an internal reorganisation initiated at the end of 2015, EPH Group is centered around two main sub-holdings – EP Infrastructure (or “EPIF Group”) and EP Power Europe (or “EPPE Group”) – that are 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. 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

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 includes any significant lease arrangement as per IFRIC 4, 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 Erömü 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

The EPPE Group is unique energy utility which specializes on power generation, lignite mining, renewables and trading. It operates mainly in Italy, Germany, the UK, the Czech Republic and Slovakia.

The EPPE Group operates in three reportable segments under IFRS 8: Generation and Mining, Renewable energy and Other.

GENERATION AND MINING

The Generation part of the segment is mainly represented by investments in assets that generate electricity in condensation mode and are also located in markets where there is an active capacity market

or it is expected that such market shall be soon implemented. This segment is primarily composed of EP Produzione S.P.A. and its subsidiaries, Ergosud S.P.A., EGGBOROUGH POWER LIMITED and recent acquisitions of EPH LANGAGE LIMITED, EP SHB LIMITED or Kraftwerk Mehrum GmbH.

The Mining part of the segment, represented by Mitteldeutsche Braunkohlengesellschaft GmbH, produces brown coal, which it supplies to power plants under long-term supply agreements. The two biggest customers – the Lippendorf and Schkopau-power plants – are highly efficient, state-of-the-art power plants operating in base load and are well positioned in the German power merit order.

Other entities included in the segment are: EP Commodities, a.s., which specializes in trading (wholesale) of gas, electricity and emission allowances CO_2 (potentially also financially in coal and oil); Lausitz Energie Kraftwerke AG, Kraftwerk Schwarze Pumpe GmbH, Lausitz Energie Bergbau AG, GMB GmbH and Transport- und Speditionsgesellschaft Schwarze Pumpe mbH, which are consolidated by equity method or Helmstedter Revier GmbH.

RENEWABLE ENERGY

The Renewable energy segment is mainly represented by recent acquisition of the biomass power plants Biomasse Crotone S.P.A. and Biomasse Italia S.P.A. The acquired companies operate in the energy valorization of the Italian wooden biomass. Italy represents an excellence in this industry at European level. This, through the sustainable and efficient maintenance activities of the wood forests, also generates important environmental benefits, like the prevention of fires and the reduction of hydrogeological risks.

Other entity included in the segment is MIBRAG Neue Energie GmbH or LYNEMOUTH POWER LIMITED in which there is an exciting plan to convert the power station from coal burn generation to biomass.

EPPE OTHER

The EPPE Other segment is mainly represented by ENERGY SCANNER LIMITED.

THE REST OF EPH GROUP

EPH OTHER

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

Main entities within this segment are: EP Cargo Deutschland GmbH, EP CARGO POLSKA, S.A., EP Coal Trading Polska s.a., and a recent acquisition of SPEDICA Group which arranging complex logistical solutions for the segment's customers or Przedsiebiorstwo Górnicze SILESIA Sp. z o.o., MINING SERVICES AND ENGINEERING Sp. z o.o., and Slovenské elektrárne, a.s. and its subsidiaries.

HOLDING ENTITIES

The Holding entities segment mainly represents 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 Italy N.V., EPPE Germany a.s., LEAG Holding, a.s., 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 2018

In millions of EUR

	EPIF Group				
	Gas Transmission	**Gas and Power Distribution**	**Gas Storage**	**Heat Infra**	**EPIF Other**
Sales: Energy	752	1,808	192	583	6
external revenues	*658*	*1,684*	*159*	*484*	*5*
of which: electricity	-	*1,152*	-	*117*	*5*
gas	*658*	*532*	*159*	-	-
heat	-	-	-	*350*	-
coal	-	-	-	*17*	-
other energy products	-	-	-	-	-
inter-segment revenues	*94*	*124*	*33*	*99*	-
Sales: Other	-	8	-	15	7
external revenues	-	*8*	-	*15*	*5*
inter-segment revenues	-	-	-	-	*2*
Gain (loss) from commodity derivatives for trading with electricity and gas, net	-	(23)	-	-	-
Total sales	**752**	**1,793**	**192**	**598**	**13**
Cost of sales: Energy	(44)	(1,208)	(12)	(338)	-
external cost of sales	*(41)*	*(916)*	*(11)*	*(316)*	-
inter-segment cost of sales	*(3)*	*(292)*	*(1)*	*(22)*	-
Cost of sales: Other	-	(1)	-	(23)	(4)
external cost of sales	-	*(1)*	-	*(23)*	*(4)*
inter-segment cost of sales	-	-	-	-	-
Personnel expenses	(30)	(97)	(21)	(61)	(1)
Depreciation and amortisation	(84)	(153)	(21)	(70)	(3)
Repairs and maintenance	(1)	(4)	-	(5)	-
Emission rights, net	-	-	-	(22)	-
Negative goodwill	-	-	5	-	-
Taxes and charges	(1)	(1)	(3)	(3)	-
Other operating income	1	15	-	22	-
Other operating expenses	(14)	(36)	(16)	(20)	(2)
Operating profit	**579**	**308**	**124**	**78**	**3**

	EPPE Group							
	Generation and Mining	**Renewable Energy**	**EPPE Other**	**EPH Other**	**Total segments**	**Holding Entities**	**Inter-segment eliminations**	**Consolidated Financial Information**
Sales: Energy	3,333	409	-	239	7,322	-	(642)	6,680
external revenues	*3,259*	*374*	-	*57*	*6,680*	-	-	*6,680*
of which: electricity	*2,180*	*374*	-	-	*3,828*	-	-	*3,828*
gas	*807*	-	-	-	*2,156*	-	-	*2,156*
heat	*3*	-	-	*1*	*354*	-	-	*354*
coal	*267*	-	-	*53*	*337*	-	-	*337*
other energy products	*2*	-	-	*3*	*5*	-	-	*5*
inter-segment revenues	*74*	*35*	-	*183*	*642*	-	*(642)*	-
Sales: Other	148	32	-	205	415	4	(15)	404
external revenues	*148*	*32*	-	*194*	*402*	*2*	-	*404*
inter-segment revenues	-	-	-	*11*	*13*	*2*	*(15)*	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net	(64)	-	-	-	(87)	-	1	(86)
Total sales	**3,417**	**441**	**-**	**444**	**7,650**	**4**	**(656)**	**6,998**
Cost of sales: Energy	(2,449)	(317)	-	(4)	(4,372)	-	458	(3,914)
external cost of sales	*(2,309)*	*(317)*	-	*(4)*	*(3,914)*	-	-	*(3,914)*
inter-segment cost of sales	*(140)*	-	-	-	*(458)*	-	*458*	-
Cost of sales: Other	(62)	(49)	-	(400)	(539)	-	183	(356)
external cost of sales	*(62)*	*(49)*	-	*(217)*	*(356)*	-	-	*(356)*
inter-segment cost of sales	-	-	-	*(183)*	*(183)*	-	*183*	-
Personnel expenses	(251)	(16)	-	(19)	(496)	(10)	-	(506)
Depreciation and amortisation	(184)	(40)	-	(3)	(558)	-	-	(558)
Repairs and maintenance	(50)	(4)	-	(1)	(65)	-	-	(65)
Emission rights, net	(140)	6	-	-	(156)	-	-	(156)
Negative goodwill	-	-	-	-	5	-	-	5
Taxes and charges	(73)	(1)	-	-	(82)	-	-	(82)
Other operating income	85	6	-	16	145	1	(8)	138
Other operating expenses	(174)	(29)	-	(17)	(308)	(21)	15	(314)
Operating profit	**119**	**(3)**	**-**	**16**	**1,224**	**(26)**	**(8)**	**1,190**

Operating segments

FOR THE YEAR ENDED 31 DECEMBER 2018 (CONTINUED)

In millions of EUR

	EPIF Group					EPPE Group							
	Gas Transmission	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
Finance income	1	1	4	2	-	15	-	-	32	55	*1,276	*(1,285)	46
external finance revenues	*-*	*1*	*-*	*-*	*-*	*5*	*-*	*-*	*17*	*23*	*23*	*-*	*46*
inter-segment finance revenues	*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, special purpose entities, joint ventures and associates	-	-	-	-	-	-	-	-	1	1	-	-	1
Profit (loss) before income tax	**534**	**291**	**122**	**60**	**2**	**79**	**(10)**	**3**	**60**	**1,141**	**960**	**(1,175)**	**926**
Income tax expenses	(141)	(75)	(30)	(10)	-	(31)	(1)	-	(8)	(296)	-	-	(296)
Profit (loss) for the year	**393**	**216**	**92**	**50**	**2**	**48**	**(11)**	**3**	**52**	**845**	**960**	**(1,175)**	**630**

* 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.

	Gas Transmission	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
Other financial information:													
EBITDA[(1)]	663	461	140	148	6	303	37	-	19	1 777	(26)	(8)	1 743

(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.

Operating segments

FOR THE YEAR ENDED 31 DECEMBER 2017

In millions of EUR

	EPIF Group					EPPE Group							
	Gas Transmission	Gas and Power Distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining[1]	Renewable Energy	EPPE Other	EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
Sales: Energy	755	1,771	185	556	5	2,671	43	-	153	6,139	-	(465)	5,674
external revenues	*705*	*1,704*	*150*	*462*	*5*	*2,588*	*43*	-	*17*	*5,674*	-	-	*5,674*
of which: Electricity	-	*1,184*	-	*109*	*5*	*1,702*	*43*	-	-	*3,043*	-	-	*3,043*
Gas	*705*	*520*	*150*	-	-	*614*	-	-	-	*1,989*	-	-	*1,989*
Heat	-	-	-	*342*	-	*2*	-	-	*1*	*345*	-	-	*345*
Coal	-	-	-	*11*	-	*268*	-	-	*15*	*294*	-	-	*294*
Other energy products	-	-	-	-	-	*2*	-	-	-	*3*	-	-	*3*
inter-segment revenues	*50*	*67*	*35*	*94*	-	*83*	-	-	*136*	*1,070*	-	*(465)*	-
Sales: Other	-	7	-	17	5	128	26	-	185	368	1	(12)	357
external revenues	-	*7*	-	*17*	*4*	*128*	*26*	-	*174*	*356*	*1*	-	*357*
inter-segment revenues	-	-	-	-	*1*	-	-	-	*11*	*12*	-	*(12)*	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net	-	(6)	-	-	-	(20)	-	-	-	(26)	-	-	(26)
Total sales	**755**	**1,772**	**185**	**573**	**10**	**2,779**	**69**	**-**	**338**	**6,481**	**1**	**(477)**	**6,005**
Cost of sales: Energy	(47)	(1,105)	(18)	(326)	-	(1,825)	(44)	-	(5)	(3,370)	-	331	(3,039)
external cost of sales	*(43)*	*(867)*	*(17)*	*(293)*	-	*(1,770)*	*(44)*	-	*(5)*	*(3,039)*	-	-	*(3,039)*
inter-segment cost of sales	*(4)*	*(238)*	*(1)*	*(33)*	-	*(55)*	-	-	-	*(331)*	-	*331*	-
Cost of sales: Other	-	(1)	-	(17)	(3)	(28)	(39)	-	(302)	(390)	1	136	(253)
external cost of sales	-	*(1)*	-	*(17)*	*(3)*	*(28)*	*(39)*	-	*(166)*	*(254)*	*1*	-	*(253)*
inter-segment cost of sales	-	-	-	-	-	-	-	-	*(136)*	*(136)*	-	*136*	-
Personnel expenses	(29)	(94)	(22)	(58)	(1)	(246)	(9)	-	(16)	(475)	(7)	-	(482)
Depreciation and amortisation	(88)	(163)	(19)	(72)	(3)	(178)	(1)	-	(3)	(527)	-	-	(527)
Repairs and maintenance	(1)	(4)	-	(2)	-	(47)	-	-	(1)	(55)	-	-	(55)
Emission rights, net	-	-	-	(20)	-	(102)	-	-	-	(122)	-	-	(122)
Negative goodwill	-	-	-	-	-	49	-	-	-	49	-	-	49
Taxes and charges	(1)	(1)	(3)	(3)	-	(59)	-	-	-	(67)	-	-	(67)
Other operating income	2	18	4	23	2	50	1	-	12	112	1	(4)	109
Other operating expenses	(15)	(34)	(2)	(13)	(2)	(194)	(12)	(1)	(10)	(283)	(25)	13	(295)
Operating profit	**576**	**388**	**125**	**85**	**3**	**199**	**(35)**	**(1)**	**13**	**1,353**	**(29)**	**(1)**	**1,323**

Operating segments

FOR THE YEAR ENDED 31 DECEMBER 2017 (CONTINUED)

In millions of EUR

	EPIF Group					EPPE Group							
	Gas Transmission	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
Finance income	3	1	4	2	-	15	1	-	14	40	*1,058	*(1,062)	36
external finance revenues	*2*	*1*	-	*1*	-	*9*	*1*	-	-	*14*	*22*	-	*36*
inter-segment finance revenues	*1*	-	*4*	*1*	-	*6*	-	-	*14*	*26*	**1,036*	**(1,062)*	-
Finance expense	(44)	(19)	(7)	(8)	(2)	(34)	(4)	-	(15)	(133)	(208)	107	(234)
Profit (loss) from financial instruments	-	(2)	(2)	1	-	(9)	10	-	(63)	(65)	33	-	(32)
Share of profit (loss) of equity accounted investees, net of tax	-	(1)	(3)	-	-	89	-	-	88	173	-	(66)	107
Gain (loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-	-	-	-	-	-	-	-	-	-	-	-
Profit (loss) before income tax	**535**	**367**	**117**	**80**	**1**	**260**	**(28)**	**(1)**	**37**	**1,368**	***854**	***(1,022)**	**1,200**
Income tax expenses	(147)	(96)	(30)	(13)	-	(46)	7	-	(3)	(328)	-	-	(328)
Profit (loss) for the year	**388**	**271**	**87**	**67**	**1**	**214**	**(21)**	**(1)**	**34**	**1,040**	***854**	***(1,022)**	**872**

* EUR 954 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.

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries.

	Gas Transmission	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
Other financial information:													
EBITDA(1)	664	551	144	157	6	328	(34)	(1)	16	1,831	(29)	(1)	1,801

(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 2018

In millions of EUR

	Gas Transmission	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
Profit from operations	**579**	**308**	**124**	**78**	**3**	**119**	**(3)**	**-**	**16**	**1,224**	**(26)**	**(8)**	**1,190**
Depreciation and amortisation	84	153	21	70	3	184	40	-	3	558	-	-	558
Negative goodwill	-	-	(5)	-	-	-	-	-	-	(5)	-	-	(5)
EBITDA	**663**	**461**	**140**	**148**	**6**	**303**	**37**	**-**	**19**	**1,777**	**(26)**	**(8)**	**1,743**

FOR THE YEAR ENDED 31 DECEMBER 2017

In millions of EUR

	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining[(1)]	Renewable Energy	EPPE Other	EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
Profit from operations	**576**	**388**	**125**	**85**	**3**	**199**	**(35)**	**(1)**	**13**	**1,353**	**(29)**	**(1)**	**1,323**
Depreciation and amortisation	88	163	19	72	3	178	1	-	3	527	-	-	527
Negative goodwill	-	-	-	-	-	(49)	-	-	-	(49)	-	-	(49)
EBITDA	**664**	**551**	**144**	**157**	**6**	**328**	**(34)**	**(1)**	**16**	**1,831**	**(29)**	**(1)**	**1,801**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries.

Operating segments

Operating segments

NON-CURRENT ASSETS AND LIABILITIES

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)	51	81	6	52	1	114	66	-	8	379	-	-	379
Equity accounted investees	-	1	-	-	-	869	-	-	191	1,061	-	-	1,061

FOR THE YEAR ENDED 31 DECEMBER 2017

In millions of EUR

	Gas Trans-mission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining[1]	Renewable Energy	EPPE Other	EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	2,719	4,028	836	1,089	38	3,216	741	-	664	13,331	3,456	(3,996)	12,791
Reportable segment liabilities	(1,888)	(1,524)	(485)	(676)	(41)	(2,277)	(513)	(4)	(437)	(7,845)	(6,267)	3,996	(10,116)
Additions to tangible and intangible assets	15	78	6	73	1	97	200	-	2	472	1	-	473
Additions to tangible and intangible assets (excl. emission rights)	14	77	5	48	1	93	200	-	2	440	1	-	441
Equity accounted investees	-	1	-	-	-	512	-	-	194	707	-	-	707

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries.

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 2018

In millions of EUR

	Czech Republic	Slovakia	Germany	Italy	United Kingdom	Hungary	Other	Total segments
Property, plant and equipment	887	5,666	732	401	797	42	7	8,532
Intangible assets	154	67	43	40	50	8	-	362
Investment property	3	-	-	-	-	-	-	3
Total	**1,044**	**5,733**	**775**	**441**	**847**	**50**	**7**	**8,897**

In millions of EUR

	Czech Republic	Slovakia	Germany	Italy	United Kingdom	Hungary	Other	Total segments
Sales: Electricity	359	815	360	1,293	800	29	172	3,828
Sales: Gas	262	1,078	131	1	268	56	360	2,156
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	(108)	(3)	34	-	(10)	1	-	(86)
Total	**927**	**1,931**	**948**	**1,290**	**1,086**	**157**	**659**	**6,998**

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

FOR THE YEAR ENDED 31 DECEMBER 2017

In millions of EUR

	Czech Republic	Slovakia	Germany	Italy	United Kingdom	Hungary	Other	Total segments
Property, plant and equipment	789	5,772	596	435	791	39	8	8,430
Intangible assets	147	90	47	40	42	3	-	369
Investment property	3	-	-	-	-	-	-	3
Total	**939**	**5,862**	**643**	**475**	**833**	**42**	**8**	**8,802**

In millions of EUR

	Czech Republic	Slovakia	Germany	Italy	United Kingdom	Hungary	Other	Total segments
Sales: Electricity	315	868	174	1,259	367	23	37	3,043
Sales: Gas	255	1,050	169	-	174	-	341	1,989
Sales: Heat	274	-	2	-	-	68	1	345
Sales: Coal	13	11	267	-	-	-	3	294
Sales: Other energy products	2	-	-	-	1	-	-	3
Sales: Other	109	8	132	1	-	1	106	357
Gain (loss) from commodity derivatives for trading with electricity and gas, net	(26)	-	-	-	-	-	-	(26)
Total	**942**	**1,937**	**744**	**1,260**	**542**	**92**	**488**	**6,005**

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 2018

In millions of EUR

	Date of acquisition	Purchase price	Cash paid	Other considera-tion	Purchase price liability	Equity interest acquired %	Equity interest after acquisition %
New subsidiaries							
SAJDOK a.s.	5/01/2018	2	2	-	-	100	100
Plzeňská teplárenská, a.s.	31/10/2018	43	-	(1) 43	-	(2) 35	(3) 35
NAFTA Germany GmbH and its subsidiaries (NAFTA Germany)	31/12/2018	113	118	(4) (5)	-	100	(5) 100
Total		**158**	**120**	**38**	**-**	**-**	**-**

(1) The amount EUR 43 million represents 65% of NAV of Plzeňská energetika a.s. as at the date of merger. This amount represents the consideration transferred.
(2) Including management control.
(3) Effective ownership of EPH Group is 24.15%.
(4) Transfer tax from acquisition paid by previous owner.
(5) 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 Group through NAFTA Germany GmbH, a subsidiary of NAFTA a.s. has completed acquisition of 80.3% underground gas storage facilities Inzenham – West, Wolfersberg and Breitbrunn/Eggstätt in the German state of Bavaria from DEA Deutsche Erdoel AG and Storengy Deutschland GmbH. 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 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 transaction resulted in derecognition of non-controlling interest in total amount of EUR 23 million.

II. 31 DECEMBER 2017

In millions of EUR

	Date of acquisition	Purchase price	Cash paid	Other considera-tion	Purchase price liability	Equity interest acquired %	Equity interest after acquisition %
New subsidiaries							
SPEDICA GROUP COMPANIES, s.r.o. and its subsidiaries (Spedica Group)	30/01/2017	-	-	-	-	(1)-	(1)-
EP SHB LIMITED and EP LANGAGE LIMITED	31/08/2017	86	(86)	-	-	100	100
Kraftwerk Mehrum GmbH (KWM)	1/11/2017	1	(1)	-	-	100	100
POZAGAS a.s.	12/12/2017	73	(22)	(2)(51)	-	30	(3)100
EP New Energy Italia S.R.L., and its subsidiaries (EPNEI Group)	15/12/2017	121	(100)	-	(4)(21)	100	100
Total		**281**	**(209)**	**(51)**	**(21)**	**-**	**-**

(1) Equity interest within the Group varies, for details refer to Note 39 – Group entities.
(2) Fair value of interest already held as at the date of step acquisition.
(3) Effective ownership of EPH Group is 42.77%.
(4) As at 31 December 2017, EUR 21 million of the purchase price liability was not settled yet.

On 5 April 2017 Stredoslovenská energetika a.s. acquired 100% share in SPV100, s.r.o. for EUR 0.6 million. The value of net assets acquired was approximately zero.

SPEDICA GROUP

On 30 January 2017, the EPH Group completed the transaction for purchase of 67.33% share in SPEDICA GROUP COMPANIES, s.r.o. and became a majority shareholder of the company. Spedica Group comprises several companies providing services in rail, sea and road transport. Integrating the activities of these two partners will strengthen their position on the transport and logistics market and enable them to offer customers a more comprehensive and wide range of services.

EP LANGAGE LIMITED AND EP SHB LIMITED

On 31 August 2017, the EPH Group through EP UK INVESTMENTS LTD, a subsidiary of EP Power Europe a.s., acquired EP LANGAGE LIMITED and EP SHB LIMITED from CENTRICA PLC for GBP 80 million (EUR 86 million). The acquired companies operate Langage Limited and South Humber Bank combined cycle gas turbine power stations with a combined capacity of 2.3 GW The acquisition is part of EPH's strategy to extend its presence in the UK, where EPH already owns Eggborough and Lynemouth power stations.

KRAFTWERK MEHRUM GMBH

On 1 November 2017, the EPH Group through its subsidiary EP Power Europe, a.s. acquired Kraftwerk Mehrum GmbH ("KWM") from Enercity (Stadtwerke Hannover Aktiengesellschaft) and BS Energy for EUR 1.2 million. KWM owns and operates Mehrum coal-fired power plant with installed capacity of 750 MW. EP Mehrum GmbH (a 100% subsidiary of EP Power Europe, a.s), representing the Germany interests of the Group, will manage the power plant.

EPNEI GROUP

On 15 December 2017, the EPH Group through its subsidiary EP Power Europe, a.s acquired the biomass power plants owned by Biomasse Italia S.P.A. and Biomasse Crotone S.P.A., with a combined capacity of 73 MW from Bioenergie S.P.A. and Api No´Va Energia S.R.L. for EUR 121 million. EP New Energy Italia S.R.L., representing the Italy interests of the Group, will manage the biomass power plants. The acquisition was a part of the EPH Group's strategy to expand into the European renewables business. The acquired companies operate in the energy valorisation of the Italian wooden biomass.

STEP ACQUISITION

On 12 December 2017 NAFTA a.s. acquired a 30% share in POZAGAS a.s. for EUR 22 million. This transaction resulted in change of the Group's ownership interest in POZAGAS a.s. to 42.77% and EPH Group obtained control of this entity (indirect control through subsidiary company NAFTA a.s. holding 65% interest in POZAGAS a.s. and SPP Infrastructure, a.s. holding 35% interest in POZAGAS a.s.).

ACQUISITION OF NON-CONTROLLING INTEREST

On 2 June 2017 Pražská teplárenská, a.s. acquired a 5% share in PT Transit, a.s. (previously Energotrans SERVIS a.s.) This transaction resulted in a total change of ownership interest of Pražská teplárenská, a.s. in PT Transit, a.s. from 95% to 100% share and derecognition of non-controlling interest in amount of EUR 3 million.

On 14 December 2017 PT Holding Investments B.V. („PTHI") acquired 51% in Pražská teplárenská Holding a.s. („PTH") that holds 47.42% in Pražská teplárenská. a.s. („PT") and two other minor companies (see Note 39 – Group entities). The PTHI increased by this transaction its shareholding in PTH from 49% to 100% and effectively the Group increased its shareholding in PT from 50.93% to 67.62%. PTHI paid for the share in PTH EUR 121 million and gained control over cash held by PTH of EUR 13 million (net cash paid EUR 108 million) and derecognised non-controlling interest of EUR 47 million.

B EFFECT OF ACQUISITIONS

I. 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.

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2018 Total(1)
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)**
Net identifiable assets and liabilities	**251**	**(10)**	**241**
Non-controlling interest			**(79)**
Goodwill on acquisitions of a subsidiary			**1**
Negative goodwill on acquisition of new subsidiaries			**(5)**
Cost of acquisition			**158**
Consideration paid, satisfied in cash (A)			**120**
Purchase price liability			**-**
Consideration, other(2)			**38**
Total consideration transferred			**158**
Less: Cash acquired (B)			**75**
Net cash inflow (outflow) (C) = (B – A)			**(45)**

(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 consolidated financial statements, the purchase price allocation process for NAFTA Germany GmbH has not been completed. It is therefore possible that adjustments will be made in the allocation of the purchase price to the individual assets and liabilities and recognition of negative goodwill.

II. 31 DECEMBER 2017

SUBSIDIARIES

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date of SPEDICA GROUP COMPANIES, s.r.o. and its subsidiaries (Spedica Group), EP SBH LIMITED, EP LANGAGE LIMITED, Kraftwerk Mehrum GmbH (KWM), POZAGAS a.s. and EP New Energy Italia S.R.L. and its subsidiaries (EPNEI Group) are provided in the following table.

In millions of EUR

	Carrying amount(1)	Fair value adjustment provisional	2017 Total provisional(1)	Adjust-ments to purchase price allocation	2017 Total final(1)
Property, plant, equipment, land, buildings	513	1	514	-	**514**
Intangible assets	11	-	11	-	**11**
Trade receivables and other assets	115	(1)	114	-	**114**
Financial instruments – assets	1	-	1	-	**1**
Inventories	68	-	68	-	**68**
Cash and cash equivalents	74	-	74	-	**74**
Deferred tax asset	1	5	6	(5)	**1**
Provisions	(44)	(21)	(65)	-	**(65)**
Deferred tax liabilities	(14)	1	(13)	-	**(13)**
Loans and borrowings	(335)	(1)	(336)	-	**(336)**
Financial instruments – liabilities	(3)	-	(3)	-	**(3)**
Trade payables and other liabilities	(74)	-	(74)	-	**(74)**
Net identifiable assets and liabilities	**313**	**(16)**	**297**	**(5)**	**292**
Non-controlling interest			-	-	**-**
Goodwill on acquisitions of a subsidiary			38	-	**38**
Negative goodwill on acquisition of new subsidiaries			(54)	5	**(49)**
Cost of acquisition			**281**	**-**	**281**
Consideration paid, satisfied in cash (A)			209	-	**209**
Purchase price liability			21	-	**21**
Consideration, other			51	-	**51**
Total consideration transferred			**281**	**-**	**281**
Less: Cash acquired (B)			74	-	**74**
Net cash inflow (outflow) (C) = (B – A)			**(135)**	**-**	**(135)**

(1) Represents values at 100% share.

As at the date of publication of the 2017 consolidated financial statements, the purchase price allocation process for EP SHB LIMITED, EP LANGAGE LIMITED and Kraftwerk Mehrum GmbH had not been completed and provisional amounts were reported as at and for the year ended 31 December 2017. The purchase price allocation process was completed in 2018 and lead to adjustments and reclassifications presented in the table above.

As a result of these adjustments, fair value of deferred tax assets recognised by KWM and negative goodwill from acquisition of KWM decreased by EUR 5 million. Final amounts for purchase price allocation reported for EP SHB LIMITED and EP LANGAGE LIMITED were identical as provisional amounts.

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 149 million. For the development of historical goodwill, please refer to Note 17 – Intangible assets (including goodwill).

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.

In 2017, the Group recognised goodwill of EUR 38 million from the acquisition of EPNEI Group and Spedica Group and negative goodwill of EUR 49 million from the acquisition Kraftwerk Mehrum GmbH, EP SHB LIMITED and EP LANGAGE LIMITED.

In 2017 gain on a bargain purchase of Kraftwerk Mehrum GmbH of EUR 43 million is attributable to the following facts: the sellers were exiting the coal generation of their portfolio and due to sector characteristics there was a limited number of bidders. Furthermore, Kraftwerk Mehrum GmbH is heavily exposed to the commodity market as well as energy/environmental regulation which both have been quite volatile during the last few years in Germany.

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.

In millions of EUR

	2018 Total
Revenue of the acquirees recognised since the acquisition date	27
Profit (loss) of the acquirees recognised since the acquisition date	2

In millions of EUR

	2017 Total
Revenue of the acquirees recognised since the acquisition date	255
Profit (loss) of the acquirees recognised since the acquisition date	25

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 2018 or as at 1 January 2017); this financial information was derived from the statutory or IFRS financial statements of the acquired entities.

In millions of EUR

	2018 Total
Revenue of the acquirees recognised in the year ended 31 December 2018*	120
Profit (loss) of the acquires recognised in the year ended 31 December 2018*	32

In millions of EUR

	2017 Total
Revenue of the acquirees recognised in the year ended 31 December 2017*	610
Profit (loss) of the acquires recognised in the year ended 31 December 2017*	14

* 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 2018 AND 2017

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 2018 are presented in the following table:

In millions of EUR

	Property, plant and equipment	Intangible assets	Financial instruments – assets	Provisions	Deferred tax asset/ (liability)	Total net effect on financial position
Subsidiary						
Plzeňská teplárenská, a.s.	(63)	1	2	(16)	(1) 16	**(60)**
NAFTA Germany GmbH	76	-	-	(6)	(20)	**50**
Total	**13**	**1**	**2**	**(22)**	**(4)**	**(10)**

(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.

Fair value adjustments resulting from business combinations in 2017 are presented in the following table:

In millions of EUR

	Property, plant and equipment	Trade receivables and other assets	Provisions	Deferred tax asset/ (liability)	Loans and borrowings	Total net effect on financial position
Subsidiary						
EP SHB LIMITED and EP LANGAGE LIMITED	(3)	-	(1)	(1) 1	(1)	**(4)**
Kraftwerk Mehrum GmbH	1	-	(18)	-	-	**(17)**
POZAGAS a.s.	4	(1)	(2)	-	-	**1**
EP New Energy Italia S.R.L. and its subsidiaries	(1)	-	-	-	-	**(1)**
	1	**(1)**	**(21)**	**1**	**(1)**	**(21)**

(1) Represents decrease in deferred tax liability.

The fair value adjustments resulting from the purchase price allocation of Spedica Group were not significant and therefore management of the Group decided not to recognise any fair value adjustment resulting from this business combination in 2017.

Acquisitions and disposals of subsidiaries, joint ventures and associates

D DISPOSAL OF INVESTMENTS

I. 31 DECEMBER 2018

On 29 November 2018 the Group disposed SPEDICA AGRO, s.r.o. The effect is provided in the following table:

In millions of EUR

	Net assets sold in 2018
Property, plant and equipment	1
Trade receivables and other assets	2
Cash and cash equivalents	1
Trade payables and other liabilities	(2)
Net identifiable assets and liabilities	**2**
Non-controlling interest	(1)
Net assets value disposed	**1**
Sales price	2
Gain (loss) on disposal	**1**

II. 31 DECEMBER 2017

During the year 2017 the Group did not dispose any of its investments.

On 3 July 2017 in connection with the termination of the liquidation process of Eggborough Holdco 2 S. à r.l., the entity was deconsolidated without any significant impact on the Group's financial statements.

On 4 October 2017 in connection with the termination of the liquidation process of EBEH Opatovice, a.s. v likvidaci, the entity was deconsolidated without any significant impact on the Group's financial statements.

DISPOSAL OF 31% INTEREST IN EPIF GROUP

On 24 February 2017, EPH completed the previously concluded agreement with a consortium of global institutional investors led by Macquarie Infrastructure and Real Assets (MIRA) on the sale of a 31% stake in EPIF Infrastructure, a.s., its subsidiaries and associates (for structure of EPIF Group, refer to Note 39 – Group entities). The remaining 69% of EPIF Group remains with EPH, which retains management control over EPIF. EPH recognised non-controlling interest of EUR 36 million as a result of the transaction. The difference between consideration received and non-controlling interest recognised was recorded directly in equity.

7. Sales

In millions of EUR

	2018	[1]2017
Sales: Energy		
of which: Electricity	3,828	3,043
Gas	2,156	1,989
Heat	354	345
Coal	337	294
Other	5	3
Total Energy	**6,680**	**5,674**
Sales: Other	**404**	**357**
Total revenues from customers	**7,084**	**6,031**
Gain (loss) from commodity derivatives for trading with electricity and gas, net	**(86)**	**(26)**
Total	**6,998**	**6,005**

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.

For disaggregation of revenue based on type of service and based on geographical area refer to Note 5 – Operating segments.

In millions of EUR

	31 December 2018	1 January 2018
Contract assets	37	36
Current	*37*	*36*
Non-current	-	-
Contract liabilities	168	154
Current	*74*	*87*
Non-current	*94*	*77*

As at 1 January 2018 the amount of current contract liabilities amounted to EUR 87 million. The entire amount was recognised as revenue during the year 2018.

Contract assets and contract liabilities as at 31 December 2018 include:

– not invoiced part of fulfilled performance obligation reclassified from Trade receivables and other assets to Contract assets of EUR 37 million;

– received payments for services and goods where control over the assets was not transferred to customer reclassified from Trade payables and other liabilities to Contract liabilities of EUR 74 million;

– deferred income related to grid connection fees collected and free-of-charge non-current assets transferred from customers reclassified to Contract liabilities in a total amount of EUR 94 million.

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 customer 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.

8. Cost of sales

In millions of EUR

	2018	2017
Cost of Sales: Energy		
Consumption of coal and other material	1,536	967
Cost of sold electricity	1,337	967
Cost of sold gas and other energy products	764	825
Consumption of energy	168	139
Other cost of sales	109	141
Total Energy	**3,914**	**3,039**
Cost of Sales: Other		
Other cost of goods sold	205	154
Other cost of sales	119	75
Consumption of material	24	15
Consumption of energy	10	8
Changes in WIP, semi-finished products and finished goods	(2)	1
Total Other	**356**	**253**
Total	**4,270**	**3,292**

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

In millions of EUR

	2018	2017
Wages and salaries	345	323
Compulsory social security contributions	106	102
Expenses and revenues related to employee benefits (IAS 19)	25	30
Board members' remuneration (including boards of subsidiaries)	6	6
Other social expenses	24	21
Total	**506**	**482**

The average number of employees during 2018 was 10,711 (2017: 10,237), of which 246 were executives (2017: 229).

10. Emission rights

In millions of EUR

	2018	[1]2017
Deferred income (grant) released to profit and loss	14	10
Profit (loss) from sale of emission rights	(48)	(12)
Creation of provision for emission rights	(231)	(102)
Gain (loss) from commodity derivatives for trading with emission rights, net	109	(18)
Use of provision for emission rights	107	80
Consumption of emission rights	(107)	(80)
Total	**(156)**	**(122)**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries. The comparative information has been restated as described in Note 3(a). The change in fair value of commodity derivatives with emission rights previously included in line item "Profit (loss) from financial instruments" was reclassified to line item "Emission rights, net".

The Ministries of the Environment of the Czech Republic, Slovakia, Germany, Hungary, Italy 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.

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 Erömü Zrt., LYNEMOUTH POWER LIMITED, EP UK INVESTMENTS LTD and its selected subsidiaries, Fiume Santo S.P.A., Centro Energia Ferrara S.R.L. and EP Produzione S.P.A.

11. Taxes and charges

In millions of EUR

	2018	2017
Carbon price support[1]	56	41
Property tax and real estate transfer tax	8	10
Electricity tax	8	7
Other taxes and charges expenses (revenues)	10	9
Total	**82**	**67**

(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

In millions of EUR

	2018	2017
Consulting fees	20	9
Profit from disposal of tangible and intangible assets	[1]19	[1]18
Tolling fee	15	-
Compensation from insurance companies	11	27
Contractual penalties	10	3
Rental income	7	8
Property acquired free-of-charge and fees from customers	6	7
Inventories surplus	6	1
Ecological tax reimbursement	6	5
Transportation revenues	4	4
Profit from sale of material	3	5
Decentralization and cogeneration fee	3	-
Revenues from written off liabilities	-	4
Other	28	18
Total	**138**	**109**

(1) 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 (2017: sale of Nový Veleslavín a.s. in amount of EUR 7 million representing land and not utilized non-production buildings).

13. Other operating expenses

In millions of EUR

	2018	2017
Office equipment and other material	59	53
Consulting expenses	49	47
Outsourcing and other administration fees	49	44
Rent expenses	41	34
Impairment losses	37	6
Of which relates to: Property, plant and equipment and intangible assets	*(1) 18*	*1*
Trade receivables and other assets	*16*	*3*
Goodwill	*(2) 3*	-
Inventories	-	*2*
Information technologies costs	17	16
Transport expenses	17	12
Insurance expenses	14	15
Re-transmission fee[3]	10	9
Fees and commissions expense – intermediation	6	6
Gifts and sponsorship	6	4
Advertising expenses	5	4
Security services	4	3
Contractual penalties	4	-
Training, courses, conferences	2	3
Communication expenses	2	2
Shortages and damages	1	1
Loss from written off receivables	-	1
Change in provisions, net	(18)	48
Own work capitalised to fixed assets[4]	(44)	(43)
Other	53	30
Total	**314**	**295**

(1) 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.
(2) Impairment of goodwill recorded by Plzeňská energetika a.s.
(3) 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.
(4) Own work capitalized includes also expenses presented within line items other that Other operating expenses.

No significant research and development expenses were recognised in profit and loss for the year 2018 and 2017.

FEES PAYABLE TO STATUTORY AUDITORS

In millions of EUR

	2018	2017
Statutory audits	2	1
Other attestation services	1	-
Total	**3**	**1**

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

	2018	[(1)]2017
Interest income	22	24
Dividend income	18	10
Other finance income	6	2
Finance income	**46**	**36**
Interest expense incl. various financing and refinancing related fees	(197)	(196)
Interest expense from unwind of provision discounting	(10)	(14)
Net foreign exchange loss	(6)	(15)
Fees and commissions expense for payment transactions	(4)	(1)
Fees and commissions expense for guarantees	(4)	(1)
Fees and commissions expense for other services	(13)	(7)
Finance expense	**(234)**	**(234)**
Profit (loss) from assets at fair value through profit or loss[(2)]	32	-
Profit (loss) from hedging derivatives	3	6
Profit (loss) from currency derivatives for trading	1	(11)
Profit (loss) from assets at fair value through OCI	(2)	-
Profit (loss) from commodity derivatives for trading	(4)	(9)
Profit (loss) from revaluation of contingent consideration[(3)]	(35)	-
Impairment losses on financial assets[(4)]	(63)	(17)
Profit (loss) from other derivatives for trading	-	(1)
Profit (loss) from financial instruments	**(68)**	**(32)**
Net finance income (expense) recognised in profit or loss	**(256)**	**(230)**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries. The comparative information has been restated as described in Note 3(a). The change in fair value of commodity derivatives with emission rights previously included in line item "Profit (loss) from financial instruments" was reclassified to line item "Emission rights, net".

(2) Profit from assets at FVTPL consists 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 MÁTRAI 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 balance sheet date, EPH holds 11% indirect share in ME, which is recorded in Financial instruments and other financial assets.
Profit from assets at FVTPL of EUR 4 million is a result of sale of 10% share in Veolia Energie ČR, a.s. As at 31 December 2017 these shares were reclassified from Shares available for sale to Shares at fair value through profit or loss. Cost was used as the best approximate of fair value as these equity instruments did not have a quoted market price in an active market and their fair value could not be otherwise measured reliably. Subsequently in 2018 the Group sold whole 10% interest in Veolia Energie ČR, a.s. to a third party and reported a profit from sale of EUR 4 million.

(3) For details refer to note 34 – Trade payables and other liabilities.

(4) For details refer to note 19 – Equity accounted investees and note 33 – Financial instruments.

15. Income tax expenses

INCOME TAXES RECOGNISED IN PROFIT OR LOSS

In millions of EUR

	2018	2017
Current taxes:		
Current year	(321)	(362)
Adjustment for prior periods	3	(4)
Witholding tax	(4)	-
Total current taxes	**(322)**	**(366)**
Deferred taxes:		
Origination and reversal of temporary differences[(1)]	26	38
Total deferred taxes	**26**	**38**
Total income taxes (expense) benefit recognised in profit or loss	**(296)**	**(328)**

(1) For details refer to Note 20 – Deferred tax assets and liabilities.

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 2018 and 2017. The Slovak corporate income tax rate is 21% for fiscal year 2018 (2017: 21%). The German federal income tax rate range for 2018 is 28.47% – 30.00% (2017: 28.66% – 30.00%) and Poland income tax rate for fiscal years 2018 and 2017 is 19%. Italian income tax rate for fiscal year 2018 is 24% (2017: 24%) and Hungarian income tax rate for fiscal year 2018 is 9% (2017: 9%). British income tax rate for fiscal year 2018 is 19% (2017: 19%). Current year income tax includes also special sector tax effective in Slovakia and Hungary.

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

In millions of EUR

	2018		
	Gross	Income tax	Net of income tax
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[(1)]	327	9	336
Fair value reserve included in other comprehensive income[(1)]	22	(1)	21
Total	**335**	**8**	**343**

(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.

In millions of EUR

	2017		
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	(139)	-	(139)
Foreign currency translation differences from presentation currency	126	-	126
Effective portion of changes in fair value of cash-flow hedges[1]	8	(5)	3
Fair value reserve included in other comprehensive income[1]	(8)	(1)	(9)
Total	**(13)**	**(6)**	**(19)**

(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

In millions of EUR

		2018		2017
	%		%	
Profit before tax		926		1,200
Income tax using the Company's domestic rate (19%)	19.0%	176	19.0%	228
Effect of tax rates in foreign jurisdictions	3.0%	28	2.8%	34
Non-deductible expenses[2]	6.3%	58	3.2%	38
Other non-taxable income[3]	(2.4%)	(22)	(4.9%)	(59)
Change in tax rate	(0.1%)	(1)	-	-
Tax incentives	(0.1%)	(1)	-	-
Recognition of previously unrecognized tax losses	(0.5%)	(5)	-	-
Effect of special levy for business in regulated services	5.7%	53	5.3%	64
Current year losses for which no deferred tax asset was recognised	1.3%	12	1.6%	19
Withholding tax, income tax adjustments for prior periods	0.2%	2	0.3%	4
Revenues from dividends	(0.4%)	(4)	-	-
Income taxes recognised in profit or loss	**32.0%**	**296**	**27.3%**	**328**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries.
(2) The basis consists mainly of non-deductible interest expense of EUR 80 million (2017: EUR 62 million), creation of provisions of EUR 17 million (2017: EUR 65 million), revaluation of contingent consideration of EUR 35 million (2017: EUR 0 million) and impairment of loans of EUR 74 million (2017: EUR 0 million).
(3) The basis consists mainly of release of provisions for impairment losses of EUR 8 million (2017: EUR 48 million), release of loss allowance to equity investees of EUR 11 million (2017: creation of loss allowance reported in non-deductible expenses), negative goodwill of EUR 5 million (2017: EUR 49 million), non-taxable interest income of EUR 24 million (2017: EUR 20 million), revaluation of investment in Mátrai Erőmű ZRt. of EUR 7 million and realized profit from financial assets of EUR 7 million.

16. Property, plant and equipment

In millions of EUR

	Land and buildings	Gas pipelines	Technical equipment, plant and machinery	Other equipment, fixtures and fittings	Under construction	Total
Cost						
Balance at 1 January 2018	**2,434**	**4,550**	**3,601**	**17**	**453**	**11,055**
Effects of movements in foreign exchange rates	(7)	-	(13)	1	1	**(18)**
Additions	68	11	175	1	114	**369**
Additions through business combinations[1]	205	-	63	39	10	**317**
Disposals	(30)	(4)	(36)	(1)	(8)	**(79)**
Disposed entities[2]	-	-	(1)	-	-	**(1)**
Transfers	14	13	390	-	(417)	**-**
Change in provision recorded in property, plant and equipment	10	-	2	-	(1)	**11**
Balance at 31 December 2018	**2,694**	**4,570**	**4,181**	**57**	**152**	**11,654**
Depreciation and impairment losses						
Balance at 1 January 2018	**(649)**	**(629)**	**(1,337)**	**(8)**	**(2)**	**(2,625)**
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)**
Balance at 31 December 2018	**(751)**	**(737)**	**(1,623)**	**(8)**	**(3)**	**(3,122)**
Carrying amounts						
At 1 January 2018	**1,785**	**3,921**	**2,264**	**9**	**451**	**8,430**
At 31 December 2018	**1,943**	**3,833**	**2,558**	**49**	**149**	**8,532**

(1) Purchase of SAJDOK a.s., Plzeňská teplárenská, a.s. and NAFTA Germany.
(2) Disposal of SPEDICA AGRO, s.r.o.

In millions of EUR

	Land and buildings	Gas pipelines	Technical equipment, plant and machinery	Other equipment, fixtures and fittings	Under construction	Total
Cost						
Balance at 1 January 2017	**2,256**	**4,513**	**2,977**	**15**	**314**	**10,075**
Effects of movements in foreign exchange rates	42	1	45	-	(10)	**78**
Additions	55	2	97	1	276	**431**
Additions through business combinations[1]	71	-	440	1	2	**514**
Disposals	(11)	(4)	(20)	-	(4)	**(39)**
Transfers	25	38	62	-	(125)	**-**
Transfer to disposal group held for sale	(4)	-	-	-	-	**(4)**
Balance at 31 December 2017	**2,434**	**4,550**	**3,601**	**17**	**453**	**11,055**
Depreciation and impairment losses						
Balance at 1 January 2017	**(534)**	**(513)**	**(1,069)**	**(6)**	**(6)**	**(2,128)**
Effects of movements in foreign exchange rates	(12)	-	(18)	-	-	**(30)**
Depreciation charge for the year	(102)	(119)	(264)	(2)	(1)	**(488)**
Disposals	5	3	14	-	-	**22**
Impairment losses recognised in profit or loss	(6)	-	-	-	5	**(1)**
Balance at 31 December 2017	**(649)**	**(629)**	**(1,337)**	**(8)**	**(2)**	**(2,625)**
Carrying amounts						
At 1 January 2017	**1,722**	**4,000**	**1,908**	**9**	**308**	**7,947**
At 31 December 2017	**1,785**	**3,921**	**2,264**	**9**	**451**	**8,430**

(1) Purchase of Spedica Group, EP LANGAGE LIMITED, EP SHB LIMITED, Kraftwerk Mehrum GmbH, POZAGAS a.s. and EPNEI Group.

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.

IDLE ASSETS

As at 31 December 2018 and 31 December 2017, the Group had no significant idle assets.

FINANCE LEASE LIABILITIES

As at 31 December 2018 and 31 December 2017, the Group had no significant finance lease liabilities.

SECURITY

At 31 December 2018, property, plant and equipment with a carrying value of EUR 1,292 million (2017: EUR 534 million) is subject to pledges to secure bank loans.

17. Intangible assets (including goodwill)

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2018	**188**	**83**	**45**	**302**	**14**	**632**
Effect of movements in foreign exchange rates	-	-	-	(1)	-	**(1)**
Additions	-	7	133	-	3	**143**
Disposals	-	(5)	(112)	(3)	-	**(120)**
Additions through business combinations[1]	1	-	4	-	-	**5**
Transfers	-	2	-	-	(2)	**-**
Balance at 31 December 2018	**189**	**87**	**70**	**298**	**15**	**659**
Amortisation and impairment losses						
Balance at 1 January 2018	**(37)**	**(46)**	**-**	**(176)**	**(4)**	**(263)**
Amortisation for the year	-	(12)	-	(27)	-	**(39)**
Disposals	-	5	-	3	-	**8**
Impairment losses recognised in profit or loss	(3)	-	-	-	-	**(3)**
Balance at 31 December 2018	**(40)**	**(53)**	**-**	**(200)**	**(4)**	**(297)**
Carrying amount						
At 1 January 2018	**151**	**37**	**45**	**126**	**10**	**369**
At 31 December 2018	**149**	**34**	**70**	**98**	**11**	**362**

(1) Purchase of SAJDOK a.s. and Plzeňská teplárenská, a.s.

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2017	**143**	**76**	**89**	**302**	**14**	**624**
Effect of movements in foreign exchange rates	7	-	-	-	-	**7**
Additions	-	8	32	-	2	**42**
Disposals	-	(3)	(87)	-	-	**(90)**
Additions through business combinations[(1)]	38	-	11	-	-	**49**
Transfers	-	2	-	-	(2)	**-**
Balance at 31 December 2017	**188**	**83**	**45**	**302**	**14**	**632**
Amortisation and impairment losses						
Balance at 1 January 2017	**(37)**	**(35)**	**-**	**(150)**	**(4)**	**(226)**
Amortisation for the year	-	(13)	-	(26)	-	**(39)**
Disposals	-	2	-	-	-	**2**
Balance at 31 December 2017	**(37)**	**(46)**	**-**	**(176)**	**(4)**	**(263)**
Carrying amount						
At 1 January 2017	**106**	**41**	**89**	**152**	**10**	**398**
At 31 December 2017	**151**	**37**	**45**	**126**	**10**	**369**

(1) Purchase of Spedica Group, Kraftwerk Mehrum and EPNEI Group.

In 2018, EPH Group purchased emission allowances of EUR 120 million (2017: EUR 23 million). The remaining part of EUR 13 million (2017: EUR 9 million) was allocated to the Group by the Ministry of the Environment of the Czech Republic, Slovakia and Hungary.

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 2018 and 2017.

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):

In millions of EUR

	31 December 2018	31 December 2017
EP Energy, a.s.:		
Elektrárny Opatovice, a.s.	90	90
EP Cargo a.s.	5	5
EP ENERGY TRADING, a.s.	5	5
SPV100, s.r.o.	1	1
Plzeňská energetika a.s.	-	3
Biomasse Crotone S.P.A.	20	20
Biomasse Italia S.P.A.	16	16
Helmstedter Revier GmbH	6	6
EP Investment Advisors, s.r.o.	3	3
SPEDICA GROUP COMPANIES, s.r.o.	2	2
SAJDOK a.s.	1	-
Total goodwill	**149**	**151**

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.

In 2017, the balance of goodwill increased by EUR 38 million as a result of acquisition of EPNEI Group and Spedica Group. The remaining increase of EUR 7 million was caused by positive effect of changes in the FX rate.

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:

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. Cash flows for a terminal period were extrapolated using a constant growth rate of 0% – 2% (2017: 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, 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 4.01% to 9.17% (2017: range from 5.31% to 7.33%). Changes in used discount rates compared to prior year reflect recent market development, namely increase in risk-free rates and cost of debt used for calculation.

Impairment of goodwill (EUR 3 million) at Plzeňská energetika a.s. is a result of commercial negotiations between EP Infrastructure, a.s. and City of Pilsen in relation to a merger of Plzeňská energetika a.s. and Plzeňská teplárenská, a.s., in which EP Infrastructure, a.s. received 35% shareholding and a management control in exchange of contribution of cash and 100% shares in Plzeňská energetika, a.s. (2017: EUR 0 million impairment of goodwill).

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 2018 was determined in a similar manner as in 2017. Management estimated that the recoverable amount for Elektrárny Opatovice, a.s. exceeded its carrying amount (including goodwill) by EUR 254 million (2017: EUR 595 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:

	2018	2017
Discount rate	6.10%	6.28%
Terminal value growth rate	2.00%	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 CO_2 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

	31 December 2018	31 December 2017
Opening balance	3	3
Changes during the reporting period	-	-
Closing balance	**3**	**3**

SECURITY

As at 31 December 2018, no investment property is subject to pledges to secure bank loans (2017: EUR 0 million).

19. Equity accounted investees

The Group has the following investments in associates and joint ventures:

In millions of EUR

		Ownership 31 December 2018	Carrying amount 31 December 2018
Associates and joint ventures	**Country**	**%**	
LEAG Group[1]	*(3)*	50.00	717
SPH Group[2]	*(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
Przedsiebiorstwo Górnicze SILESIA Sp. z o.o.	Poland	38.93	-
Total		-	**1,061**

In millions of EUR

		Ownership 31 December 2017	Carrying amount 31 December 2017
Associates and joint ventures	**Country**	**%**	
LEAG Group[1]	*(3)*	50.00	359
SPH Group[2]	*(3)*	*(4)*	191
Kraftwerk Schkopau GbR	Germany	41.90	76
Ergosud S.P.A.	Italy	50.00	52
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50.00	21
Fernwärme GmbH Hohenmölsen – Webau	Germany	48.96	4
Przedsiebiorstwo Górnicze SILESIA Sp. z o.o.	Poland	38.93	3
Energotel, a.s.	Slovakia	26.60	1
Total		-	**707**

(1) Comprising LEAG Holding, a.s.; Lausitz Energie Verwaltungs GmbH; Lausitz Energie Kraftwerke AG; Kraftwerk Schwarze Pumpe GmbH; Lausitz Energie Bergbau AG; GMB GmbH and Transport- und Speditionsgesellschaft Schwarze Pumpe mbH

(2) Comprising Slovak Power Holding B.V., Slovenské elektrárne a.s. Centrum pre vedu a výskum, s.r.o.; Ochrana a bezpečnosť SE, a.s.; Slovenské elektrárne – energetické služby, s.r.o.; Slovenské elektrárne Česká republika, s.r.o.; SE Služby inžinierskych stavieb, s.r.o.; REAKTORTEST, s.r.o.; Chladiace veže Bohunice, spol. s r.o. and ÚJV Řež, a.s.

(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.

PRZEDSIEBIORSTWO GÓRNICZE SILESIA SP. Z O.O.

In 2017, the Group reported a valuation allowance of EUR 32 million (2016: EUR 13 million) to its financial investment in Przedsiebiorstwo Górnicze SILESIA Sp. z o.o. ("PGS"), which was recorded as a result of the impairment test carried out as at 31 December 2017 and which reflects the current conditions on the Polish hard coal market. Carrying amount of the investment in PGS as at 31 December 2017 therefore decreased to EUR 3 million.

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 2018, the unrecognized share on loss in PGS (both for the period and cumulatively) amounts to EUR 2 million.

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, in 2017 the Group reported a valuation allowance of EUR 45 million to its financial investments in SPH Group, which was recorded as a result of the impairment test carried out as at 31 December 2017. In 2018, part of valuation allowance of EUR 11 million was reversed as a result of the impairment test carried out as at 31 December 2018. Carrying amount of the investment in SPH Group as at 31 December 2018 was EUR 191 million (2017: EUR 191 million).

The Group has the following shares in the profit (loss) of associates and joint ventures:

In millions of EUR

		Ownership 31 December 2018	Share of profit (loss) 2018
Associates and joint ventures	**Country**	**%**	
LEAG Group	*(1)*	50.00	(26)
Przedsiebiorstwo Górnicze SILESIA Sp. z o.o.	Poland	38.93	(3)
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)
SPH Group	*(1)*	*(2)*	15
Total		**-**	**(9)**

In millions of EUR

		Ownership 31 December 2017	Share of profit (loss) 2017
Associates and joint ventures	**Country**	**%**	
LEAG Group	*(1)*	50.00	82
Przedsiebiorstwo Górnicze SILESIA Sp. z o.o.	Poland	38.93	(10)
Ergosud S.P.A.	Italy	50.00	5
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50.00	2
Kraftwerk Schkopau GbR	Germany	41.90	(1)
POZAGAS a.s.	Slovakia	41.30	(5)
SPH Group	*(1)*	*(2)*	34
Total		**-**	**107**

(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 2018 and 2017 and for the years then ended.

In millions of EUR

	2018	2017
Statement of financial position information		
Total assets	**6,418**	**4,209**
Non-current assets	3,015	2,149
Current assets	3,403	2,060
of which: cash and cash equivalents	*584*	*688*
other current assets	*2,819*	*1,372*
Total liabilities	**4,983**	**3,494**
Non-current liabilities	2,715	2,576
of which: financial liabilities (excluding trade payables)	*10*	*1*
other non-current liabilities	*2,705*	*2,575*
Current liabilities	2,268	918
of which: financial liabilities (excluding trade payables)	*1,418*	*113*
other current liabilities	*850*	*805*
Equity	**1,435**	**715**
Statement of comprehensive income information		
Revenues	2,340	2,153
of which: interest income	*2*	*1*
Depreciation and amortization	(254)	(245)
Interest expense	(50)	(56)
Income tax expense	-	-
Profit (loss) for the year	**(52)**	**164**
Other comprehensive income	772	(10)
Total comprehensive income for the year	**720**	**154**

Summary financial information for standalone associates, presented at 100% as at 31 December 2018 and for the year then ended.

In millions of EUR

Associates and joint ventures	Revenue	Profit (loss)	Other compre-hensive income	Total compre-hensive income	Assets	Liabilities	Equity
SPH Group	2,823	46	(78)	(32)	7,609	6,930	679
Kraftwerk Schkopau GbR[1]	36	6	-	6	221	112	109
Kraftwerk Schkopau Betriebsgesellschaft GmbH[1]	108	-	-	-	22	21	1
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH[1]	57	5	-	5	56	28	28
Fernwärme GmbH Hohenmölsen – Webau[1]	5	-	-	-	14	5	9
Energotel, a.s.	12	1	-	1	12	5	7
Przedsiebiorstwo Górnicze SILESIA Sp. z o.o.	169	(15)	-	(15)	270	297	(27)
Ergosud S.P.A.	44	10	-	10	282	167	115
Total	**3,254**	**53**	**(78)**	**(25)**	**8,486**	**7,565**	**921**

(1) Data from standalone financial statements according to German GAAP.

In millions of EUR

Associates and joint ventures	Non-current assets	Current assets	Non-current liabilities	Current liabilities
SPH Group	6,701	908	5,960	970
Kraftwerk Schkopau GbR[1]	9	212	110	2
Kraftwerk Schkopau Betriebsgesellschaft GmbH[1]	-	22	-	21
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH[1]	28	28	18	10
Fernwärme GmbH Hohenmölsen – Webau[1]	14	-	1	4
Energotel, a.s.	5	7	-	5
Przedsiebiorstwo Górnicze SILESIA Sp. z o.o.	214	56	278	19
Ergosud S.P.A.	203	79	141	26
Total	**7,174**	**1,312**	**6,508**	**1,057**

(1) Data from standalone financial statements according to German GAAP.

Summary financial information for standalone associates, presented at 100% as at 31 December 2017 and for the year then ended.

In millions of EUR

Associates and joint ventures	Revenue	Profit (loss)	Other compre-hensive income	Total compre-hensive income	Assets	Liabilities	Equity
SPH Group	2,655	109	(10)	99	6,687	5,974	713
Pražská teplárenská Holding a.s. [1]	27	[2]26	-	[2]26	119	-	119
Kraftwerk Schkopau GbR[3]	40	7	-	7	230	121	109
Kraftwerk Schkopau Betriebsgesellschaft GmbH[3]	104	-	-	-	10	10	-
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH[3]	53	5	-	5	58	30	28
Fernwärme GmbH Hohenmölsen – Webau[3]	5	-	-	-	14	5	9
POZAGAS a.s. [4]	18	(7)	-	(7)	90	17	73
Energotel, a.s.	12	1	-	1	13	7	6
Przedsiebiorstwo Górnicze SILESIA Sp. z o.o.	154	(26)	-	(26)	232	244	(12)
Ergosud S.P.A.	67	9	-	9	300	195	105
Total	**3,135**	**124**	**(10)**	**114**	**7,753**	**6,603**	**1,150**

(1) On 14 December 2017 the PT Holding Investments B.V. increased its share in Pražská teplárenská Holding, a.s. from 49% to 100% (effective group interest changed to 67.62%). Profit and loss item represents the amounts from the beginning of the year to the date of the acquisition of remaining 51% share.
(2) Profit (loss) primarily represents dividend income from Pražská teplárenská a.s.
(3) Data from standalone financial statements according to German GAAP.
(4) On 12 December 2017 the Group increased its share in POZAGAS a.s. from 28.24% to 42.77% and gained management control over the entity. Profit and loss item represents the amounts from the beginning of the year to the date of obtaining the control over the entity.

In millions of EUR

Associates and joint ventures	Non-current assets	Current assets	Non-current liabilities	Current liabilities
SPH Group	5,800	887	4,930	1,044
Pražská teplárenská Holding a.s	104	15	-	-
Kraftwerk Schkopau GbR[1]	13	217	115	6
Kraftwerk Schkopau Betriebsgesellschaft GmbH[1]	-	10	-	10
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH[1]	30	28	16	14
Fernwärme GmbH Hohenmölsen – Webau[1]	13	1	1	4
POZAGAS a.s.	38	52	14	3
Energotel, a.s.	6	7	-	7
Przedsiebiorstwo Górnicze SILESIA Sp. z o.o.	199	33	202	42
Ergosud S.P.A.	218	82	160	35
Total	**6,421**	**1,332**	**5,438**	**1,165**

(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:

In millions of EUR

	31 December 2018	31 December 2018	31 December 2018	31 December 2017[1]	31 December 2017[1]	31 December 2017[1]
Temporary difference related to:	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Property, plant and equipment	42	(1,088)	(1,046)	34	(1,088)	(1,054)
Intangible assets	12	(26)	(14)	18	(30)	(12)
Investment securities at amortised cost	-	(3)	(3)	-	(4)	(4)
Inventories	5	-	5	6	(2)	4
Trade receivables and other assets	4	-	4	3	(1)	2
Provisions	117	-	117	114	(7)	107
Employee benefits (IAS 19)	6	-	6	6	(1)	5
Loans and borrowings	2	(18)	(16)	2	(20)	(18)
Tax losses	18	-	18	28	-	28
Derivatives	16	(30)	(14)	4	(29)	(25)
Other items	6	(5)	1	6	(8)	(2)
Subtotal	**228**	**(1,170)**	**(942)**	**221**	**(1,190)**	**(969)**
Set-off tax	(161)	161	-	(157)	157	-
Total	**67**	**(1,009)**	**(942)**	**64**	**(1,033)**	**(969)**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries.

MOVEMENTS IN DEFERRED TAX DURING THE YEAR

In millions of EUR

Balances related to:	**Balance at 1 January 2018**	**Recognised in profit or loss**	**Recognised in other comprehen-sive income**	**Acquired in business combina-tions[1]**	**Reclassifi-cation**	**Effect of movements in foreign exchange rate**	**Balance at 31 December 2018**
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
Total	**(969)**	**26**	**8**	**(8)**	**-**	**1**	**(942)**

(1) The purchase of Plzeňská teplárenská, a.s. and NAFTA Germany.

In millions of EUR

Balances related to:	**Balance at 1 January 2017**	**Recognised in profit or loss**	**Recognised in other comprehen-sive income**	**Acquired in business combina-tions[2]**	**Transfer to disposal group held for sale[3]**	**Effect of movements in foreign exchange rate**	**Balance at 31 December 2017**
Property, plant and equipment[1]	(1,057)	12	-	(6)	-	(3)	(1,054)
Intangible assets[1]	(14)	2	-	-	-	-	(12)
Investment securities at amortised cost	-	(3)	-	-	-	(1)	(4)
Inventories	4	-	-	-	-	-	4
Trade receivables and other assets	2	-	-	-	-	-	2
Provisions	95	14	(2)	-	-	-	107
Employee benefits (IAS 19)	5	-	-	-	-	-	5
Loans and borrowings	(6)	(2)	(12)	-	-	2	(18)
Tax losses	17	11	-	-	-	-	28
Derivatives	(37)	2	8	-	-	2	(25)
Other	3	2	-	(6)	1	(2)	(2)
Total	**(988)**	**38**	**(6)**	**(12)**	**1**	**(2)**	**(969)**

(1) Opening balances as at 1 January 2017 were restated; deferred tax asset of EUR 9 million originally presented as related to Intangible assets was reclassified as related to Property, plant and equipment.
(2) The purchase of EP LANGAGE LIMITED, EP SHB LIMITED, Kraftwerk Mehrum GmbH, POZAGAS a.s. and EPNEI Group.
(3) The transfer of Pod Juliskou, a.s. to disposal group held for sale.

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:

In millions of EUR

	31 December 2018	31 December 2017
Tax losses carried forward	316	337
Total	**316**	**337**

A deferred tax asset that has not been recognised in respect of the tax losses is attributable to the following entities:

In millions of EUR

	31 December 2018	31 December 2017
Slovak Gas Holding B.V.	158	159
Seattle Holding B.V.	77	60
EPH Gas Holding B.V.	53	53
Czech Gas Holding Investment B.V.	11	9
PT Holding Investments B.V.	4	4
EPPE Germany a.s.	3	3
EPPE Italy N.V.	3	3
EP Infrastructure a.s.	2	41
SPP Infrastructure	2	4
WOOGEL LIMITED	1	1
Other	2	-
Total	**316**	**337**

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 2018, then the associated tax income (savings) would be up to EUR 65 million (2017: EUR 67 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:

In millions of EUR

	2019	2020	2021	2022	After 2023	Total
Tax losses	2	-	3	2	309	**316**

Tax losses expire over a period of 5 years in the Czech Republic, 4 years in Slovakia and 9 years in the Netherlands for standard tax losses. 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

In millions of EUR

	31 December 2018	31 December 2017
Raw material and supplies	87	64
Spare parts	63	65
Fossil fuel	51	82
Overburden	23	22
Finished goods and merchandise	20	10
Work in progress	7	4
Total	**251**	**247**

As at 31 December 2018, inventories in the amount of EUR 52 million (2017: EUR 20 million) were subject to pledges.

22. Trade receivables and other assets

In millions of EUR

	31 December 2018	31 December 2017
Trade receivables	811	696
Advance payments	135	87
Accrued income	103	139
Estimated receivables	8	81
Other receivables and assets	84	123
Allowance for bad debts	(44)	(23)
Total	**1,097**	**1,103**
Non-current	*190*	*161*
Current	*907*	*942*
Total	**1,097**	**1,103**

In 2018, EUR 1 million receivables were written off through profit or loss (2017: EUR 1 million).

As at 31 December 2018, trade receivables with a carrying value of EUR 142 million are subject to pledges (2017: EUR 124 million).

As at 31 December 2018, trade receivables and other assets amounting EUR 1,083 million are not past due (2017: EUR 1,073 million), remaining balance of EUR 14 million is overdue (2017: EUR 30 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

In millions of EUR

	31 December 2018	31 December 2017
Current accounts with banks	867	739
Term deposits	139	52
Bills of exchange issued by banks	-	25
Total	**1,006**	**816**

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 2018, cash equivalents of EUR 180 million are subject to pledges (2017: EUR 395 million). According to the bond documentation cash balances at specific entities are pledged in favour of the bondholders in case EPE defaults on bonds payments. As such, the pledged cash is readily available to the EPH Group and does not represent restricted cash.

24. Restricted cash

As at 31 December 2018, the balance of restricted cash is represented mainly by EUR 21 million (2017: EUR 23 million) representing 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. It may be partly used for early retirement obligations during 2019. EUR 2 million is represented by collateralised cash with National Grid relating to grid connection charges and EUR 2 million represented by collateral with National Grid relating to balancing mechanism (deposited with Elexon) by EP UK INVESTMENTS LTD (2017: EUR 2 million represented by collateralised cash with National Grid and EUR 5 million cash on clearing account in relation to funds received from the EPEX power exchange by EP UK INVESTMENTS LTD).

25. Tax receivables

In millions of EUR

	31 December 2018	31 December 2017
Value added tax receivables	98	92
Current income tax receivables	55	29
Energy tax	1	2
Withholding tax	1	-
Other tax receivables	8	9
Total	**163**	**132**

26. Assets and liabilities held for sale

As at 31 December 2018, balances of assets held for sale and liabilities held for sale are represented by Nová Invalidovna, a.s. (2017: Pod Juliskou, a.s. and Nová Invalidovna, a.s.). These entities do 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 2018 consisted of 18,344,932 ordinary shares with a par value of CZK 100 each (2017: 28,946,239 shares) and 1,700,641,760 ordinary shares with a par value of CZK 1 each (2017: 2,155,568,900 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 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
Total	**1,700,641,760**	**18,344,932**	**100.00**	**100.00**

31 DECEMBER 2017

	Number of shares		Ownership	Voting rights
	1 CZK	100 CZK	%	%
EP Investment S.à.r.l.	1,574,538,029	2,990,835	37.10	53.00
EP Investment II S.à.r.l. (owned by Daniel Křetínský)	126,103,731	15,354,097	32.90	47.00
Own shares(1)	454,927,140	10,601,307	30.00	-
Total	**2,155,568,900**	**28,946,239**	**100.00**	**100.00**

(1) In 2017, EPH acquired 30% of its own shares, 2.17% from each MILEES LIMITED and EP Investment S.à.r.l. and 25.66% from BIQUES LIMITED. As at 31 December 2017, these shares were reported within EPH's equity as the shares were not yet cancelled. These shares were cancelled on 19 September 2018.

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 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)
Shares outstanding at the end of the year	**1,700,641,760**	**18,344,932**

	Number of shares 2017	
	1 CZK	100 CZK
Shares outstanding at the beginning of the year	2,155,568,900	28,946,239
Shares outstanding at the end of the year	**2,155,568,900**	**28,946,239**

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:

In millions of EUR

	31 December 2018	31 December 2017
Hedging reserve	475	117
Other capital funds from capital contributions	23	23
Non-distributable reserves	12	8
Fair value reserve	(17)	(38)
Other capital reserves	(54)	(54)
Translation reserve	(102)	(94)
Total	**337**	**(38)**

NON-DISTRIBUTABLE RESERVES

The legal reserve of EUR 12 million was reported as at 31 December 2018 (2017: EUR 8 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 is 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 restructuralisation in 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).

During the year the Group recycled EUR 15 million from hedging reserves to profit or loss (2017: EUR 0 million).

28. Earnings per share

BASIC EARNINGS PER SHARE

Basic earnings per share in EUR per equivalent 1,000 CZK of share nominal value equal 0.05 (2017: 0.12).

The calculation of basic earnings per share as at 31 December 2018 was based on a profit attributable to ordinary shareholders of EUR 186 million (2017: EUR 436 million), and a weighted average number of ordinary shares outstanding of 3,535 million (2017: 3,750 million).

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
Total	**3,535**	**3,535**

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2017

In millions of shares

	Nominal	Weighted
Issued ordinary shares as at 1 January 2017	5,050	5,050
Own shares acquired on 26 January 2017 (1share/CZK 1)	(219)	(203)
Own shares acquired on 24 February 2017 (1share/CZK 1)	(236)	(200)
Own shares acquired on 24 February 2017 (1share/CZK 100)	(1,060)	(897)
Total	**3,535**	**3,750**

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 2018

In millions of EUR

	Pražská teplárenská a.s. and its subsidiaries	Stredoslovenská energetika, a.s. and its subsidiaries	NAFTA a.s. and its subsidiaries	SPP Infrastructure, a.s. and its subsidiaries[3]
Non-controlling percentage	**31.00%**	**[8]66.19%**	**52.41%**	**[8]66.19%**
Business activity	Production and distribution of heat	Distribution of electricity	Gas storage and exploration	Distribution of gas
Country[1]	Czech Republic	Slovakia	Slovakia	Slovakia
Carrying amount of NCI at 31 December 2018	**85**	**545**	**166**	**(327)**
Profit (loss) attributable to non-controlling interest	**7**	**34**	**36**	**-**
Dividends declared	**(1)**	**(3)**	**(1)**	**(448)**
Statement of financial position[2]				
Total assets	341	1,120	964	6,268
of which: non-current	*270*	*711*	*720*	*[6]6,214*
current	*71*	*409*	*244*	*54*
Total liabilities	67	297	648	1,702
of which: non-current	*32*	*115*	*336*	*1,228*
current	*35*	*182*	*312*	*474*
Net assets	**274**	**823**	**316**	**4,566**
Statement of comprehensive income[2]				
Total revenues	204	1,019	156	1,052
of which: dividends received	-	-	-	*[7]1,006*
Profit after tax	23	52	69	1,006
Total comprehensive income for the year[2]	**23**	**52**	**69**	**1,006**
Net cash inflows (outflows)[2]	**(21)**	**94**	**4**	**8**

	SPP – distribúcia, a.s. and its subsidiaries	EP Produzione Centrale Livorno Ferraris S.P.A.	eustream, a.s.	Plzeňská teplárenská, a.s.	Other subsidiaries[4]	Total
Non-controlling percentage	**[8]66.19%**	**25.00%**	**[8]66.19%**	**[8]75.85%**		
Business activity	Distribution of gas	Production of electricity and heat	Distribution of gas	Production and distribution of heat		
Country[1]	Slovakia	Italy	Slovakia	Czech Republic		
Carrying amount of NCI at 31 December 2018	**1,064**	**45**	**333**	**148**	**(555)**	**1,504**
Profit (loss) attributable to non-controlling interest	**104**	**1**	**260**	**5**	**(3)**	**444**
Dividends declared	**-**	**(2)**	**-**	**-**	**[5](71)**	**(526)**
Statement of financial position[2]						
Total assets	2,723	238	2,418	237		
of which: non-current	*2,305*	*151*	*2,237*	*186*		
current	*418*	*87*	*181*	*51*		
Total liabilities	1,116	60	1,916	42		
of which: non-current	*1,014*	*15*	*1,765*	*22*		
current	*102*	*45*	*151*	*20*		
Net assets	**1,607**	**178**	**502**	**195**	**-**	**-**
Statement of comprehensive income[2]						
Total revenues	414	260	757	27		
of which: dividends received	-	-	-	-		
Profit after tax	158	5	395	7		
Total comprehensive income for the year[2]	**158**	**5**	**395**	**7**	**-**	**-**
Net cash inflows (outflows)[2]	**31**	**15**	**(17)**	**-**	**-**	**-**

(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 and management control.

Non-controlling interest

31 DECEMBER 2017

In millions of EUR

	Pražská teplárenská a.s. and its subsidiaries	Stredoslovenská energetika, a.s. and its subsidiaries	NAFTA a.s. and its subsidiaries	SPP Infrastructure, a.s. and its subsidiaries[3]	SPP – distribúcia, a.s. and its subsidiaries	EP Produzione Centrale Livorno Ferraris S.P.A.	eustream, a.s.	Other subsidiaries[4]	Total
Non-controlling percentage	**32.38%**	**[5]66.19%**	**52.41%**	**[5]66.19%**	**[5]66.19%**	**25.00%**	**[5]66.19%**		
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		
Country[1]	Czech Republic	Slovakia	Slovakia	Slovakia	Slovakia	Italy	Slovakia		
Carrying amount of NCI at 31 December 2017	**91**	**516**	**166**	**(309)**	**1,124**	**45**	**550**	**(668)**	**1,515**
Profit (loss) attributable to non-controlling interest	**9**	**72**	**34**	**(2)**	**92**	**1**	**245**	**(15)**	**436**
Dividends declared	**(14)**	**(40)**	**(2)**	**(378)**	**-**	**(1)**	**-**	**[6](188)**	**(623)**
Statement of financial position[2]									
Total assets	346	1,095	688	6,582	2,814	233	2,719		
of which: non-current	*280*	*766*	*647*	*[7]6,228*	*2,367*	*160*	*2,291*		
current	*66*	*329*	*41*	*354*	*447*	*73*	*428*		
Total liabilities	65	316	371	2,142	1,116	53	1,888		
of which: non-current	*34*	*140*	*294*	*1,373*	*1,018*	*17*	*1,752*		
current	*30*	*176*	*77*	*769*	*98*	*36*	*136*		
Net assets	**281**	**779**	**317**	**4,440**	**1,698**	**180**	**831**	**-**	**-**
Statement of comprehensive income[2]									
Total revenues	204	1,001	164	[8]847	423	245	760		
of which: dividends received	-	-	-	*800*	-	-	-		
Profit after tax	25	115	71	797	155	3	388		
Total comprehensive income for the year[2]	**25**	**115**	**71**	**797**	**155**	**3**	**388**	**-**	**-**
Net cash inflows (outflows)[2]	**(35)**	**1**	**(9)**	**-**	**(43)**	**11**	**(33)**	**-**	**-**

(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) 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 and management control.
(6) Dividends in amount of EUR 187 million were paid by EP Infrastructure, a.s.
(7) Includes financial investments in eustream, a.s., SPP – distribúcia, a.s., NAFTA, a.s. and POZAGAS eliminated in calculation of NCI.
(8) Includes dividends from eustream, a.s., SPP – distribúcia, a..s, NAFTA, a.s. and POZAGAS a.s. eliminated in calculation of NCI.

30. Loans and borrowings

In millions of EUR

	31 December 2018	31 December 2017
Issued debentures at amortised costs	3,313	3,237
Loans payable to credit institutions	2,186	2,530
Revolving credit facility	386	300
Bank overdraft	39	31
Loans payable to other than credit institutions	17	17
Liabilities from financial leases	2	6
Total	**5,943**	**6,121**
Non-current	4,915	5,060
Current	1,028	1,061
Total	**5,943**	**6,121**

The weighted average interest rate on loans for 2018 was 2.32% (2017: 2.36%).

ISSUED DEBENTURES AT AMORTISED COSTS

Details about debentures issued as at 31 December 2018 are presented in the following table:

In millions of EUR

	Principal	Accrued interest	Unamortised fee	Maturity	Interest rate (%)	Effective interest rate (%)
SPP Infrastructure Financing bond I	(1)749	13	-	18/07/2020	3.750	3.773/3.717
SPP Infrastructure Financing bond II	(2)494	12	2	12/02/2025	2.625	2.685
EP Infrastructure 2024 notes	750	8	(5)	26/04/2024	1.659	1.786
SPPD bond	(3)497	7	-	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	(4)3.270	3.380
EPH Financing SK 2020 notes	75	1	(1)	28/08/2020	3.500	4.060
Total	**3,275**	**47**	**(9)**	**-**	**-**	**-**

(1) Balance consists of two tranches. The first tranche of EUR 500 million is stated net of discount of EUR 3 million, which will be released through the effective interest rate for the whole period until its maturity. The second tranche of EUR 250 million is stated with a premium of EUR 2 million. Therefore two effective interest rates are presented.

(2) Balance represents bond principal in amount of EUR 500 million which is stated net of discount of EUR 6 million. This discount will be released through effective interest rate for the whole period until its maturity.

(3) Balance represents bond principal in amount of EUR 500 million which is stated net of discount of EUR 3 million. This discount will be released through effective interest rate for the whole period until its maturity.

(4) 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 19 April 2018, EP Infrastructure, a.s. successfully placed at par its debut international offering of EUR 750 million 1.659% fixed rate unsecured notes due 2024 in the denomination of EUR 100,000 each ("2024 Notes").

Unless previously redeemed or cancelled, the 2024 Notes will be redeemed at their principal amount on 26 April 2024.

The Group may 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 law. Upon the occurrence of a certain change of control events, the Group may be required to offer to redeem the 2024 Notes at the principal amount redeemed, plus accrued and unpaid interest and additional amounts, if any.

The 2024 Notes contain a dividend lock-up covenant limiting certain types of distributions to issuer's shareholders. The EPIF Group has to monitor the ratio of total amount of net debt to 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 ENERGY BONDS

In 2012 and 2013 EP Energy Group ("EPE", "EPE Group") issued the senior secured notes. EPE Group comprises energy entities subsidiaries and associates as described in Note 39 – Group entities.

I. 2019 NOTES

The Senior Secured Notes were issued on 31 October 2012, are listed on the Irish Stock Exchange and comprise EUR 499 million Senior Secured Notes due 2019 (the "2019 Notes"). The 2019 Notes bear interest at 5.875% per annum, payable semi-annually in arrears on 1 May and 1 November of each year.

The EPE Group may redeem some or all of the 2019 Notes at a redemption price equal to 100% of the principal amount of the 2019 Notes redeemed, plus accrued and unpaid interest and additional amounts, if any, plus a "make whole" premium. Further, the EPE Group may redeem all, but not part, of the 2019 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 law. Upon the occurrence of a certain change of control triggering events, the EPE Group may be required to offer to redeem the 2019 Notes at 101% of the principal amount redeemed, plus accrued and unpaid interest and additional amounts, if any.

Unless redeemed prematurely, the 2019 Notes will be redeemed by the EPE Group in their principal amount on 1 November 2019.

The 2019 Notes are guaranteed by certain subsidiaries of EPE on a senior secured basis. The 2019 Notes and the guarantees thereof are secured by first ranking liens on certain assets that secure EPE's and the guarantors' obligations.

The indenture pursuant to which the 2019 Notes were issued contains a number of restrictive covenants, including limitations on restricted payments, transactions with affiliates, liens and sales of collateral. The EPE Group has to monitor the relationship between the total amount of debt and adjusted EBITDA; under certain circumstances, a specific limit must not be exceeded when considering additional debt. The level of debt must be also considered before certain profit distributions.

The EPE Group expects to redeem the bonds using combination of own resources and new debt financing upon their maturity in November 2019.

The 2019 Notes are stated at net of debt issue costs of EUR 12 million (at inception). These costs are allocated to the profit and loss account over the term of the 2019 Notes through the effective interest rate of 6.301%.

II. 2018 NOTES

On 18 April 2013 EPE issued additional Senior Secured Notes due in 2018 (the "2018 Notes"). These second notes were listed on the Irish Stock Exchange and amounted to EUR 598 million. The 2018 Notes beared interest at 4.375% per annum, payable semi-annually in arrears on 1 May and 1 November of each year.

On 1 May 2018 EP Energy, a.s. redeemed the bonds issued in 2013 in their principal amount of EUR 598 million using combination of own resources of EUR 348 million and loan from parent company amounting to EUR 250 million.

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 NOTES

I. 2018 NOTES

On 29 June 2015, EPH Financing SK, a.s. issued bonds in the amount of EUR 41 million with a fixed interest rate of 4.200% p.a. In 2016 additional bonds in the amount of EUR 34 million were subscribed. Total principal of bonds issued as at 31 December 2017 amounted to EUR 75 million.

On 29 June 2018 EPH Financing SK, a.s. redeemed the bonds issued in 2015 and 2016 respectively in their principal amount of EUR 75 million.

II. 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 2018 amounts to EUR 75 million (2017: EUR 54 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 NOTES

I. 2018 NOTES

On 30 September 2015, EPH Financing CZ, a.s. issued bonds in the amount of EUR 49 million (CZK 1,330 million) with a fixed interest rate of 4.200% p.a. In 2016 additional bonds in the amount of EUR 62 million (CZK 1,670 million) were subscribed. Total principal of bonds issued as at 31 December 2017 amounted to EUR 117 million (CZK 3,000 million).

On 30 September 2018 EPH Financing CZ, a.s. redeemed the bonds issued in 2015 and 2016 respectively in their principal amount of EUR 117 million (CZK 3,000 million).

II. 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 2018 amounts to EUR 117 million (CZK 3,000 million; 2017: EUR 117 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%.

III. 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 2018 amounts to EUR 94 million (CZK 2,424 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 3.38%.

OTHER LOANS AND BORROWINGS

TERMS AND DEBT REPAYMENT SCHEDULE

Terms and conditions of outstanding loans as at 31 December 2018 were as follows:

In millions of EUR

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/18	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	EUR	variable*	2025	1,506	61	1,444	1
Unsecured bank loan	EUR	variable*	2025	384	50	320	14
Secured bank	GBP	variable*	2023	266	24	242	-
Unsecured bank loan	EUR	fixed	2023	19	6	13	-
Unsecured bank loan	CZK	variable*	2020	10	-	10	-
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	330	250	-	80
Revolving credit facility	GBP	variable*	2019	56	56	-	-
Overdraft	EUR	variable*	2020	39	27	12	-
Liabilities from financial leases	-	-	-	2	1	1	-
Total interest-bearing liabilities				**2,630**	**475**	**2,060**	**95**

* 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 2017 were as follows:

In millions of EUR

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/17	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	EUR	variable*	2025	2,142	73	2,057	12
Unsecured bank loan	EUR	variable*	2025	291	105	158	28
Secured bank loan	CZK	variable*	2026	61	-	37	24
Unsecured bank loan	EUR	fixed	2023	25	6	16	3
Unsecured bank loan	CZK	fixed	2023	10	-	10	-
Secured bank loan	CZK	fixed	2021	1	-	1	-
Unsecured loan	CZK	fixed	2020	9	-	9	-
Unsecured loan	EUR	fixed	2018	7	7	-	-
Unsecured loan	PLN	variable*	2025	1	-	-	1
Revolving credit facility	EUR	variable*	2024	300	45	175	80
Overdraft	EUR	variable*	-	31	31	-	-
Liabilities from financial leases	-	-	-	6	2	3	1
Total interest-bearing liabilities				**2,884**	**269**	**2,466**	**149**

* Variable interest rate is derived as PRIBOR or EURIBOR plus a margin. All interest rates are market based.

EPIF FACILITY AGREEMENT

EPIF is a party to a senior term and revolving facilities agreement dated 19 July 2018 with a group of financing banks (the "EPIF 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 obligations of EPIF under the EPIF Facilities Agreement are general, senior unsecured obligations of EPIF and rank equally in right of payment with EPIF's existing and future indebtedness that is not subordinated in right of payment.

The EPIF Facilities Agreement contains restrictive provisions which, among other things, limit the EPIF 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 EPIF Group net leverage does not exceed a certain limit, and the EPIF Group can incur additional financial indebtedness if, among other things, certain net leverage limits set for various EPIF Group levels are met. In addition, under the EPIF Facilities Agreement, if the rating of the Issuer drops below a certain level, the EPIF Group will become subject to a regularly tested net leverage covenant on the EPIF Group level.
The EPIF Facilities Agreement also contains change of control provisions the triggering of which may result in mandatory prepayment.

The EPIF Facilities Agreement are stated net of debt issue costs of EUR 6 million (at inception). These costs are allocated to the profit and loss account over the term of the EPIF Facilities Agreement through the effective interest rate of 1.739%.

Loans and borrowings

FAIR VALUE INFORMATION

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

In millions of EUR

	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Issued debentures at amortised costs	3,313	3,265	3,237	3,268
Loans payable to credit institutions	2,186	2,175	2,530	2,549
Revolving credit facility	386	391	300	306
Bank overdraft	39	39	31	31
Loans payable to other than credit institutions	17	16	17	17
Liabilities from financial leases	2	2	6	6
Total	**5,943**	**5,888**	**6,121**	**6,177**

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:

In millions of EUR

	31 December 2018	31 December 2017
Investing activities	368	511
Financing activities	-	-
Total	**368**	**511**

For the year 2018 non-cash investing activities include partial set-off of SPPI loan provided to Slovenský plynárenský priemysel, a.s. The total amount of the loans was EUR 368 million (including EUR 50 million provided in 2017; 2017: EUR 428 million), of which the amount EUR 368 million (2017: EUR 158 million) was set-off against dividends declared by SPPI to Slovenský plynárenský priemysel, a.s.

For the year 2017 the amount of EUR 322 million represents EPH loan provided to shareholders which was set-off against dividends declared by EPH to its shareholders. The amount of EUR 32 million represents EPH loan provided to Przedsiebiorstwo Górnicze SILESIA Sp. z o.o. which was set-off against increase of share capital.

Loans and borrowings

RECONCILIATION OF MOVEMENTS OF LIABILITIES TO CASH FLOW ARISING FROM FINANCING ACTIVITIES

In millions of EUR

	Liabilities					Equity					
	Loans from credit institutions	Loans from other than credit institutions	Bank overdraft	Issued debentures	Finance lease liabilities	Share capital/ premium	Reserve for own shares	Reserves	Retained earnings	Non-controlling interest	Total
Balance at 1 January 2018	**2,830**	**17**	**31**	**3,237**	**6**	**216**	**(1,444)**	**(38)**	**2,426**	**1,515**	**8,796**
Changes from financing cash flows											
Proceeds from loans and borrowings	2,564	-	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)**
Total change from financing cash flows	**(291)**	**-**	**8**	**63**	**(5)**	**-**	**-**	**-**	**(114)**	**(109)**	**(448)**
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)**
Other changes											
Liability related											
Interest expense	74	9	-	115	-	-	-	-	-	-	**198**
Interest paid	(68)	(9)	-	(110)	-	-	-	-	-	-	**(187)**
Set-off with loans provided	-	-	-	-	-	-	-	-	-	(367)	**(367)**
Liability from dividends not paid	-	-	-	-	-	-	-	-	-	(30)	**(30)**
Total liability-related other changes	**6**	**-**	**-**	**5**	**-**	**-**	**-**	**-**	**-**	**(397)**	**(386)**
Equity related											
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	**-**	**-**	**-**	**-**	**-**	**-**	**1,444**	**381**	**(1,233)**	**368**	**960**
Balance at 31 December 2018	**2,572**	**17**	**39**	**3,313**	**2**	**216**	**-**	**337**	**1,080**	**1,504**	**9,080**

Loans and borrowings

In millions of EUR

	Liabilities					Equity					
	Loans from credit institutions	Loans from other than credit institutions	Bank overdraft	Issued debentures	Finance lease liabilities	Share capital/ premium	Reserve for own shares	Reserves	Retained earnings	Non-controlling interest	Total
Balance at 1 January 2017	**2,413**	**35**	**8**	**3,075**	**10**	**272**	**-**	**(30)**	**1,145**	**1,707**	**8,635**
Changes from financing cash flows											
Acquisition of own shares	-	-	-	-	-	(56)	(1,444)	-	-	-	**(1,500)**
Proceed from issue of share capital	-	-	-	-	-	-	-	6	(6)	-	**-**
Proceeds from loans and borrowings	556	-	32	-	-	-	-	-	-	-	**588**
Repayment of borrowings	(470)	-	(9)	-	-	-	-	-	-	-	**(479)**
Proceeds from bonds issued	-	-	-	143	-	-	-	-	-	-	**143**
Transaction cost related to loans and borrowings	(9)	-	-	-	-	-	-	-	-	-	**(9)**
Payment of finance lease liabilities	-	-	-	-	(4)	-	-	-	-	-	**(4)**
Dividend paid	-	-	-	-	-	-	-	-	(142)	(245)	**(387)**
Total change from financing cash flows	**77**	**-**	**23**	**143**	**(4)**	**(56)**	**(1,444)**	**6**	**(148)**	**(245)**	**(1,648)**
Changes arising from obtaining or losing of control of subsidiaries	336	(14)	-	-	-	-	-	11	1,339	(11)	**1,661**
Total effect of changes in foreign exchange rates	1	(4)	-	17	-	-	-	36	-	-	**50**
Other changes											
Liability related											
Interest expense	65	11	-	120	-	-	-	-	-	-	**196**
Interest paid	(62)	(11)	-	(118)	-	-	-	-	-	-	**(191)**
Total liability-related other changes	**3**	**-**	**-**	**2**	**-**	**-**	**-**	**-**	**-**	**-**	**5**
Total equity-related other changes[(1)]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(61)**	**90**	**64**	**93**
Balance at 31 December 2017[(1)]	**2,830**	**17**	**31**	**3,237**	**6**	**216**	**(1,444)**	**(38)**	**2,426**	**1,515**	**8,796**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries.

31. Provisions

In millions of EUR

	Employee benefits	Provision for emission rights	Onerous contracts	Provision for lawsuits and litigations	Provision for restoration and decom-missioning[3]	Other	Total
Balance at 1 January 2018	**142**	**120**	**33**	**20**	**833**	**25**	**1,173**
Provisions made during the year	31	231	1	1	73	10	**347**
Provisions used during the year	(39)	(107)	-	-	(39)	(11)	**(196)**
Provisions reversed during the year	(17)	-	(22)	(5)	(54)	-	**(98)**
Acquisitions through business combinations[1]	9	4	-	-	72	24	**109**
Transfer[2]	-	-	-	1	-	(1)	**-**
Unwinding of discount[3]	1	-	-	-	9	-	**10**
Effects of movements in foreign exchange rate	1	-	(1)	-	(2)	(1)	**(3)**
Balance at 31 December 2018	**128**	**248**	**11**	**17**	**892**	**46**	**1,342**
Non-current	*95*	*-*	*11*	*-*	*842*	*20*	***968***
Current	*33*	*248*	*-*	*17*	*50*	*26*	***374***

(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.

In millions of EUR

	Employee benefits	Provision for emission rights	Onerous contracts	Provision for lawsuits and litigations	Provision for restoration and decom-missioning[4]	Other	Total
Balance at 1 January 2017	**154**	**80**	**58**	**14**	**731**	**12**	**1,049**
Provisions made during the year	27	102	2	8	76	16	**231**
Provisions used during the year	(40)	(80)	-	-	(34)	(3)	**(157)**
Provisions reversed during the year	(3)	-	(9)	(2)	(9)	(1)	**(24)**
Acquisitions through business combinations[1]	6	18	-	-	41	-	**65**
Transfer[2]	-	-	(18)	-	18	-	**-**
Unwinding of discount[3]	-	-	-	-	14	-	**14**
Effects of movements in foreign exchange rate	(2)	-	-	-	(4)	1	**(5)**
Balance at 31 December 2017	**142**	**120**	**33**	**20**	**833**	**25**	**1,173**
Non-current	*103*	*-*	*33*	*-*	*779*	*3*	***918***
Current	*39*	*120*	*-*	*20*	*54*	*22*	***255***

(1) The purchase of EP SHB LIMITED, EP LANGAGE LIMITED, Kraftwerk Mehrum GmbH, POZAGAS a.s. and EPNEI Group.
(2) Transfer by Fiume Santo S.P.A. and EP Produzione S.P.A. due to the change of the purpose of the provision.
(3) Unwinding of discount is included in interest expense.
(4) As at 31 December 2017, the balance in amount of EUR 393 million represents mining related provisions recorded by JTSD – Braunkohlebergbau GmbH and Helmstedter Revier GmbH. Remaining balance of EUR 440 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 128 million (2017: EUR 142 million) was recorded by Mitteldeutsche Braunkohlengesellschaft GmbH, Helmstedter Revier GmbH, Kraftwerk Mehrum GmbH, EGGBOROUGH POWER 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 19 million (2017: EUR 21 million), of which EUR 3 million (2017: EUR 4 million) represents a defined benefit pension scheme. The remaining balance of EUR 16 million (2017: EUR 17 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.

In millions of EUR

	2018	2017
Plan A		
Fair value of plan asset	4	4
Present value of obligations	(6)	(6)
Total employee benefit (asset)	**(2)**	**(2)**
Plan B		
Fair value of plan asset	2	2
Present value of obligations	(2)	(3)
Total employee benefit (asset)	**-**	**(1)**
Plan C		
Fair value of plan asset	-	-
Present value of obligations	(1)	(1)
Total employee benefit (asset)	**(1)**	**(1)**

MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

In millions of EUR

	Plan A	Plan B	Plan C	Total
Balance at 1 January 2018	**(6)**	**(3)**	(1)	**(10)**
Benefits paid by plan	-	1	-	**1**
Actuarial gains (losses)	-	-	-	**-**
Balance at 31 December 2018	**(6)**	**(2)**	**(1)**	**(9)**

In millions of EUR

	Plan A	Plan B	Plan C	Total
Balance at 1 January 2017	**(6)**	**(3)**	(1)	**(10)**
Benefits paid by plan	-	1	-	**1**
Actuarial gains (losses)	-	(1)	-	**(1)**
Balance at 31 December 2017	**(6)**	**(3)**	**(1)**	**(10)**

MOVEMENT IN FAIR VALUE OF PLAN ASSETS

In millions of EUR

	Plan A	Plan B	Plan C	Total
Balance at 1 January 2018	**4**	**2**	**-**	**6**
Benefits paid by plan	-	-	-	**-**
Contributions to plan assets	-	-	-	**-**
Balance at 31 December 2018	**4**	**2**	**-**	**6**

In millions of EUR

	Plan A	Plan B	Plan C	Total
Balance at 1 January 2017	**4**	**2**	**-**	**6**
Benefits paid by plan	-	-	-	**-**
Contributions to plan assets	-	-	-	**-**
Balance at 31 December 2017	**4**	**2**	**-**	**6**

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

AS AT 31 DECEMBER 2018

In %

	Plan A	Plan B	Plan C
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.

AS AT 31 DECEMBER 2017

In %

	Plan A	Plan B	Plan C
Discount rate	0.52	0.66	1.87
Expected return on assets	0.00	0.00	*N/A*
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 2005G.

II. HELMSTEDTER REVIER GMBH

The provision recorded by Helmstedter Revier GmbH amounts to EUR 49 million (2017: EUR 59 million), of which EUR 20 million (2017: EUR 22 million) represents a defined benefit pension scheme and EUR 22 million (2017: EUR 28 million) represents an early retirement scheme. The schedules below summarise information about the defined benefit obligations.

In millions of EUR

	2018	2017
Plan A		
Fair value of plan asset	30	30
Present value of obligations	(49)	(51)
Total employee benefit (asset)	**(19)**	**(21)**
Plan B		
Fair value of plan asset	1	1
Present value of obligations	(2)	(2)
Total employee benefit (asset)	**(1)**	**(1)**
Early Retirement		
Present value of obligations	(22)	(28)
Total employee benefit (asset)	**(22)**	**(28)**

MOVEMENTS IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

In millions of EUR

	Plan A	Plan B	Early retirement	Total
Balance at 1 January 2018	**(51)**	**(2)**	**(28)**	**(81)**
Benefits paid by plan	-	-	8	**8**
Current service costs	-	-	(2)	**(2)**
Current interest costs	(1)	-	-	**(1)**
Actuarial gains (losses) recognised in other comprehensive income	3	-	-	**3**
Balance at 31 December 2018	**(49)**	**(2)**	**(22)**	**(73)**

In millions of EUR

	Plan A	Plan B	Early retirement	Total
Balance at 1 January 2017	**(56)**	**(2)**	**(38)**	**(96)**
Benefits paid by plan	1	-	9	**10**
Current service costs	(1)	-	1	**-**
Current interest costs	(1)	-	-	**(1)**
Actuarial gains (losses) recognised in other comprehensive income	6	-	-	**6**
Balance at 31 December 2017	**(51)**	**(2)**	**(28)**	**(81)**

MOVEMENT IN FAIR VALUE OF PLAN ASSETS

In millions of EUR

	Plan A	Plan B	Total
Balance at 1 January 2018	**30**	**1**	**31**
Contributions to plan assets	-	-	**-**
Expected return on plan assets	-	-	**-**
Actuarial gains (losses) recognised in other comprehensive income	-	-	**-**
Balance at 31 December 2018	**30**	**1**	**31**

In millions of EUR

	Plan A	Plan B	Total
Balance at 1 January 2017	**24**	**1**	**25**
Contributions to plan assets	6	-	**6**
Expected return on plan assets	-	-	**-**
Actuarial gains (losses) recognised in other comprehensive income	-	-	**-**
Balance at 31 December 2017	**30**	**1**	**31**

EXPENSE RECOGNISED IN PROFIT AND LOSS

In millions of EUR

	2018	2017
Current service costs	(2)	-
Current interest costs	(1)	(1)
Total	**(3)**	**(1)**

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

AS AT 31 DECEMBER 2018

In %

	Plan A	Plan B	Early Retirement
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.

AS AT 31 DECEMBER 2017

In %

	Plan A	Plan B	Early Retirement
Discount rate	1.44	1.44	0.00
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	0.00	0.00	1.50
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 2005G.

III. SSE 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:

Years of service	Multiples of average monthly wage
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 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.

IV. 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_2 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 16 million was recorded by JTSD – Braunkohlebergbau GmbH (2017: EUR 20 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 2018 and 31 December 2017.

PROVISION FOR RESTORATION AND DECOMMISSIONING

The provision of EUR 892 million (2017: EUR 833 million) was primarily recorded by JTSD - Braunkohlebergbau GmbH (EUR 322 million; 2017: EUR 288 million), EP Produzione S.P.A. (EUR 118 million; 2017: EUR 124 million), Helmstedter Revier GmbH (EUR 107 million; 2017: EUR 105 million), NAFTA a.s. (EUR 96 million; 2017: EUR 92 million), Fiume Santo S.P.A. (EUR 84 million; 2017: EUR 91 million), NAFTA Germany GmbH (EUR 69 million; 2017: EUR 0 million), EGGBOROUGH POWER LIMITED (EUR 14 million; 2017: EUR 60 million), Kraftwerk Mehrum GmbH (EUR 17 million, 2017: EUR 17 million), POZAGAS a.s. (EUR 9 million, 2017: EUR 11 million) eustream, a.s. (EUR 8 million; 2017: EUR 8 million) and LYNEMOUTH POWER LIMITED (EUR 11 million; 2017: EUR 8 million).

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:

- ewatering 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

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 2018, 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 0.84% (2017: 0.82%) was used to calculate the provision for adjustments based on the current price basis and a discount rate of 1.68% (2017: 2.00%) in case of JTSD - Braunkohlebergbau GmbH and annual inflation rate of 0.84% (2017: 0.82%) was used to calculate the provision for adjustments based on the current price basis and a discount rate of 0.00% (2017: 0.00%) in case of Helmstedter Revier GmbH. For determination of the discount rate Helmstedter Revier GmbH applies German bonds that turned to be negative for 2018. 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.

In millions of EUR

	2018 Profit (loss)	2017 Profit (loss)
Increase of inflation rate by 1%	(97)	(92)
Decrease of inflation rate by 1%	80	68

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.

In millions of EUR

	2018 Profit (loss)	2017 Profit (loss)
Increase of discount rate by 1%	74	69
Decrease of discount rate by 1%	(90)	(84)

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 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 (2018: 1.40%; 2017: 2.15%). 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 1.56 %. 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 (2018: 2.20%; 2017: 2.48%). 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.

In millions of EUR

	2018 Profit (loss)	2017 Profit (loss)
Decrease of expected costs of 10%	18	12
Increase of expected costs of 10%	(18)	(12)
Increase of inflation rate of 1%	(46)	(28)
Increase of discount rate of 1%	30	19

As at 31 December 2018, the provision recognised by EP Produzione S.P.A. and Fiume Santo S.P.A. in total amount of EUR 202 million (2017: EUR 215 million) consists of the following items:

Asset retirement costs (ARO provision) in amount of EUR 176 million (EUR 107 million for EP Produzione S.P.A. and EUR 69 million for Fiume Santo S.P.A.; 2017: EUR 189 million, of which EUR 113 million for EP Produzione S.P.A. and EUR 75 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 (2017: 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 (2017: EUR 19 million) in region of Tavazzano, Ostiglia and Fiume Santo where the power plants are situated.

Estimated costs are adjusted by expected future inflation (0.84 % for 2018; 2017: 0.82%) and discounted using a discount rate that reflects the current market assessment of the time value of money – risk free rate of 1.53% (2017: 1.16%).

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.

In millions of EUR

	2018 Profit (loss)	2017 Profit (loss)
Increase of inflation rate by 1 %	(25)	(28)
Decrease of inflation rate by 1 %	22	24

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.

In millions of EUR

	2018 Profit (loss)	2017 Profit (loss)
Increase of discount rate by 1 %	22	24
Decrease of discount rate by 1 %	(25)	(28)

As at 31 December 2018, EGGBOROUGH POWER LIMITED recognised a provision for restoration and decommissioning in amount of EUR 14 million (2017: EUR 60 million) representing the present value of costs incurring in fulfilling the company's obligation to decommission and demolish Eggborough Power Station following cessation of operations in 2018. The company has an obligation to ensure that there are no issues with its ash-disposal site 60 years after the company is liquidated.

As at 31 December 2018, Kraftwerk Mehrum GmbH recognised provision for Asset retirement obligation ("ARO provision") in the amount of EUR 17 million (2017: 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

In millions of EUR

	31 December 2018	31 December 2017
Government grants	98	112
Free-of-charge received property	-	42
Other deferred income	24	60
Total	**122**	**214**
Non-current	112	195
Current	10	19
Total	**122**	**214**

Balance of government grants in amount of EUR 98 million (2017: EUR 112 million) is mainly represented by Elektrárny Opatovice, a.s. of EUR 22 million (2017: EUR 38 million), Alternative Energy, s.r.o. of EUR 4 million (2017: EUR 5 million), eustream, a.s. of EUR 62 million (2017: EUR 62 million) and United Energy a.s. of EUR 6 million (2017: EUR 5 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 24 million (2017: EUR 60 million) consists mainly of deferred income recognised by EP Cargo a.s. in the amount of EUR 14 million (2017: EUR 15 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 recognised in revenues over time.

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 (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.

Beginning 1 January 2018 the balance of other deferred income and free-of-charge received property recognised by Stredoslovenská distribučná, a.s. and SPP – distribúcia, a.s. has been recognised as Contract liabilities on a separate line in the statement of financial position (refer to Note 2(e) – Recently issued accounting standards).

33. Financial instruments

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

In millions of EUR

	31 December 2018	31 December 2017
Assets carried at amortised cost		
Loans to other than credit institutions	391	(2)531
Other short-term deposits	1	-
Impairment of loans to other than credit institutions	(92)	(17)
Total	**300**	**514**
Assets carried at fair value		
Hedging: *of which*	37	36
Commodity derivatives cash flow hedge(1)	*33*	*9*
Other derivatives fair value hedge	*4*	*8*
Commodity derivatives fair value hedge	*-*	*18*
Interest rate swaps cash flow hedge	*-*	*1*
Risk management purpose: *of which*	106	19
Commodity derivatives reported as trading	*104*	*17*
Currency forwards reported as trading	*2*	*2*
Equity instruments at fair value through PL: *of which*	48	(3)80
Shares at fair value through PL	*48*	*80*
Equity instruments at fair value through OCI: *of which*	23	(3)25
Shares and interim certificates at fair value through OCI	*23*	*25*
Total	**214**	**160**
Non-current	149	111
Current	365	563
Total	**514**	**674**

(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.

(2) Represents primarily a prepayment for a dividend provided to minority shareholder of SPPI.

(3) According to IFRS 9 this balance was restated as of 31 December 2017 from Shares available for sale to Equity instruments at fair value through OCI or Equity instruments at fair value through PL.

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL LIABILITIES

In millions of EUR

	31 December 2018	31 December 2017
Liabilities carried at amortised cost		
Issued bills of exchange at amortised costs	83	61
Total	**83**	**61**
Liabilities carried at fair value		
Hedging: *of which*	138	79
Interest rate swaps cash flow hedge	*82*	*26*
Commodity derivatives cash flow hedge	*43*	*5*
Currency forwards cash flow hedge	*13*	*48*
Risk management purpose: *of which*	*134*	*42*
Commodity derivatives reported as trading	*129*	*27*
Interest rate swaps reported as trading	*4*	*9*
Currency forwards reported as trading	*1*	*6*
Total	**272**	**121**
Non-current	154	31
Current	201	151
Total	**355**	**182**

The weighted average interest rate on loans to other than credit institutions for 2018 was 6.81% (2017: 6.23%).

As at 31 December 2018, the Group recorded a valuation allowance of EUR 1 million (2017: EUR 0 million) to loans provided to its associate Przedsiębiorstwo Górnicze SILESIA Sp. z o.o. ("PGS"). At the same time, the Group reported a valuation allowance of EUR 32 million (2017: 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 2018 and 2017 respectively. The results of the impairment tests reflect the current conditions on the Polish hard coal market.

Furthermore, as at 31 December 2017 the Group recorded as a result of the carried-out credit analysis a valuation allowance of EUR 15 million to loans provided to a third party as the Company has doubts about a borrower's ability to fully settle its debts. In 2018, as a result of the credit analysis an additional valuation allowance of EUR 72 million was recorded. The valuation allowance reported as at 31 December 2018 amounts to EUR 87 million.

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.

Shares at fair value through profit or loss as at 31 December 2017 represent a 10% share in Veolia Energie ČR, a.s. in amount of EUR 80 million. As at 31 December 2017 these shares were reclassified from Shares available for sale to Shares at fair value through profit or loss. Cost was used as the best

approximate of fair value as these equity instruments did not have a quoted market price in an active market and their fair value could not be otherwise measured reliably. Subsequently in 2018 the Group sold whole 10% interest in Veolia Energie ČR, a.s. to a third party and reported a profit from sale of EUR 4 million.

Fair values and respective nominal amounts of derivatives are disclosed in the following table:

In millions of EUR

	31 December 2018	31 December 2018	31 December 2018	31 December 2018
	Nominal amount buy	Nominal amount sell	Positive fair value	Negative fair value
Hedging: *of which*	3,204	(3,202)	37	138
Interest rate swaps cash flow hedge	*2,388*	*(2,388)*	*-*	*82*
Commodity derivatives cash flow hedge	*564*	*(562)*	*33*	*43*
Currency forwards cash flow hedge	*155*	*(155)*	*-*	*13*
Other derivatives fair value hedge	*97*	*(97)*	*4*	*-*
Risk management purpose: *of which*	2,983	(2,994)	106	134
Commodity derivatives reported as trading	*1,683*	*(1,695)*	*104*	*129*
Currency forwards reported as trading	*900*	*(899)*	*2*	*1*
Interest rate swaps reported as trading	*400*	*(400)*	*-*	*4*
Total	**6,187**	**(6,196)**	**143**	**272**

In millions of EUR

	31 December 2017	31 December 2017	31 December 2017	31 December 2017
	Nominal amount buy	Nominal amount sell	Positive fair value	Negative fair value
Hedging: *of which*	2,455	(2,449)	36	(79)
Interest rate swaps cash flow hedge	*2,055*	*(2,055)*	*1*	*(26)*
Commodity derivatives cash flow hedge	*168*	*(162)*	*9*	*(5)*
Commodity derivatives fair value hedge	*83*	*(83)*	*18*	*-*
Currency forwards cash flow hedge	*79*	*(80)*	*-*	*(48)*
Other derivatives fair value hedge	*70*	*(69)*	*8*	*-*
Risk management purpose: *of which*	2,342	(2,363)	19	(42)
Commodity derivatives reported as trading	*1,273*	*(1,288)*	*17*	*(27)*
Currency forwards reported as trading	*637*	*(643)*	*2*	*(6)*
Interest rate swaps reported as trading	*432*	*(432)*	*-*	*(9)*
Total	**4,797**	**(4,812)**	**55**	**(121)**

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).

In millions of EUR

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:				
Hedging: *of which*	-	37	-	**37**
Commodity derivatives cash flow hedge	-	*33*	-	***33***
Other derivatives fair value hedge	-	*4*	-	***4***
Risk management purpose: *of which*	-	106	-	**106**
Commodity derivatives reported as trading	-	*104*	-	***104***
Currency forwards reported as trading	-	*2*	-	***2***
Equity instruments at fair value through PL: *of which*	38	-	10	**48**
Shares at fair value through PL	*38*	-	*10*	***48***
Equity instruments at fair value through OCI: *of which*	-	-	23	**23**
Shares and interim certificates at fair value through OCI	-	-	*23*	***23***
Total	**38**	**143**	**33**	**214**
Financial liabilities carried at fair value:				
Hedging: *of which*	-	138	-	**138**
Interest rate swaps cash flow hedge	-	*82*	-	***82***
Commodity derivatives cash flow hedge	-	*43*	-	***43***
Currency forwards cash flow hedge	-	*13*	***13***	
Risk management purpose: *of which*	-	134	-	**134**
Commodity derivatives reported as trading	-	*129*	-	***129***
Interest rate swaps reported as trading	-	*4*	-	***4***
Currency forwards reported as trading	-	*1*	-	***1***
Total	**-**	**272**	**-**	**272**

In millions of EUR

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:				
Hedging: *of which*	-	36	-	**36**
Commodity derivatives fair value hedge	-	*18*	-	***18***
Commodity derivatives cash flow hedge	-	*9*	-	***9***
Other derivatives fair value hedge	-	*8*	-	***8***
Interest rate swaps cash flow hedge	-	*1*	-	***1***
Risk management purpose: *of which*	-	19	-	**19**
Commodity derivatives reported as trading	-	*17*	-	***17***
Currency forwards reported as trading	-	*2*	-	***2***
Equity instruments at fair value through PL: *of which*[1]	-	-	80	**80**
Shares at fair value through PL	-	-	*80*	***80***
Equity instruments at fair value through OCI: *of which*	-	-	25	**25**
Shares and interim certificates at fair value through OCI[1]	-	-	*25*	***25***
Total	**-**	**55**	**105**	**160**
Financial liabilities carried at fair value:				
Hedging: *of which*	-	(79)	-	**(79)**
Currency forwards cash flow hedge	-	*(48)*	-	***(48)***
Interest rate swaps cash flow hedge	-	*(26)*	-	***(26)***
Commodity derivatives cash flow hedge	-	*(5)*	-	***(5)***
Risk management purpose: *of which*	-	(42)	-	**(42)**
Commodity derivatives reported as trading	-	*(27)*	-	***(27)***
Interest rate swaps reported as trading	-	*(9)*	-	***(9)***
Currency forwards reported as trading	-	*(6)*	-	***(6)***
Total	**-**	**(121)**	**-**	**(121)**

(1) According to IFRS 9 this balance was restated as of 31 December 2017 from Shares available for sale to Equity instruments at fair value through OCI or Equity instruments at fair value through PL.

There were no transfers between fair value levels in either 2018 or 2017.

The fair value of financial instruments held at amortised costs is shown in the table below:

In millions of EUR

	Carrying value	Fair value
	31 December 2018	31 December 2018
Financial assets		
Loans to other than credit institutions	(1)299	331
Other short-term deposits	1	1
Total	**300**	**332**
Financial liabilities		
Issued bills of exchange at amortised costs	83	77
Total	**83**	**77**

In millions of EUR

	Carrying value	Fair value
	31 December 2017	31 December 2017
Financial assets		
Loans to other than credit institutions	(1)514	545
Total	**514**	**545**
Financial liabilities		
Issued bills of exchange at amortised costs	61	57
Total	**61**	**57**

(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

The following information pertains to contracts on delivery or sale of emission rights. These contracts do not meet the IFRS 9 criteria for derivatives (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.

FORWARD OPERATIONS

As at 31 December 2018, the EPH Group is contractually obliged to purchase 2,635,207 pieces (2017: 4,201,421 pieces) of emission rights at an average price 14.616 EUR/piece (2017: 5.829 EUR/piece).

34. Trade payables and other liabilities

In millions of EUR

	31 December 2018	31 December 2017
Trade payables	585	529
Accrued expenses	111	160
Estimated payables	93	56
Advance payments received	87	108
Payroll liabilities	72	78
Other tax liabilities	42	55
Other contingent consideration(1)	41	6
Uninvoiced supplies	40	27
Liabilities to partners and associations	32	227
Other liabilities	126	109
Total	**1,229**	**1,355**
Non-current	149	125
Current	1,080	1,230
Total	**1,229**	**1,355**

(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 2018, EPH Group recognised a liability of EUR 41 million as an estimate of probable future payment (2017: EUR 6 million).

As at 31 December 2017 the EPH Group reported EUR 222 million as a liability to Slovenský plynárenský priemysel, a.s. (“SPP”; 51% shareholder of SPP Infrastructure, a.s.) from unsettled dividend and at the same time the company recognised a financial receivable against SPP of EUR 270 million. These mutual positions were not offset as of 31 December 2017 and therefore presented in the consolidated statement of financial position separately. The setoff was carried out on 13 February 2018.

Trade payables and other liabilities have not been secured as at 31 December 2018 or as at 31 December 2017.

As at 31 December 2018 and 31 December 2017, 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.

Beginning 1 January 2018 the part of balance of advanced payments received (EUR 74 million as of 31 December 2018) related to customers' contract was restated as Contract liabilities on a separate line in the statement of financial position (refer to Note 2(e) – Recently issued accounting standards).

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

In millions of EUR

	2018	2017
Balance at 1 January	1	1
Charged to expenses	2	2
Disposal/decrease in principal	(2)	(2)
Balance at 31 December	**1**	**1**

Liabilities to the social fund are presented under payroll liabilities.

35. Financial commitments and contingencies

OFF BALANCE SHEET LIABILITIES

In millions of EUR

	31 December 2018	31 December 2017
Granted pledges – securities	995	9,203
Commitments	683	279
Guarantees given[1]	104	2
Other granted pledges	1,942	1,507
Total	**3,724**	**10,991**

(1) Total balance of guarantees given includes also guarantees for loans given by the Company where debtors are individual companies within the Group.

Granted pledges represent securities of individual Group companies used as collateral for external financing. Decrease in the value of granted pledges – securities was mainly due to investment grade rating granted to EP Infrastructure, a.s. as a result of which all guarantees incl. pledges of securities were lifted from all bank loan financing on EPIF.

GUARANTEES GIVEN

Guarantees given include mainly guarantees in the amount of EUR 103 million used as collateral for external financing.

COMMITMENTS

In 2018, Mitteldeutsche Braunkohlengesellschaft mbH ("MIBRAG") concluded agreements with Saxony's Upper Mining Authority ("SOBA"), the City of Freiberg and the State Office of Geology and Mining ("LAGB"), Haale (Saale), 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, which are still to be founded by MIBRAG. 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). This amount is reduced by the income generated by the fund during the allocation phase. Subsequently, the accrued funds will be continuously reduced as the rehabilitation obligations are successively met.

Majority of remaining commitments is represented by contracts to purchase physical energy in following years by SSE Group in amount of EUR 236 million (2017: EUR 239 million), where physical delivery of the energy will be realised in future and EUR 20 million related to contracts for purchase of non-current assets and commitments of EUR 39 million (2017: EUR 24 million) represented by contracts for future purchase of emission rights recognized by JTSD – Braunkohlebergbau GmbH, Elektrárny Opatovice, a.s., Pražská teplárenská a.s., United Energy, a.s. and Budapesti Erömü Zrt.. Remaining EUR 30 million arise from different type of service contracts.

OTHER GRANTED PLEDGES

In millions of EUR

	31 December 2018	31 December 2017
Property, plant and equipment	1,292	534
Loans granted[1]	255	411
Cash and cash equivalents[2]	201	418
Trade receivables	142	124
Inventories	52	20
Total	**1,942**	**1,507**

(1) Total balance of pledged granted loans includes intercompany loans of EUR 249 million (2017: EUR 404 million), which are eliminated in these consolidated financial statements.
(2) According to the bond documentation cash balances at specific entities are pledged in favour of the bondholders in case EPE defaults on bonds payments. As such, the pledged cash is readily available to the Group and does not represent restricted cash.
Pledged cash and cash equivalents include pledged restricted cash of EUR 21 million (2017: EUR 23 million).

At 31 December 2018 other granted pledges include net book value of property, plant and equipment, cash and cash equivalents, trade receivables and inventories pledged by EP SHB Limited, EP Langage Limited and Lynemouth Power 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. The increase in the value of pledged assets is caused by new pledges granted in course of 2018 in connection with financing agreements on EP UK Finance Limited.

OFF BALANCE SHEET ASSETS

In millions of EUR

	31 December 2018	31 December 2017
Received promises	357	372
Other received guarantees and warranties	116	158
Total	**473**	**530**

RECEIVED PROMISES

Received promises mainly comprise the contracts for the future purchase of energy in amount of EUR 218 million (2017: EUR 239 million) and regulatory contingent assets related to green energy of EUR 139 million (2017: EUR 97 million) recognised by SSE Group, which are represented by the contingent assets related to green energy.

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 to purchase the green electricity generated, which is used to cover network losses and pay bonuses. The purchase tariff for green energy is set by RONI and is covered by the Tariff for system operation (“TPS”).

In 2018, SSE recognised a loss of EUR 139 million (2017: EUR 97 million) as the difference between the green energy support costs and revenues from TPS in the period from 1 January 2018 to 31 December 2018. The loss includes revenues adjusted for compensation for past losses, which was recognised as accrued income as at 31 December 2017 (for 2017 revenues as at 31 December 2016).

Based on the current Regulatory Framework valid in 2018, the cumulated losses incurred in 2016 and 2017 are compensated in two years’ time, i.e. relevant amounts in 2018 and 2019 through an increase of revenues from TPS (2016 and 2017 losses to be recovered in 2018 and 2019). The 2018 loss is reported as a contingent asset in amount of EUR 139 million as of 31 December 2018 and will be recovered in 2020.

Based on the RONI decision dated in December 2018 the resulting contingent asset of EUR 97 million originating in the year 2017 was recognised as accrued income in the consolidated statement of financial position as of 31 December 2018 and will be fully collected in the course of 2019 (31 December 2017: EUR 73 million originating in the year 2016 was recognised as accrued income

in the consolidated statement of financial position as of 31 December 2017 and was fully collected in the course of 2018). The loss for 2018 has not yet been recognised 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 2019 once an RONI confirmation on the exact amount shall be received.

In the middle of August, Slovak government approved the legal act relating to TPS (amendment to the Slovak Renewable Energy Sources Act) drafted by Slovak Ministry of economy (“ME”). Parliament approved the change later in the year and in November the final version of legal act relating to TPS was published in the Official Journal.

Primarily, the legal act transfers TPS clearing duty from the distribution companies to a state-owned body, in this case OKTE a.s., from 1 January 2020. From the accounting and cash flow perspective, the Group expects the TPS deficit to be fully recognised in statement of financial position in course of 2019. 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 77 million (2017: EUR 82 million) recognised by eustream, a.s. and SPP – distribúcia, a.s., guarantees received from banks of EUR 26 million (2017: EUR 73 million) recognised by NAFTA a.s.

36. Operating leases

During the year ended 31 December 2018, EUR 41 million (2017: EUR 34 million) was recognised as an expense in profit or loss in respect of operating leases.

During the year ended 31 December 2018, EUR 7 million (2017: EUR 8 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(n) – 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 2018

In millions of EUR

	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Individuals	Other	Total
Assets							
Cash and cash equivalents	-	-	-	1,006	-	-	**1,006**
Restricted cash	5	-	-	25	-	-	**30**
Trade receivables and other assets	980	23	-	1	29	64	**1,097**
Financial instruments and other financial assets	429	-	59	25	1	-	**514**
Total	**1,414**	**23**	**59**	**1,057**	**30**	**64**	**2,647**

AS AT 31 DECEMBER 2017

In millions of EUR

	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Individuals	Other	Total
Assets							
Cash and cash equivalents	8	-	-	805	-	3	**816**
Restricted cash	7	-	1	23	-	-	**31**
Trade receivables and other assets	979	18	2	2	17	85	**1,103**
Financial instruments and other financial assets	593	-	63	16	2	-	**674**
Total	**1,587**	**18**	**66**	**846**	**19**	**88**	**2,624**

CREDIT RISK BY LOCATION OF DEBTOR

AS AT 31 DECEMBER 2018

In millions of EUR

	Czech Republic	Slovakia	Cyprus	Italy	Poland	Germany	Hungary	United Kingdom	Other	Total
Assets										
Cash and cash equivalents	333	238	-	214	3	74	6	128	10	**1,006**
Restricted cash	3	-	-	-	-	-	2	25	-	**30**
Trade receivables and other assets	126	212	-	248	12	159	22	165	153	**1,097**
Financial instruments and other financial assets	95	5	63	13	124	115	7	24	68	**514**
Total	**557**	**455**	**63**	**475**	**139**	**348**	**37**	**342**	**231**	**2,647**

AS AT 31 DECEMBER 2017

In millions of EUR

	Czech Republic	Slovakia	Cyprus	Italy	Poland	Germany	Hungary	United Kingdom	Other	Total
Assets										
Cash and cash equivalents	457	175	-	88	4	41	13	30	8	**816**
Restricted cash	-	-	-	-	-	-	1	30	-	**31**
Trade receivables and other assets	190	245	1	233	14	136	13	128	143	**1,103**
Financial instruments and other financial assets	112	273	45	6	79	45	9	35	70	**674**
Total	**759**	**693**	**46**	**327**	**97**	**222**	**36**	**223**	**221**	**2,624**

As at 31 December 2018, location Other comprises mainly debtors located in the Netherlands, Luxembourg and Belgium (2017: the Netherlands, Belgium and Russia).

II. IMPAIRMENT LOSSES

When implementing IFRS 9 the Group replaced the “incurred loss” model in IAS 39 with an “expected credit loss” (ECL) model. Under IFRS 9, credit losses are recognised earlier than under IAS 39.

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 2(e) – Recently issued accounting standards

CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

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

In millions of EUR

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total
Balance at 31 December 2017 – IAS 39	**-**	**-**	**(40)**	**-**	**(40)**
Impact of adopting IFRS 9[(1)]	(3)	(1)	(1)	-	(5)
Restated balance at 1 January 2018	**(3)**	**(1)**	**(41)**	**-**	**(45)**
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)**
Balance at 31 December 2018	**(17)**	**(5)**	**(114)**	**-**	**(136)**

(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 the period was mainly classification of certain loans to other than credit institution in Stage III and creation of lifetime ECL to these receivables. Remaining change is caused by increase in the gross carrying amount of trade receivables.

The movements in the allowance for impairment in respect of financial assets during the year ended 31 December 2018 were as follows:

In millions of EUR

	Loans to other than credit institutions	Contract assets	Trade receivables and other assets	Total
Balance at 31 December 2017 – IAS 39	**(17)**	**-**	**(23)**	**(40)**
Impact of adopting IFRS 9(1)	(1)	-	(4)	(5)
Restated balance at 1 January 2018	**(18)**	**-**	**(27)**	**(45)**
Impairment losses recognised during the year	(74)	-	(18)	**(92)**
Reversals of impairment losses recognised during the year	-	-	2	**2**
Effects of movements in foreign exchange rate	-	-	(1)	**(1)**
Balance at 31 December 2018	**(92)**	**-**	**(44)**	**(136)**

(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:

Risk management policies and disclosures

CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

AS AT 31 DECEMBER 2018

In millions of EUR

	Other term deposits	Contract assets	Loans to other than credit institutions	Trade receivables and other assets	Total
Before maturity (net)	1	37	299	1,083	**1,420**
After maturity (net)	-	-	-	14	**14**
Total	**1**	**37**	**299**	**1,097**	**1,434**
A – Assets (gross)					
– before maturity	1	37	391	1,104	**1,533**
– after maturity <30 days	-	-	-	11	**11**
– after maturity 31–180 days	-	-	-	3	**3**
– after maturity 181–365 days	-	-	-	2	**2**
– after maturity >365 days	-	-	-	21	**21**
Total assets (gross)	**1**	**37**	**391**	**1,141**	**1,570**
B – Loss allowances for assets					
– before maturity	-	-	(92)	(21)	**(113)**
– after maturity <30 days	-	-	-	-	**-**
– after maturity 31–180 days	-	-	-	(1)	**(1)**
– after maturity 181–365 days	-	-	-	(2)	**(2)**
– after maturity >365 days	-	-	-	(20)	**(20)**
Total loss allowances	**-**	**-**	**(92)**	**(44)**	**(136)**
Total assets (net)	**1**	**37**	**299**	**1,097**	**1,434**

CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

AS AT 31 DECEMBER 2017

In millions of EUR

	Loans to other than credit institutions	Other short-term deposits (intended for investing activities)	Trade receivables and other assets	Total
Before maturity (net)	514	-	1,073	**1,587**
After maturity (net)	-	-	30	**30**
Total	**514**	**-**	**1,103**	**1,617**
A – Assets for which a provision has been created				
– gross	26	-	46	**72**
– specific loss allowance	(17)	-	(22)	**(39)**
– collective loss allowance	-	-	(1)	**(1)**
Net	**9**	**-**	**23**	**32**
B – Assets for which a provision has not been created (overdue but not impaired)				
– after maturity <30 days	-	-	4	**4**
– after maturity 31–180 days	-	-	2	**2**
– after maturity 181–365 days	-	-	-	**-**
– after maturity >365 days	-	-	1	**1**
Net	**-**	**-**	**7**	**7**

The movements in the allowance for impairment in respect of financial assets during the year ended 31 December 2017 were as follows:

In millions of EUR

	Loans to other than credit institutions	Other own term deposits (intended for investing activities)	Trade receivables and other assets	Total
Balance at 1 January 2017	**(60)**	**-**	**(20)**	**(80)**
Impairment losses recognised during the year	(2)	-	(5)	**(7)**
Reversals of impairment losses recognised during the year	48	**-**	2	**50**
Effects of movements in foreign exchange rate	**(3)**	**-**	**-**	**(3)**
Balance at 31 December 2017	**(17)**	**-**	**(23)**	**(40)**

Impairment losses on financial assets at amortized cost at 31 December 2018 are calculated based on a new 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 new 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 2018.

Impairment losses at 31 December 2017 relate to several customers that have indicated that they do not expect to be able to pay their outstanding balances, mainly due to economic circumstances. The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on extensive analyses of the underlying ratings of the customers.

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 2018

In millions of EUR

	Carrying amount	Contractual cash flows[1]	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
Liabilities							
Loans and borrowings	**5,943**	6,370	175	923	3,601	1,671	-
Trade payables and other liabilities	[2]**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		*4,448*	*590*	*1,227*	*528*	*2,103*	-
outflow	*(272)*	*(4,571)*	*(621)*	*(1,303)*	*(544)*	*(2,103)*	-
Total	**7,442**	**7,870**	**941**	**1,332**	**3,806**	**1,763**	**28**

* 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.

AS AT 31 DECEMBER 2017

In millions of EUR

	Carrying amount	Contractual cash flows[1]	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
Liabilities							
Loans and borrowings	**6,121**	6,643	55	1,148	4,715	723	2
Trade payables and other liabilities	[2]**1,298**	1,298	917	234	89	34	24
Financial instruments and financial liabilities	**182**	168	44	36	26	62	-
out of which Derivatives – inflow		*2,946*	*608*	*660*	*110*	*1,568*	-
outflow	*(121)*	*(2,972)*	*(629)*	*(661)*	*(113)*	*(1,569)*	-
Total	**7,601**	**8,109**	**1,016**	**1,418**	**4,830**	**819**	**26**

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.
(2) Advances received in amount of EUR 57 million are excluded from the carrying amount as these items will cause no future cash outflow.

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 2018 is as follows:

In millions of EUR

	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
Assets					
Cash and cash equivalents	986	-	-	20	**1,006**
Restricted cash	26	-	-	4	**30**
Trade receivables and other assets	-	-	-	1,097	**1,097**
Financial instruments and other financial assets[1]	115	99	89	211	**514**
out of which Derivatives – inflow	-	-	-	*(1,739)*	***1,739***
outflow	-	-	-	*(1,625)*	***(1,625)***
Total	**1,127**	**99**	**89**	**1,332**	**2,647**
Liabilities					
Loans and borrowings[2]	3,240	1,453	1,249	1	**5,943**
Trade payables and other liabilities	3	-	-	1,226	**1,229**
Financial instruments and financial liabilities[1]	122	47	-	186	**355**
out of which Derivatives – inflow	*2,788*	-	-	*1,660*	***4,448***
outflow	*(476)*	*(209)*	*(2,103)*	*(1,783)*	***(4,571)***
Total	**3,365**	**1,500**	**1,249**	**1,413**	**7,527**
Net interest rate risk position	**(2,238)**	**(1,401)**	**(1,160)**	**(81)**	**(4,880)**

(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 2017 is as follows:

In millions of EUR

	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
Assets					
Cash and cash equivalents	790	-	-	26	**816**
Restricted cash	30	-	-	1	**31**
Trade receivables and other assets	1	-	1	1,101	**1,103**
Financial instruments and other financial assets[1]	438	7	94	135	**674**
out of which Derivatives – inflow	*380*	-	-	*1,471*	***1,851***
outflow	-	-	*(380)*	*(1,460)*	***(1,840)***
Total	**1,259**	**7**	**95**	**1,263**	**2,624**
Liabilities					
Loans and borrowings[2]	3,434	2,169	512	6	**6,121**
Trade payables and other liabilities	18	-	-	1,337	**1,355**
Financial instruments and financial liabilities[1]	100	7	-	75	**182**
out of which Derivatives – inflow	*2,111*	-	-	*835*	***2,946***
outflow	*(32)*	*(400)*	*(1,679)*	*(861)*	***(2,972)***
Total	**3,552**	**2,176**	**512**	**1,418**	**7,658**
Net interest rate risk position	**(2,293)**	**(2,169)**	**(417)**	**(155)**	**(5,034)**

(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.

In millions of EUR

	2018 Profit (loss)	2017 Profit (loss)
Decrease in interest rates by 1%	1	(4)
Increase in interest rates by 1%	(8)	(2)

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 that 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 2018, the exposure to foreign exchange risk translated to millions of EUR was as follows:

In millions of EUR

	CZK	USD	EUR	GBP	PLN	HUF	Other	Total
Assets								
Cash and cash equivalents	109	2	757	129	4	5	-	**1,006**
Restricted cash	3	-	-	25	-	2	-	**30**
Trade receivables and other assets	79	16	837	125	11	29	-	**1,097**
Financial instruments and other financial assets	57	-	327	12	118	-	-	**514**
	248	**18**	**1,921**	**291**	**133**	**36**	**-**	**2,647**
Off-balance sheet assets								
Received promises	-	-	357	-	-	-	-	**357**
Receivables from derivative operations	467	2	5,156	492	30	40	-	**6,187**
	467	**2**	**5,513**	**492**	**30**	**40**	**-**	**6,544**
Liabilities								
Loans and borrowings	228	-	5,392	322	1	-	-	**5,943**
Trade payables and other liabilities	118	14	878	188	17	14	-	**1,229**
Financial instruments and financial liabilities	148	-	189	15	-	3	-	**355**
	494	**14**	**6,459**	**525**	**18**	**17**	**-**	**7,527**
Off-balance sheet liabilities								
Commitments	-	-	681	-	-	2	-	**683**
Payables related to derivative operations	166	18	5,378	591	-	43	-	**6,196**
	166	**18**	**6,059**	**591**	**-**	**45**	**-**	**6,879**
Net FX risk position	**(246)**	**4**	**(4,538)**	**(234)**	**115**	**19**	**-**	**(4,880)**

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 33 – Financial instruments for more details).

As of 31 December 2017, the exposure to foreign exchange risk translated to millions of EUR was as follows:

In millions of EUR

	CZK	USD	EUR	GBP	PLN	HUF	Other	Total
Assets								
Cash and cash equivalents	253	3	511	31	5	13	-	**816**
Restricted cash	-	-	-	30	-	1	-	**31**
Trade receivables and other assets	175	6	762	127	13	20	-	**1,103**
Financial instruments and other financial assets	145	-	418	33	72	6	-	**674**
	573	**9**	**1,691**	**221**	**90**	**40**	**-**	**2,624**
Off-balance sheet assets								
Received promises	-	-	372	-	-	-	-	**372**
Receivables from derivative operations	644	8	3,671	437	-	37	-	**4,797**
	644	**8**	**4,043**	**437**	**-**	**37**	**-**	**5,169**
Liabilities								
Loans and borrowings	317	-	5,803	-	1	-	-	**6,121**
Trade payables and other liabilities	136	14	963	214	13	15	-	**1,355**
Financial instruments and financial liabilities	83	-	31	68	-	-	-	**182**
	536	**14**	**6,797**	**282**	**14**	**15**	**-**	**7,658**
Off-balance sheet liabilities								
Commitments	-	-	279	-	-	-	-	**279**
Payables related to derivative operations	700	4	3,621	452	4	31	-	**4,812**
	700	**4**	**3,900**	**452**	**4**	**31**	**-**	**5,091**
Net FX risk position	**37**	**(5)**	**(5,106)**	**(61)**	**76**	**25**	**-**	**(5,034)**

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 33 – Financial instruments for more details).

The following significant exchange rates applied during the period:

CZK

	31 December 2018		31 December 2017	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
EUR 1	25.643	25.725	26.330	25.540
HUF 100	8.045	8.015	8.517	8.230
GBP 1	28.990	28.762	30.058	28.786
PLN 1	6.020	5.980	6.185	6.114

SENSITIVITY ANALYSIS

A strengthening (weakening) of the Czech crown, as indicated below, against the EUR, GBP, PLN and HUF 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.

Effect in millions of EUR

	2018 Profit (loss)	2017 Profit (loss)
EUR (5% strengthening)	49	56
PLN (5% strengthening)	(6)	(4)
GBP (5% strengthening)	(1)	-

Effect in millions of EUR

	2018 Other comprehensive income	2017 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

An increase/decrease in the price of electricity by 5% would have no significant impact to profit from the related commodity derivatives presented in Note 33 – Financial instruments.

An increase/decrease in the price of natural gas by 5% would have increased/decreased profit from the related commodity derivatives described in Note 33 – Financial instruments by the amount as shown in the table below.

Impact in millions of EUR

	2018 Profit (loss)	2017 Profit (loss)
Increase by 5%	(17)	(7)
Decrease by 5%	17	7

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:

In millions of EUR

	31 December 2018	(1)31 December 2017
Total liabilities	10,192	10,116
Less: cash and cash equivalents	1,006	816
Net debt	**9,186**	**9,300**
Total equity attributable to equity holders of the Company	1,633	1,160
Less: amounts accumulated in equity relating to cash flow hedges	475	117
Adjusted capital	**1,158**	**1,043**
Debt to adjusted capital	**7.93**	**8.92**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 6 – Acquisitions and disposals of subsidiaries.

I HEDGE ACCOUNTING

The balance as at 31 December 2018 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.

The following table provides a reconciliation of amounts recorded in equity by category of hedging instrument:

In millions of EUR

	Commodity derivatives – cash flow hedge	Interest rate swaps – cash flow hedge	Currency forwards – cash flow hedge(1)	Equity accounted investees – cash flow hedge	Total
Balance at 1 January 2018	**(9)**	**(5)**	**126**	**(1)**	**111**
Utilization of cash flow hedges	(2)	-	(15)	-	**(17)**
Deferred tax – cash flow hedges utilization	1	-	2	-	**3**
Revaluation of cash flow hedges	(4)	(52)	45	512	**501**
Deferred tax – cash flow hedges revaluation	3	10	(6)	(157)	**(150)**
Balance at 31 December 2018	**(11)**	**(47)**	**152**	**354**	**448**

(1) 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 27 million (2017: negative EUR 6 million). Share of non-controlling interest on effective changes in fair value of cash flow hedges, net of tax, and utilization of cash flow hedges amounted to 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 EUR 7 million (2017: negative EUR 4 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 negative EUR 7 million (2017: EUR 0 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 commodity derivatives gas and power for commodity price risk recorded by the Group as at 31 December 2018:

In millions of EUR

	31 December 2018	31 December 2018	31 December 2018	31 December 2018
	Positive fair value	Negative fair value	Nominal amount hedged (buy)	Nominal amount hedged (sell)
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
Total	**34**	**43**	**564**	**561**

The following table provides details of cash flow hedge currency derivatives recorded by the Group as at 31 December 2018:

In millions of EUR

	31 December 2018	31 December 2018	31 December 2018	31 December 2018
	Positive fair value	Negative fair value	Nominal amount hedged (buy)	Nominal amount hedged (sell)
Up to 3 months	-	-	-	-
3 months to 1 year	-	-	39	39
1–5 years	-	-	-	-
Over 5 years	-	-	-	-
Total	**-**	**-**	**39**	**39**

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 24 million (2017: positive EUR 33 million). For risk management policies, refer to Note 37 (c) – Risk management policies and disclosures.

The following table provides details of cash flow hedge interest rate swaps recorded by the Group as at 31 December 2018:

In millions of EUR

	31 December 2018	31 December 2018	31 December 2018	31 December 2018
	Positive fair value	Negative fair value	Nominal amount hedged (buy)	Nominal amount hedged (sell)
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
Total	**-**	**82**	**2 388**	**2 388**

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 2018 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 EUR 26 million (2017: negative EUR 39 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 2018:

In millions of EUR

	31 December 2018	31 December 2018	31 December 2018	31 December 2018
	Positive fair value	Negative fair value	Nominal amount hedged (buy)	Nominal amount hedged (sell)
Up to 3 months	-	-	-	-
3 months to 1 year	-	4	36	36
1–5 years	-	9	80	80
Over 5 years	-	-	-	-
Total	**-**	**13**	**116**	**116**

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 EUR 382 million. Remaining change of cash flow hedges attributable to equity accounted investees of 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.

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 2018 AND 31 DECEMBER 2017 WAS AS FOLLOWS:

In millions of EUR

	Accounts receivable and other financial assets	Accounts payable and other financial liabilities	Accounts receivable and other financial assets	Accounts payable and other financial liabilities
	2018	2018	2017	2017
Ultimate shareholders(1)	-	-	-	-
Companies controlled by ultimate shareholders	-	-	5	5
Associates and joint ventures	189	103	158	10
Key management personnel of the entity or its parent	-	-	-	-
Other related parties	-	-	-	-
Total	**189**	**103**	**163**	**15**

(1) Daniel Křetínský represents the ultimate shareholder.

B THE SUMMARY OF TRANSACTIONS WITH RELATED PARTIES DURING THE YEAR ENDED 31 DECEMBER 2018 AND 31 DECEMBER 2017 WAS AS FOLLOWS:

In millions of EUR

	Revenues	Expenses	Revenues	Expenses
	2018	2018	2017	2017
Ultimate shareholders(1)	-	-	-	-
Companies controlled by ultimate shareholders	4	4	7	3
Associates and joint ventures	189	238	103	91
Key management personnel of the entity or its parent	-	-	-	-
Other related parties	-	-	-	-
Total	**193**	**242**	**110**	**94**

(1) Daniel Křetínský represents the ultimate shareholder.

All transactions were performed under the arm's length principle.

In 2018, the Group recognised an expense of EUR 1 million for a valuation allowance to a loan provided to its associate Przedsiebiorstwo Górnicze SILESIA Sp. z o.o.

TRANSACTIONS WITH THE KEY MANAGEMENT PERSONNEL

For the financial years ended 31 December 2018 and 2017 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, a.s., SPP Infrastructure, a.s., eustream, a.s., SPP – distribúcia, a.s., NAFTA a.s., POZAGAS, a.s., Elektrárny Opatovice, a.s., Pražská teplárenská, a.s., United Energy, a.s., Plzeňská teplárenská, a.s., SPP Storage, s.r.o., EP ENERGY TRADING, a.s, EP Power Europe, a.s., EGGBOROUGH POWER LIMITED, 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 and Kraftwerk Mehrum GmbH.

Total compensation and related social and health insurance charges incurred by the respective entities were as follows:

In millions of EUR

	2018	2017
Nr. of personnel	89	89
Compensation, fees and rewards	9	9
Compulsory social security contributions	2	1
Total	**11**	**10**

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 2018 and 31 December 2017 is set out below:

		31 December 2018		31 December 2017		2018	2017
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso-lidation method	Conso-lidation method
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 Erneurbare Verwaltungs GmbH	Germany	100	Direct	100	-	Equity	-
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 Geselschaft 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

		31 December 2018		31 December 2017		2018	2017
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso-lidation method	Conso-lidation method
EP UK INVESTMENTS LTD	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[1]	United Kingdom	100	Direct	100	Direct	Full	Full
EP SHB LIMITED	United Kingdom	100	Direct	100	Direct	Full	Full
Humberland Limited[1]	United Kingdom	100	Direct	100	Direct	At cost	At cost
EP LANGAGE LIMITED	United Kingdom	100	Direct	100	Direct	Full	Full
RVA GROUP LIMITED[1]	United Kingdom	100	Direct	100	Direct	At cost	At cost
RVA CONSULTING ENGINEERS LIMITED[1]	United Kingdom	100	Direct	100	Direct	At cost	At cost
RVA ENGINEERING SOLUTIONS LIMITED[1]	United Kingdom	100	Direct	100	Direct	At cost	At cost
EP UK Finance Limited	United Kingdom	100	Direct	-	-	Full	-
ENERGY SCANNER LIMITED *[1]	United Kingdom	100	Direct	100	Direct	Full	Full
EP INVEST LIMITED[1]	United Kingdom	100	Direct	100	Direct	Full	Full
EP Commodities, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EPPE Italy N.V.	Netherlands	100	Direct	100	Direct	Full	Full
EP Produzione S.P.A.	Italy	100	Direct	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	58.35	Direct	58.35	Direct	Full	Full
Centro Energia Teverola S.R.L.	Italy	58.35	Direct	58.35	Direct	Full	Full
Ergosud S.P.A.	Italy	50	Direct	50	Direct	Equity	Equity
NADURENE a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP New Energy Italia S.R.L.	Italy	100	Direct	100	Direct	Full	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	-	-	Full	-
MÁTRA ENERGY HOLDING Zrt. *	Hungary	15	-	50	Direct	-	At cost
Mátrai Erőmű ZRt.[2]	Hungary	72.66	-	-	-	-	-
EP Yuzivska B.V.	Netherlands	100	Direct	-	-	At cost	-
RUBY Equity Investments S.à r.l.	Luxembourg	100	Direct	-	-	Full	-
EP Hagibor, a.s.	Czech Republic	100	Direct	-	-	Full	-
CR-EP s.r.o.	Czech Republic	50	Direct	-	-	At cost	-
HG1 s.r.o.	Czech Republic	100	Direct	-	-	At cost	-
HG5 s.r.o.	Czech Republic	100	Direct	-	-	At cost	-
EP Fleet, k.s.	Czech Republic	0.10	Direct	0.10	Direct	Full	Full
EP Investment Advisors, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Fleet, k.s.	Czech Republic	99.80	Direct	99.80	Direct	Full	Full
EP Auto, s.r.o. *	Czech Republic	100	Direct	100	Direct	Full	Full
EP Fleet, k.s.	Czech Republic	0.10	Direct	0.10	Direct	Full	Full

	Country of incorporation	31 December 2018 Owner-ship %	31 December 2018 Owner-ship interest	31 December 2017 Owner-ship %	31 December 2017 Owner-ship interest	2018 Conso-lidation method	2017 Conso-lidation method
WOOGEL LIMITED *	Cyprus	25	Direct	25	Direct	Full	Full
MINING SERVICES AND ENGINEERING Sp. z o.o.	Poland	100	Direct	100	Direct	Full	Full
Przedsiebiorstwo Górnicze SILESIA Sp. z o.o.	Poland	38.93	Direct	38.93	Direct	Equity	Equity
SEDILAS ENTERPRISES LIMITED	Cyprus	100	Direct	100	Direct	Full	Full
EPH Financing SK, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
EPH Financing CZ, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Coal Trading, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EOP & HOKA s.r.o.	Czech Republic	100	Direct	99.79	Direct	Full	Full
SAJDOK a.s.	Czech Republic	100	Direct	-	-	Full	-
EOP HOKA SK, s.r.o.	Slovakia	50	Direct	50	Direct	Full	Full
EOP HOKA POLSKA SPOŁKA Z OGRANICZONA ODPOWIEDZIALNOSCIA	Poland	100	Direct	100	Direct	Full	Full
EOP HOKA SK, s.r.o.	Slovakia	50	Direct	50	Direct	Full	Full
EP COAL TRADING POLSKA S.A.	Poland	100	Direct	100	Direct	Full	Full
EP Slovakia B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Slovak Power Holding B.V. *	Netherlands	50	Direct	50	Direct	Equity	Equity
Slovenské elektrárne, a.s.	Slovakia	66	Direct	66	Direct	Equity	Equity
Centrum pre vedu a výskum, s.r.o.	Slovakia	100	Direct	100	Direct	Equity	Equity
Ochrana a bezpečnosť SE, a.s.	Slovakia	100	Direct	100	Direct	Equity	Equity
Slovenské elektrárne – energetické služby, s.r.o. (SE Predaj, s.r.o.)	Slovakia	100	Direct	100	Direct	Equity	Equity
Slovenské elektrárne Česká republika, s.r.o.	Czech Republic	100	Direct	100	Direct	Equity	Equity
SE Služby inžinierskych stavieb, s.r.o.	Slovakia	100	Direct	100	Direct	Equity	Equity
REAKTORTEST, s.r.o.	Slovakia	49	Direct	49	Direct	Equity	Equity
ÚJV Řež, a.s.	Czech republic	27.80	Direct	27.80	Direct	Equity	Equity
Energotel, a.s.	Slovakia	20	Direct	20	Direct	Equity	Equity
Nadácia EPH	Slovakia	100	Direct	100	Direct	Full	Full
ADCONCRETUM REAL ESTATE DOO BEOGRAD-STARI GRAD	Serbia	100	Direct	100	Direct	Full	Full
PGP Terminal, a.s. *	Czech Republic	60	Direct	60	Direct	Full	Full
PLAZMA LIPTOV, a.s.	Slovakia	50	Direct	50	Direct	At cost	At cost
EP Logistics International, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
LokoTrain s.r.o.	Czech Republic	65	Direct	65	Direct	Full	Full
EP Cargo Deutschland GmbH	Germany	100	Direct	100	Direct	Full	Full
EP CARGO POLSKA S.A.	Poland	100	Direct	100	Direct	Full	Full
EP Cargo Invest, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
SPEDICA GROUP COMPANIES, s.r.o.	Czech Republic	67.33	Direct	67.33	Direct	Full	Full
SPEDICA LOGISTIC, s.r.o.	Czech Republic	67	Direct	67	Direct	Full	Full
SGC-LOGISTIC GmbH	Germany	100	Direct	100	Direct	At cost	At cost
RAILSPED, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
RM LINES, a.s.	Czech Republic	100	Direct	61.20	Direct	Full	Full
SPEDICA AGRO, s.r.o.	Czech Republic	-	-	68	Direct	-	Full

	Country of incorporation	31 December 2018 Owner-ship %	31 December 2018 Owner-ship interest	31 December 2017 Owner-ship %	31 December 2017 Owner-ship interest	2018 Conso-lidation method	2017 Conso-lidation method
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 Geselschaft 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	100	Direct	Full	Full
EP Real Estate, a.s. (PT Real Estate, a.s.)(3)(4)	Czech Republic	100	Direct	-	-	Full	Full
RPC, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Pod Juliskou, a.s.	Czech Republic	-	-	100	Direct	-	IFRS 5
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	IFRS 5
Michelský trojúhelník, a.s.	Czech Republic	-	-	100	Direct	-	Full
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	-	-	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.(5)	Czech Republic	100	Direct	-	-	Full	Full
PT Koncept, a.s.(6)	Czech Republic	100	Direct	100	Direct	Full	Full
TERMONTA PRAHA a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Transit, a.s.(7)	Czech Republic	100	Direct	100	Direct	Full	Full

		31 December 2018		31 December 2017		2018	2017
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
PT měření, a.s.[5]	Czech Republic	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	-	-	Full	Full
Pražská teplárenská a.s.[5]	Czech Republic	-	-	47.42	Direct	Full	Full
PT Koncept, a.s.[6]	Czech Republic	100	Direct	100	Direct	Full	Full
TERMONTA PRAHA a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Transit, a.s.[7]	Czech Republic	100	Direct	100	Direct	Full	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Real Estate, a.s. (PT Real Estate, a.s.)[3][4]	Czech Republic	-	-	47.42	Direct	Full	Full
RPC, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Pod Juliskou, a.s.	Czech Republic	-	-	100	Direct	-	IFRS 5
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	IFRS 5
Michelský trojúhelník, a.s.	Czech Republic	-	-	100	Direct	-	Full
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	-	-	Full	-
PT měření, a.s.[5]	Czech Republic	-	-	47.42	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
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
Plzeňská energetika a.s.	Czech Republic	-	-	100	Direct	-	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	IFRS 5	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

		31 December 2018		31 December 2017		2018	2017
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
V A H O s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
NPTH, a.s. *	Czech Republic	-	-	100	Direct	Full	Full
Pražská teplárenská a.s.[5]	Czech Republic	-	-	50.58	Direct	Full	Full
PT Koncept, a.s.[6]	Czech Republic	100	Direct	100	Direct	Full	Full
TERMONTA PRAHA a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Transit, a.s.[7]	Czech Republic	100	Direct	100	Direct	Full	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Real Estate, a.s. (PT Real Estate, a.s.)[3][4]	Czech Republic	-	-	50.58	Direct	Full	Full
RPC, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Pod Juliskou, a.s.	Czech Republic	-	-	100	Direct	-	IFRS 5
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	IFRS 5
Michelský trojúhelník, a.s.	Czech Republic	-	-	100	Direct	-	Full
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	-	-	Full	-
PT měření, a.s.	Czech Republic	-	-	50.58	Direct	Full	Full
Stredoslovenská energetika Holding, a.s. (Stredoslovenská energetika, a.s.)[8]	Slovakia	49	Direct	49	Direct	Full	Full
Stredoslovenská distribučná, a.s.[9]	Slovakia	100	Direct	100	Direct	Full	Full
Elektroenergetické montáže, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SSE – Metrológia 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	-	-	Full	-
Stredoslovenská energetika, a.s. (Stredoslovenská energetika Obchod, a.s.)[10]	Slovakia	100	Direct	-	-	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
KÖBÁNYAHÖ 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	-	-	Full	-
Plzeňská teplárenská, AUTODOPRAVA s.r.o.	Czech Republic	100	Direct	-	-	Full	-

	Country of incorporation	31 December 2018 Ownership %	31 December 2018 Ownership interest	31 December 2017 Ownership %	31 December 2017 Ownership interest	2018 Consolidation method	2017 Consolidation method
Plzeňská teplárenská SERVIS IN a.s.	Czech Republic	100	Direct	-	-	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	100	Direct	Full	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
NAFTA International B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
NAFTA Germany GmbH	Germany	100	Direct	-	-	Full	-
NAFTA Bavaria GmbH	Germany	100	Direct	-	-	Full	-
NAFTA Speicher Management GmbH (DEA Speicher Management GmbH)[11]	Germany	100	Direct	-	-	Full	-
NAFTA Speicher GmbH&Co. KG (DEA Speicher Holding GmbH&Co. KG)[12]	Germany	100	Direct	-	-	Full	-
NAFTA Speicher Inzenham GmbH (DEA Speicher GmbH)[13]	Germany	100	Direct	-	-	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
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	100	Direct	Full	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
NAFTA International B.V.*	Netherlands	100	Direct	100	Direct	Full	Full
NAFTA Germany GmbH	Germany	100	Direct	-	-	Full	-
NAFTA Bavaria GmbH	Germany	100	Direct	-	-	Full	-
NAFTA Speicher Management GmbH (DEA Speicher Management GmbH)[11]	Germany	100	Direct	-	-	Full	-
NAFTA Speicher GmbH&Co. KG (DEA Speicher Holding GmbH&Co. KG)[12]	Germany	100	Direct	-	-	Full	-
NAFTA Speicher Inzenham GmbH (DEA Speicher GmbH)[13]	Germany	100	Direct	-	-	Full	-

	Country of incorporation	31 December 2018 Ownership %	31 December 2018 Ownership interest	31 December 2017 Ownership %	31 December 2017 Ownership interest	2018 Consolidation method	2017 Consolidation method
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) This company is exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts, by virtue of section 479A.

(2) In 2018, the Group recorded an acquisition and a subsequent sale of an indirect minority shareholding in MÁTRAI ERŐMŰ ZRT. ÉVES BESZÁMOLÓ ("ME"). While EPPE 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 EPPE decided to sell most of its shareholding to its joint venture partner. As of balance sheet date, EPPE holds a 11% indirect share in ME, which is recorded in Financial instruments and other financial assets.

(3) In July 2018 the shares of PT Real Estate, a.s. were transferred to Pražská teplárenská holding a.s. and in December 2018 to Energetický a průmyslový holding, a.s. as a part of internal reorganization.

(4) On 7 February 2019 PT Real Estate, a.s. was renamed to EP Real Estate, a.s.

(5) In July 2018 the shares of Pražská teplárenská, a.s. and PT měření, a.s. were transferred to EP Energy, a.s. as a part of internal reorganization.

(6) On 1 February 2018 Pražská teplárenská Trading, a.s. was renamed to PT Koncept, a.s.

(7) On 1 February 2018 Energotrans SERVIS, a.s. was renamed to PT Transit, a.s.

(8) On 1 January 2019 Stredoslovenská energetika a.s. was renamed to Stredoslovenská energetika Holding, a.s.

(9) On 1 March 2018 Stredoslovenská energetika – Distribúcia, a.s. was renamed to Stredoslovenská distribučná, a.s.

(10) On 1 January 2019 Stredoslovenská energetika Obchod, a.s. was renamed to Stredoslovenská energetika, a.s.

(11) On 19 February 2019 DEA Speicher Management GmbH was renamed to NAFTA Speicher Management GmbH.

(12) On 31 January 2019 DEA Speicher Holding GmbH&Co. KG was renamed to NAFTA Speicher Gmbh&Co. KG.

(13) On 14 February 2019 DEA Speicher GmbH was renamed to NAFTA Speicher Inzenham GmbH.

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 HOLDING, A.S. GROUP ("SSE GROUP")

The SSE Group is a party to various legal proceedings. As at 31 December 2018 and 2017 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 the 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 August 2018, Pražská teplárenská a.s. ("PT") received a notice on the commencement of an administrative procedure concerning the possible commission of an administrative delict 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 whose amount did not comply with the conditions of price regulation based on cost of inputs under provisions of the Act on Prices. On 10 January 2019, as part of the administrative procedure, PT received a notification on an expert appointment according to which the Energy Regulatory Office asked the appointed expert to prepare an expert opinion on the above. Due to the early phase of the administrative procedure and its unclear results, PT has decided not to create any provisions as at 31 December 2018.

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 is expected to take place in the Q2 2019. Since the legal case is still open and after considering all the circumstances Plzeňská teplárenská, a.s. reported an adequate provision, representing its best estimate of the outcome, for the year ended 31 December 2018. In June 2019, SI asked PLTEP to settle the dispute out of court, by mutual agreement. We expect another hearing before the court to take place, after which an out-of-court agreement may take place.

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 prematurely 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 internal assessment of claims of individual parties is currently in process and negotiations are expected to be complicated. Based on an internal analysis, PLTEP recorded a provision in an appropriate amount as at 31 December 2018 to account for this fact.

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. MIBRAG is of the opinion that, for a substantial portion of the acceptance of supply obligation which 50Hertz is seeking to enforce, evidence can be presented that the claims are barred by the statute of limitations.

Based on MIBRAG’s analysis, a provision of EUR 15.5 million in total is recorded in the financial statements (EUR 4 million decrease in 2018). 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 AND FIUME SANTO S.P.A.

Over the last few months of the year 2018, EP Produzione and Fiume Santo 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 are providing the information deemed necessary to present, before the relevant courts, the clarifications which may result in a positive outcome in respect of the tax findings raised by the Revenue Agency.

41. Subsequent events

A MAJOR ACQUISITIONS

ACQUISITION OF A BIOMASS POWER PLANT FUSINE

On 7 February 2019, EPPE Group is getting 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 from the Holcim Italia Group (100%).

ACQUISITION OF KILROOT AND BALLYLUMFORD POWER STATIONS

On 12 June 2019, EP UK Investments Limited (“EPUKI”) 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.

B OTHER SUBSEQUENT EVENTS

The German Commission on Growth, Structural change and Employment („coal commission“) has presented its final report[1] on 26 January 2019, which proposes gradual reduction followed by closure of all coal fired power plants in Germany by 2038. The report acts as a recommendation for German federal government to pass corresponding laws on coal phase out and it is not binding. The Group expects that coal commission’s recommendation would be implemented in accordance with the guiding principle of consensual agreement balancing out possible negative impacts to long-term business case of power plant and mine operators and therefore the impact on the Group will be limited.

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. Both loans were presented as current at the end of year 2018.

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 8 March 2019 EPH issued a fixed-rate notes in the anticipated aggregate nominal value of up to EUR 61.9 million, due in 2020.

1 https://www.bmwi.de/Redaktion/DE/Publikationen/Wirtschaft/abschlussbericht-kommission-wachstum-strukturwandel-und-beschaeftigung.html

On 11 March 2019, EP Energy 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, EP Infrastructure, a.s. 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 26 March 2019, in connection with the termination of the liquidation process of Energy Scanner Ltd. the company was dissolved from the Commercial Register.

On 8 April 2019, EP Infrastructure, a.s. 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 23 April 2019, EPH sold its 60% share in PGP Terminal, a.s.

On 21 May 2019, EP Infrastructure, a.s. signed new EUR 265 million term facility agreement. Together with previously issued privately placed EUR 70 million notes and EUR 183 million issue of Schuldschein, EP Infrastructure secured sufficient funding for repayment of EP Energy 2019 Notes due in November 2019.

On 30 May 2019, EP New Energy Italia S.R.L. entered into a refinancing Facilities Agreement and utilised term loans in the total amount of EUR 105 million.

As at the date of signing of the consolidated financial statements additional 59 units of the second issue of bonds of EPH Financing CZ, a.s. have been subscribed, out of which 26 units were own bonds held as at 31 December 2018.

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 2018.

APPENDICES*:

Appendix 1 – Business combinations

Appendix 2 – Restated Consolidated statement of comprehensive income and Restated Consolidated statement of financial position

* Information contained in the appendices form part of the complete set of these consolidated financial statements.

Date:	Signature of the authorised representative	
17 June 2019	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 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.

In millions of EUR

	Carrying amount[1]	Fair value adjustment[2]	2018 Total
Property, plant, equipment, land, buildings	1	-	**1**
Trade receivables and other assets	1	-	**1**
Trade payables and other liabilities	(1)	-	**(1)**
Net identifiable assets and liabilities	**1**	**-**	**1**
Non-controlling interest			**-**
Goodwill on acquisitions of a subsidiary			**1**
Negative goodwill on acquisition of new subsidiaries			**-**
Cost of acquisition			**2**
Consideration paid, satisfied in cash (A)			**2**
Total consideration transferred			**2**
Less: Cash acquired (B)			**-**
Net cash inflow (outflow) (C) = (B – A)			**(2)**

(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.

In millions of EUR

	2018 Total
Revenue of the acquirees recognised since the acquisition date	**5**
Profit (loss) of the acquirees recognised since the acquisition date	**-**

In millions of EUR

	2018 Total
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.

In millions of EUR

	Carrying amount[1]	Fair value adjustment	2018 Total
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)**
Net identifiable assets and liabilities	**182**	**(60)**	**122**
Non-controlling interest			**(79)**
Goodwill on acquisitions of a subsidiary			**-**
Negative goodwill on acquisition of new subsidiaries			**-**
Cost of acquisition			**43**
Consideration paid, satisfied in cash (A)			**-**
Consideration, other			**43**
Total consideration transferred			**43**
Less: Cash acquired (B)			**32**
Net cash inflow (outflow) (C) = (B – A)			**32**

(1) Represents values at 100% share.

In millions of EUR

	2018 Total
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.

In millions of EUR

	2018 Total
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.

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2018 Total
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)**
Net identifiable assets and liabilities	**68**	**50**	**118**
Non-controlling interest			**-**
Goodwill on acquisitions of a subsidiary			**-**
Negative goodwill on acquisition of new subsidiaries			**(5)**
Cost of acquisition			**113**
Consideration paid, satisfied in cash (A)			**118**
Consideration, other			**(5)**
Total consideration transferred			**113**
Less: Cash acquired (B)			**43**
Net cash inflow (outflow) (C) = (B – A)			**(75)**

(1) Represents values at 100% share.

In millions of EUR

	2018 Total
Revenue of the acquirees recognised since the acquisition date	**-**
Profit (loss) of the acquirees recognised since the acquisition date	**-**

In millions of EUR

	2018 Total
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 consolidated financial statements, the purchase price allocation process for NAFTA Germany GmbH has not been completed. It is therefore possible that adjustments will be made in the allocation of the purchase price to the individual assets and liabilities and recognition of negative goodwill.

II. 31 DECEMBER 2017

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of SPEDICA GROUP COMPANIES, s.r.o. and its subsidiaries SPEDICA LOGISTIC, s.r.o., RAILSPED s.r.o., RM LINES a.s., SPEDICA AGRO, s.r.o. and SPEDICA, s.r.o. are provided in the following table.

In millions of EUR

	Carrying amount[1]	Fair value adjustment[2]	2017 Total
Property, plant, equipment, land, buildings	3	-	**3**
Trade receivables and other assets	10	-	**10**
Cash and cash equivalents	4	-	**4**
Loans and borrowings	(2)	-	**(2)**
Trade payables and other liabilities	(17)	-	**(17)**
Net identifiable assets and liabilities	**(2)**	**-**	**(2)**
Non-controlling interest			**-**
Goodwill on acquisitions of a subsidiary			**2**
Negative goodwill on acquisition of new subsidiaries			**-**
Cost of acquisition			**-**
Consideration paid, satisfied in cash (A)			**-**
Total consideration transferred			**-**
Less: Cash acquired (B)			**4**
Net cash inflow (outflow) (C) = (B – A)			**4**

(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 2017.

In millions of EUR

	2017 Total
Revenue of the acquirees recognised since the acquisition date	**43**
Profit (loss) of the acquirees recognised since the acquisition date	**1**

In millions of EUR

	2017 Total
Revenue of the acquirees recognised in the year ended 31 December 2017*	**47**
Profit (loss) of the acquirees recognised in the year ended 31 December 2017*	**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 SHB LIMITED and EP LANGAGE LIMITED are provided in the following table.

In millions of EUR

	Carrying amount[1]	Fair value adjustment	2017 Total
Property, plant, equipment, land, buildings	376	(3)	**373**
Trade receivables and other assets	17	-	**17**
Inventories	14	-	**14**
Cash and cash equivalents	1	-	**1**
Provisions	(16)	(1)	**(17)**
Deferred tax liabilities	(11)	1	**(10)**
Loans and borrowings	(255)	(1)	**(256)**
Trade payables and other liabilities	(30)	-	**(30)**
Net identifiable assets and liabilities	**96**	**(4)**	**92**
Non-controlling interest			**-**
Goodwill on acquisitions of a subsidiary			**-**
Negative goodwill on acquisition of new subsidiaries			**(6)**
Cost of acquisition			**86**
Consideration paid, satisfied in cash (A)			**86**
Consideration, other			**-**
Total consideration transferred			**86**
Less: Cash acquired (B)			**1**
Net cash inflow (outflow) (C) = (B – A)			**(85)**

(1) Represents values at 100% share.

In millions of EUR

	2017 Total
Revenue of the acquirees recognised since the acquisition date	**168**
Profit (loss) of the acquirees recognised since the acquisition date	**4**

In millions of EUR

	2017 Total
Revenue of the acquirees recognised in the year ended 31 December 2017*	**244**
Profit (loss) of the acquirees recognised in the year ended 31 December 2017*	**(23)**

* Before intercompany elimination; based on local statutory financial information.

As at the date of publication of the consolidated financial statements, the purchase price allocation process for EP SHB LIMITED and EP LANGAGE LIMITED had not been completed and provisional amounts were reported as at and for the year ended 31 December 2017. The purchase price allocation process was completed in 2018. Final amounts for purchase price allocation reported for EP SHB LIMITED and EP LANGAGE LIMITED were identical as provisional amounts.

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of Kraftwerk Mehrum GmbH (KWM) are provided in the following table.

In millions of EUR

	Carrying amount[1]	Fair value adjustment provisional	2017 Total provisional	Adjustments to purchase price allocation	2017 Total final
Property, plant, equipment, land, buildings	19	1	20	-	**20**
Intangible assets	11	-	11	-	**11**
Trade receivables and other assets	11	-	11	-	**11**
Inventories	37	-	37	-	**37**
Cash and cash equivalents	3	-	3	-	**3**
Deferred tax assets	-	5	6	(5)	**-**
Provisions	(14)	(18)	(32)	-	**(32)**
Trade payables and other liabilities	(6)	-	(6)	-	**(6)**
Net identifiable assets and liabilities	**61**	**(12)**	**49**	**(5)**	**44**
Non-controlling interest			-	-	**-**
Goodwill on acquisitions of a subsidiary			-	-	**-**
Negative goodwill on acquisition of new subsidiaries			(48)	5	**(43)**
Cost of acquisition			**1**	**-**	**1**
Consideration paid, satisfied in cash (A)			1	-	**1**
Total consideration transferred			**1**	**-**	**1**
Less: Cash acquired (B)			3	-	**3**
Net cash inflow (outflow) (C) = (B – A)			**2**	**-**	**2**

(1) Represents values at 100% share.

In millions of EUR

	2017 Total
Revenue of the acquirees recognised since the acquisition date	**44**
Profit (loss) of the acquirees recognised since the acquisition date	**20**

In millions of EUR

	2017 Total
Revenue of the acquirees recognised in the year ended 31 December 2017*	**128**
Profit (loss) of the acquirees recognised in the year ended 31 December 2017*	**10**

* Before intercompany elimination; based on local statutory financial information..

As at the date of publication of the consolidated financial statements, the purchase price allocation process for KWM had not been completed and provisional amounts were reported as at and for the year ended 31 December 2017. The purchase price allocation process was completed in 2018 and lead to adjustments and reclassifications presented in the above table.

As a result of these adjustments, fair value of deferred tax assets recognised by KWM and negative goodwill from acquisition of KWM decreased by EUR 5 million.

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of POZAGAS a.s. are provided in the following table.

In millions of EUR

	Carrying amount[1]	Fair value adjustment	2017 Total
Property, plant, equipment, land, buildings	33	4	**37**
Trade receivables and other assets	7	(1)	**6**
Cash and cash equivalents	47	-	**47**
Provisions	(9)	(2)	**(11)**
Deferred tax liabilities	(3)	-	**(3)**
Trade payables and other liabilities	(3)	-	**(3)**
Net identifiable assets and liabilities	**72**	**1**	**73**
Non-controlling interest			**-**
Goodwill on acquisitions of a subsidiary			**-**
Negative goodwill on acquisition of new subsidiaries			**-**
Cost of acquisition			**73**
Consideration paid, satisfied in cash (A)			**22**
Consideration, other			[2]**51**
Total consideration transferred			**73**
Less: Cash acquired (B)			**47**
Net cash inflow (outflow) (C) = (B – A)			**25**

(1) Represents values at 100% share.
(2) Consideration other is presented mainly by the fair value of previously recognised share in POZAGAS a.s.

In millions of EUR

	2017 Total
Revenue of the acquirees recognised since the acquisition date	-
Profit (loss) of the acquirees recognised since the acquisition date	-

In millions of EUR

	2017 Total
Revenue of the acquirees recognised in the year ended 31 December 2017*	28
Profit (loss) of the acquirees recognised in the year ended 31 December 2017*	(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 New Energy Italia S.R.L. and its subsidiaries Biomasse Crotone S.P.A, Biomasse Italia S.P.A. are provided in the following table.

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2017 Total
Property, plant, equipment, land, buildings	82	(1)	81
Trade receivables and other assets	70	-	70
Financial instruments – assets	1	-	1
Inventories	17	-	17
Cash and cash equivalents	19	-	19
Deferred tax asset	1	-	1
Provisions	(5)	-	(5)
Loans and borrowings	(78)	-	(78)
Financial instruments – liabilities	(3)	-	(3)
Trade payables and other liabilities	(18)	-	(18)
Net identifiable assets and liabilities	**86**	**(1)**	**85**
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			36
Negative goodwill on acquisition of new subsidiaries			-
Cost of acquisition			**121**
Consideration paid, satisfied in cash (A)			100
Purchase price liability			21
Total consideration transferred			**121**
Less: Cash acquired (B)			19
Net cash inflow (outflow) (C) = (B – A)			**(81)**

(1) Represents values at 100% share.

In millions of EUR

	2017 Total
Revenue of the acquirees recognised since the acquisition date	-
Profit (loss) of the acquirees recognised since the acquisition date	-

In millions of EUR

	2017 Total
Revenue of the acquirees recognised in the year ended 31 December 2017*	163
Profit (loss) of the acquirees recognised in the year ended 31 December 2017*	27

* Before intercompany elimination; based on local statutory financial information.

Appendix 2 – Restated Consolidated statement of comprehensive income and Restated Consolidated statement of financial position

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

In millions of EUR ("MEUR")

	2017	Changes in presentation of income statement	Adjustments to purchase price allocation	Restated 2017
Sales: Energy	5,674	-	-	5,674
of which: Electricity	*3,043*	-	-	*3,043*
Gas	*1,989*	-	-	*1,989*
Heat	*345*	-	-	*345*
Coal	*294*	-	-	*294*
Other energy products	*3*	-	-	*3*
Sales: Other	357	-	-	357
Gain (loss) from commodity derivatives for trading with electricity and gas, net	(26)	-	-	(26)
Total sales	**6,005**	**-**	**-**	**6,005**
Cost of sales: Energy	(3,039)	-	-	(3,039)
Cost of sales: Other	(253)	-	-	(253)
Total cost of sales	**(3,292)**	**-**	**-**	**(3,292)**
Subtotal	**2,713**	**-**	**-**	**2,713**
Personnel expenses	(482)	-	-	(482)
Depreciation and amortisation	(527)	-	-	(527)
Repairs and maintenance	(55)	-	-	(55)
Emission rights, net	(104)	(18)	-	(122)
Negative goodwill	54	-	(5)	49
Taxes and charges	(67)	-	-	(67)
Other operating income	109	-	-	109
Other operating expenses	(295)	-	-	(295)
Profit (loss) from operations	**1,346**	**(18)**	**(5)**	**1,323**
Finance income	36	-	-	36
Finance expense	(234)	-	-	(234)
Profit (loss) from financial instruments	(50)	18	-	(32)
Net finance income (expense)	**(248)**	**18**	**-**	**(230)**

	2017	Changes in presentation of income statement	Adjustments to purchase price allocation	Restated 2017
Share of profit (loss) of equity accounted investees, net of tax	107	-	-	107
Profit (loss) before income tax	**1,205**	**-**	**(5)**	**1,200**
Income tax expenses	(328)	-	-	(328)
Profit (loss) for the year	**877**	**-**	**(5)**	**872**
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences from foreign operations	(139)	-	-	(139)
Foreign currency translation differences from presentation currency	126	-	-	126
Effective portion of changes in fair value of cash-flow hedges, net of tax	3	-	-	3
Fair value reserve included in other comprehensive income, net of tax	(9)	-	-	(9)
Other comprehensive income for the year, net of tax	**(19)**	**-**	**-**	**(19)**
Total comprehensive income for the year	**858**	**-**	**(5)**	**853**
Profit (loss) attributable to:				
Owners of the Company	441	-	(5)	436
Non-controlling interest	436	-	-	436
Profit (loss) for the year	**877**	**-**	**(5)**	**872**
Total comprehensive income attributable to:				
Owners of the Company	416	-	(5)	411
Non-controlling interest	442	-	-	442
Total comprehensive income for the year	**858**	**-**	**(5)**	**853**
Total basic and diluted earnings per share in EUR	**0.12**	**-**	**-**	**0.12**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2018

In millions of EUR ("MEUR")

	2017 as reported	Changes in presentation of income statement	Adjustments to purchase price allocation	Restated 2017
Assets				
Property, plant and equipment	8,430	-	-	8,430
Intangible assets	218	-	-	218
Goodwill	151	-	-	151
Investment property	3	-	-	3
Equity accounted investees	707	-	-	707
Restricted cash	23	-	-	23
Financial instruments and other financial assets	111	-	-	111
Trade receivables and other assets	161	-	-	161
Deferred tax assets	69	-	(5)	64
Total non-current assets	**9,873**	**-**	**(5)**	**9,868**
Inventories	247	-	-	247
Extracted minerals and mineral products	172	-	-	172
Trade receivables and other assets	942	-	-	942
Contract assets	-	-	-	-
Financial instruments and other financial assets	563	-	-	563
Prepayments and other deferrals	38	-	-	38
Tax receivables	**132**	**-**	**-**	**132**
Restricted cash	8	-	-	8
Cash and cash equivalents	816	-	-	816
Assets/disposal groups held for sale	5	-	-	5
Total current assets	**2,923**	**-**	**-**	**2,923**
Total assets	**12,796**	**-**	**(5)**	**12,791**

Appendix 2 – Restated Consolidated statement of comprehensive income and Restated Consolidated statement of financial position

	2017 as reported	Changes in presentation of income statement	Adjustments to purchase price allocation	Restated 2017
Equity				
Share capital	152	-	-	152
Share premium	64	-	-	64
Reserve for own shares	(1,444)	-	-	(1,444)
Other reserves	(38)	-	-	(38)
Retained earnings	2,431	-	(5)	2,426
Total equity attributable to equity holders	**1,165**	**-**	**(5)**	**1,160**
Non-controlling interest	1,515	-	-	1,515
Total equity	**2,680**	**-**	**(5)**	**2,675**
Liabilities				
Loans and borrowings	5,060	-	-	5,060
Financial instruments and financial liabilities	31	-	-	31
Provisions	918	-	-	918
Deferred income	195	-	-	195
Contract liabilities	-	-	-	-
Deferred tax liabilities	1,033	-	-	1,033
Trade payables and other liabilities	125	-	-	125
Total non-current liabilities	**7,362**	**-**	**-**	**7,362**
Trade payables and other liabilities	1,230	-	-	1,230
Contract liabilities	-	-	-	-
Loans and borrowings	1,061	-	-	1,061
Financial instruments and financial liabilities	151	-	-	151
Provisions	255	-	-	255
Deferred income	19	-	-	19
Current income tax liability	37	-	-	37
Liabilities from disposal groups held for sale	1	-	-	1
Total current liabilities	**2,754**	**-**	**-**	**2,754**
Total liabilities	**10,116**	**-**	**-**	**10,116**
Total equity and liabilities	**12,796**	**-**	**(5)**	**12,791**

> The consolidated net debt ratio of 2.9 × EBITDA places EPH among the least indebted energy groups in Europe.

Eustream, DS Veľké Kapušiany

Statutory Financial Statements

EPH

Independent Auditor’s Report
to the Statutory Financial Statements

KPMG Česká republika Audit, s.r.o.
Pobřežní 1a
186 00 Prague 8
Czech Republic
+420 222 123 111
www.kpmg.cz

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 financial statements of Energetický a průmyslový holding, a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2018, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the 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 financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its 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 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 financial statements, Energetický a průmyslový holding, a.s. has not prepared an annual report as at 31 December 2018, 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, Supervisory Board for the Financial Statements

The statutory body is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the 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 the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness

of accounting estimates and related disclosures made by the 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 financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Statutory Auditor Responsible for the Engagement

Karel Charvát is the statutory auditor responsible for the audit of the financial statements of Energetický a průmyslový holding, a.s. as at 31 December 2018, based on which this independent auditor's report has been prepared.

Prague
19 June 2019

KPMG Česká republika Audit

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

Karel Charvát

Karel Charvát
Partner
Registration number 2032

EPH

Statutory Financial Statements

Year ended 31 December 2018
and Notes to the Statutory Financial Statements

Balance Sheet

Energetický a průmyslový holding, a.s.
Corporate ID 283 56 250

FULL VERSION

Pařížská 130/26
Josefov
110 00 Praha 1

As of 31 December 2018
(in CZK thousand)

		31.12.2018			31.12.2017
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	**142 145 499**	**4 260 572**	**137 884 927**	**140 572 676**
B.	**Fixed assets**	**116 196 174**	**2 002 868**	**114 193 306**	**112 848 367**
B.I.	***Intangible fixed assets***	**137**	**137**		
B.I.4.	Other intangible fixed assets	137	137		
B.II.	***Tangible fixed assets***	**397**	**235**	**162**	**96**
B.II.2.	Tangible movable assets and sets of tangible movable assets	397	235	162	96
B.III.	***Non-current financial assets***	**116 195 640**	**2 002 496**	**114 193 144**	**112 848 271**
B.III.1.	Equity investments – controlled or controlling entity	114 089 238		114 089 238	112 658 717
B.III.3.	Equity investments in associates	2 002 496	2 002 496		88 613
B.III.5.	Other non-current securities and investments	103 906		103 906	100 941
C.	**Current assets**	**25 944 481**	**2 257 704**	**23 686 777**	**27 719 566**
C.I.	***Inventories***	**9 554**		**9 554**	**972**
C.I.2.	Work in progress and semifinished goods	9 554		9 554	972
C.II.	*Receivables*	**20 766 083**	**2 257 704**	**18 508 379**	**27 016 764**
C.II.1.	Long-term receivables	**3 959 311**	**2 238 130**	**1 721 181**	**8 138 341**
C.II.1.1.	Trade receivables	15 000		15 000	15 000
C.II.1.2.	Receivables – controlled or controlling entity	109 030		109 030	7 007 160
C.II.1.5.	*Receivables – other*	**3 835 281**	**2 238 130**	**1 597 151**	**1 116 181**
C.II.1.5.4.	Sundry receivables	3 835 281	2 238 130	1 597 151	1 116 181
C.II.2.	***Short-term receivables***	**16 806 772**	**19 574**	**16 787 198**	**18 878 423**
C.II.2.1.	Trade receivables	624 846		624 846	618 774
C.II.2.2.	Receivables – controlled or controlling entity	11 342 558		11 342 558	14 496 656
C.II.2.3.	Receivables – associates	3 204 014	19 574	3 184 440	2 034 306
C.II.2.4.	*Receivables – other*	**1 635 354**		**1 635 354**	**1 728 687**
C.II.2.4.3.	State - tax receivables	24 464		24 464	69 746
C.II.2.4.4.	Short-term prepayments made	5 280		5 280	123
C.II.2.4.5.	Estimated receivables	803		803	5 669
C.II.2.4.6.	Sundry receivables	1 604 807		1 604 807	1 653 149
C.IV.	***Cash***	**5 168 844**		**5 168 844**	**701 830**
C.IV.1.	Cash on hand	22		22	21
C.IV.2.	Cash at bank	5 168 822		5 168 822	701 809
D.	**Other assets**	**4 844**		**4 844**	**4 743**
D.1.	Deferred expenses	4 844		4 844	4 743

		31.12.2018	31.12.2017
	TOTAL LIABILITIES & EQUITY	**137 884 927**	**140 572 676**
A.	**Equity**	**120 029 433**	**120 449 130**
A.I.	***Share capital***	**3 535 135**	**3 535 135**
A.I.1.	Share capital	3 535 135	5 050 193
A.I.2.	Treasury shares and holdings (-)		-1 515 058
A.II.	***Share premium and capital funds***	**-295 899**	**-63 280 843**
A.II.1.	Share premium		-62 993 801
A.II.2.	*Capital funds*	**-295 899**	**-287 042**
A.II.2.2.	Gains or losses from the revaluation of assets and liabilities (+/-)	-295 899	-287 042
A.IV.	***Retained earnings (+/-)***	**114 303 952**	**128 948 453**
A.IV.1.	Accumulated profits or accumulated loss brought forward (+/-)	114 303 952	128 948 453
A.V.	***Profit or loss for the current period (+/-)***	**2 486 245**	**53 685 628**
A.VI.	Profit share prepayments declared (-)		-2 439 243
B.+C.	**Liabilities**	**17 849 373**	**20 120 343**
B.	**Reserves**	**84 112**	**408**
B.2.	Income tax reserve	82 765	
B.4.	Other reserves	1 347	408
C.	**Payables**	**17 765 261**	**20 119 935**
C.I.	***Long-term payables***	**10 890 524**	**9 514 464**
C.I.2.	Payables to credit institutions	2 282 275	1 430 240
C.I.5.	Long-term bills of exchange to be paid	1 195 365	154 280
C.I.6.	Payables – controlled or controlling entity	7 400 948	7 729 944
C.I.9.	*Payables – other*	**11 936**	**200 000**
C.I.9.3.	Sundry payables	11 936	200 000
C.II.	***Short-term payables***	**6 874 737**	**10 605 471**
C.II.2.	Payables to credit institutions	182 316	2 832 250
C.II.4.	Trade payables	107 529	92 661
C.II.5.	Short-term bills of exchange to be paid	931 763	1 396 880
C.II.6.	Payables – controlled or controlling entity	4 959 491	5 660 481
C.II.8.	*Other payables*	**693 638**	**623 199**
C.II.8.1.	Payables to partners		97 591
C.II.8.3.	Payables to employees	2 386	1 419
C.II.8.4.	Social security and health insurance payables	1 294	1 154
C.II.8.5.	State – tax payables and subsidies	561	105
C.II.8.6.	Estimated payables	479 646	360 726
C.II.8.7.	Sundry payables	209 751	162 204
D.	**Other liabilities**	**6 121**	**3 203**
D.1.	Accrued expenses	5 969	3 036
D.2.	Deferred income	152	167

Profit and Loss Account

Energetický a průmyslový holding, a.s.
Corporate ID 283 56 250

STRUCTURED BY THE NATURE OF EXPENSE METHOD

Pařížská 130/26
Josefov
110 00 Praha 1

31.12.2018
(in CZK thousand)

		Year ended 31.12.2018	Year ended 31.12.2017
I.	Sales of products and services	50 413	9 909
A.	Purchased consumables and services	299 990	280 867
A.2.	Consumed material and energy	869	379
A.3.	Services	299 121	280 488
B.	Change in internally produced inventory (+/-)	-8 582	-972
D.	Staff costs	53 544	22 799
D.1.	Payroll costs	43 244	17 835
D.2.	Social security and health insurance costs and other charges	10 300	4 964
D.2.1.	Social security and health insurance costs	10 295	4 957
D.2.2.	Other charges	5	7
E.	Adjustments to values in operating activities	62	82
E.1.	Adjustments to values of intangible and tangible fixed assets	62	82
E.1.1.	Adjustments to values of intangible and tangible fixed assets – permanent	62	82
III.	Other operating income	575 080	3 985 362
III.3.	Sundry operating income	575 080	3 985 362
F.	Other operating expenses	587 792	3 983 826
F.3.	Taxes and charges	11	32
F.4.	Reserves relating to operating activities and complex deferred expenses	939	202
F.5.	Sundry operating expenses	586 842	3 983 592
*	**Operating profit or loss (+/-)**	**-307 313**	**-291 331**
IV.	Income from non-current financial assets – equity investments	4 907 403	157 620 330
IV.1.	Income from equity investments – controlled or controlling entity	4 907 403	157 620 330
G.	Costs of equity investments sold		103 943 511
VI.	Interest income and similar income	699 288	465 579
VI.1.	Interest income and similar income – controlled or controlling entity	291 116	173 139
VI.2.	Other interest income and similar income	408 172	292 440
I.	Adjustments to values and reserves relating to financial activities	1 924 838	-526 726
J.	Interest expenses and similar expenses	812 758	538 479
J.1.	Interest expenses and similar expenses – controlled or controlling entity	519 658	449 158
J.2.	Other interest expenses and similar expenses	293 100	89 321
VII.	Other financial income	1 381 964	1 507 749
K.	Other financial expenses	1 362 032	1 631 435
*	**Financial profit or loss (+/-)**	**2 889 027**	**54 006 959**
**	**Profit or loss before tax (+/-)**	**2 581 714**	**53 715 628**
L.	Income tax	95 469	30 000
L.1.	Due income tax	95 469	30 000
**	**Profit or loss net of tax (+/-)**	**2 486 245**	**53 685 628**
***	**Profit or loss for the current period (+/-)**	**2 486 245**	**53 685 628**
*	Net turnover for the current period	7 614 148	163 588 929

Statement of Changes in Equity

Energetický a průmyslový holding, a.s.
Corporate ID 283 56 250

Pařížská 130/26
Josefov
110 00 Praha 1

Year ended 31 December 2018
(in CZK thousand)

	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
Balance at 31 December 2016	**5 050 193**		**-23 978 859**	**-27 421**	**36 296 210**	**101 929 478**		**119 269 601**
Distribution of profit or loss					93 152 243	-93 152 243		
Repurchase of treasury shares and holdings		-1 515 058	-39 014 942					-40 530 000
Profit share prepayments declared							-11 216 478	-11 216 478
Dividends declared					-500 000	-8 777 235	8 777 235	-500 000
Gains or losses from the revaluation of assets				-259 621				-259 621
Profit or loss for the current period						53 685 628		53 685 628
Balance at 31 December 2017	**5 050 193**	**-1 515 058**	**-62 993 801**	**-287 042**	**128 948 453**	**53 685 628**	**-2 439 243**	**120 449 130**
Distribution of profit or loss					53 685 628	-53 685 628		
Changes in share capital	-1 515 058	1 515 058						
Share premium set-off against retained earnings			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
Balance at 31 December 2018	**3 535 135**			**-295 899**	**114 303 952**	**2 486 245**		**120 029 433**

Cash Flow Statement

Energetický a průmyslový holding, a.s.
Corporate ID 283 56 250

Pařížská 130/26
Josefov
110 00 Praha 1

Year ended 31 December 2018
(in CZK thousand)

		Year ended 31.12.2018	Year ended 31.12.2017
P.	**Opening balance of cash and cash equivalents**	**701 830**	**1 494 774**
	Cash flows from ordinary activities (operating activities)		
Z.	Profit or loss from ordinary activities before tax	2 581 714	53 715 628
A.1.	Adjustments for non-cash transactions	-2 871 824	-53 992 628
A.1.1.	Depreciation of fixed assets	62	82
A.1.2.	Change in provisions and reserves	1 916 256	-527 496
A.1.3.	Profit/(loss) on the sale of fixed assets		-40 988 710
A.1.4.	Revenues from profit shares	-4 907 403	-12 688 109
A.1.5.	Interest expense and interest income	113 470	72 900
A.1.6.	Adjustments for other non-cash transactions	5 791	138 705
A.*	**Net operating cash flow before changes in working capital**	**-290 110**	**-277 000**
A.2.	Change in working capital	251 848	811 623
A.2.1.	Change in operating receivables and other assets	114 252	-129 918
A.2.2.	Change in operating payables and other liabilities	137 596	-28 459
A.2.4.	Change in current financial assets		970 000
A.**	**Net cash flow from operations before tax**	**-38 262**	**534 623**
A.3.	Interest paid	-700 471	-479 851
A.4.	Interest received	674 308	84 653
A.5.	Income tax paid from ordinary operations	27 734	
A.***	**Net operating cash flows**	**-36 691**	**139 425**
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-1 329 599	-361 591
B.2.	Proceeds from fixed assets sold	17 700	37 448 115
B.3.	Loans and borrowings to related parties	-1 491 755	-15 684 029
	Received profit shares	302 800	14 123 427
B.***	**Net investment cash flows**	**-2 500 854**	**35 525 922**
	Cash flow from financial activities		
C.1.	Change in payables from financing	10 001 487	7 476 971
C.2.	Impact of changes in equity	-2 996 928	-43 935 262
C.2.2.	Capital payments to partners		-40 530 002
C.2.6.	Profit shares paid	-2 996 928	-3 405 260
C.***	**Net financial cash flows**	**7 004 559**	**-36 458 291**
F.	**Net increase or decrease in cash and cash equivalents**	**4 467 014**	**-792 944**
R.	**Closing balance of cash and cash equivalents**	**5 168 844**	**701 830**

Notes to the Czech statutory financial statements
(unconsolidated, translated from the Czech original)

ENERGETICKÝ A PRŮMYSLOVÝ HOLDING, A.S.

Year ended 31 December 2018
(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 (EPH), a leading Central European energy group that operates assets in the Czech Republic, the Slovak Republic, Germany, Italy, the UK,Hungary and Poland. 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 2018 are:

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

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 2018

MEMBERS OF THE BOARD OF DIRECTORS

Daniel Křetínský (Chairman)
Marek Spurný
Pavel Horský
Jan Špringl

MEMBERS OF THE SUPERVISORY BOARD

Petr Sekanina (Chairman)
Tereza Štefunková
Martin Fedor

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 2018 for the 2018 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).

Assets are depreciated using the following methods over the following periods:

Asset	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 comprise 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 comprise 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 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.

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 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 provision 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 widest group of entities). 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 www.epholding.cz web page.

The consolidated financial statements for the widest group of entities for 2018 are prepared by EP Investment S.à r.l, with registered office at Avenue John F. Kennedy 39, L-1855 Luxemburg.

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 2018, no changes were made to the Company's accounting policies and procedures.

4. Cash flow statement

The cash flow statement was prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance. Cash and cash equivalents can be analysed as follows:

(in thousands of CZK "TCZK")

	Balance at 31/12/2018	Balance at 31/12/2017
Cash on hand	22	21
Cash at bank	5 168 822	701 809
Total cash and cash equivalents	**5 168 844**	**701 830**

Cash flows from operating, investment or financial activities presented in the cash flow statement are not offset.

5. Non-current financial assets

AT 31 DECEMBER 2018 AND 31 DECEMBER 2017

Equity investments – controlled or controlling entity	Total profit (+) / loss (-) for 1/1/2018–31/12/2018 (in thousands of CZK/EUR/PLN)	Equity at 31/12/2018 (in thousands of CZK/EUR/PLN)	Acquisition cost as at 31/12/2018 (in thousands of CZK "TCZK")	Acquisition cost as at 31/12/2017 (in thousands of CZK "TCZK")
SEDILAS ENTERPRISES LIMITED*	-9 (EUR)	82 (EUR)	26	26
Mining Services and Engineering Sp. z o.o.*	-16 (PLN)	3 504 (PLN)	305	311
EPIF Investments a.s.	4 693 558 (CZK)	91 059 075 CZK)	91 059 000	91 059 000
EP Investment Advisors, s.r.o.*	8 792 (CZK)	255 169 (CZK)	437 000	437 000
EP Logistics International, a.s.*	2 390 (CZK)	70 237 (CZK)	68 070	68 070
JTSD Braunkohlebergbau GmbH ("JTSD")*	34 790 (EUR)	195 149 (EUR)	401 351	398 465
Nadácia EPH*	0 (EUR)	6 (EUR)	170	170
EPH Financing SK, a.s.	-73 (EUR)	-31 (EUR)	777	771
EP Slovakia B.V.*	-224 (EUR)	157 306 (EUR)	4 085 850	4 032 128
EPH Financing CZ, a.s.	-40 (CZK)	6 338 (CZK)	12 000	2 000
EP Coal Trading, a.s.*	183 603 (CZK)	447 614 (CZK)	141 000	141 000
EP Power Europe, a.s.	230 247 (CZK)	17 390 921 CZK)	16 362 800	16 362 800
PGP Terminal, a.s.*	-1 234 (CZK)	4 668 (CZK)	9 189	9 189
Adconcretum real estate Ltd.*	-1 305 (CZK)	47 938 (CZK)	89 770	89 124
ABS PROPERTY LIMITED*	52 121 (CZK)	53 966 (CZK)	55 081	54 685
SLUGGERIA a.s.*	-157 (CZK)	1 310 (CZK)	1 971	1 971
EP Properties, a.s.*	-70 (CZK)	59 930 (CZK)	60 000	2 000
WOOGEL LIMITED*	255 413 (CZK)	24 005 (CZK)	7	7
DCR INVESTMENT a.s.*	32 205 (CZK)	3 325 (CZK)	2 562	-
EP Real Estate, a.s. (formerly PT Real Estate, a.s.)*	95 107 (CZK)	1 044 844 (CZK)	1 300 000	-
RUBY Equity Investment S. á r.l.*	14 838 (EUR)	14 826 (EUR)	309	-
EP Hagibor a.s.*	-5 153 (CZK)	-3 153 (CZK)	2 000	-
Total			**114 089 238**	**112 658 717**

* Data derived from non-audited financial statements as at 31 December 2018.

Exept for WOOGEL LIMITED (25 %), JTSD (10 %) and PGP Terminal, a.s. (60 %), are all investments fully owned.

WOOGEL LIMITED is the controlled entity as JTSD (remaining 90 % is owned by EPPE Germany, a.s., which is a controlled entity by EPH through EP Power Europe, a.s.

AT 31 DECEMBER 2018 AND 31 DECEMBER 2017

Equity investments in associates	Total profit (+) / loss (-) for 1/1/2018–31/12/2018 in thousands of PLN "TPLN")	Equity at 31/12/2018 (in TPLN)	Acquisition cost as at 31/12/2018 (in TCZK)	Acquisition cost as at 31/12/2017 (in thousands of CZK "TCZK")
Przedsiebiorstwo Górnicze Silesia Sp. z o.o.* ("PGS")	-59 478	-98 169	2 002 496	2 047 367
Total			**2 002 496**	**2 047 367**

* Data derived from audited financial statements as at 31 December 2018.

The amount of the share in registered capital in PGS is 38.93 %.

The Company recorded a valuation allowance of TCZK 2 002 496 to its financial investment in PGS (as at 31 December 2017: TCZK 1 958 754). 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 2018:

SEDILAS ENTERPRISES LIMITED, Akropoleos, 59 – 61, SAVVIDES CENTER, 1st Floor, Flat/Office 102, P. C. 2012, Nicosia, Cyprus
WOOGEL LIMITED, Kyriakou Matsi, 16, Eagle House, 8th Floor, Agioi Omologities, P.C. 1082, Nicosia, Cyprus
EP Commodities, a.s., Klimentská 1216/46, Nové Město, 110 00 Praha 1, Czech Republic
Adconcretum real estate Ltd., Belgrade, Vuka Karadzica 6, Serbia
ABS PROPERTY LIMITED, The Mews, 2 Auburn Villas, Carrickbrennan Road, Monkstown, Co. Dublin, 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
PGP Terminal, a.s., Hlubinská 917/20, Moravská Ostrava, 702 00 Ostrava, Czech Republic
EP Power Europe, a.s., Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
SLUGGERIA a.s., Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
EPIF 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
Przedsiebiorstwo Górnicze 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., Lamačská 3/A, Bratislava, 841 04, Slovakia
EPIF financial CZ,., 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

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)
Energetický a průmyslový holding, a.s.
Year ended 31 December 2018
(All amounts are shown in thousands of Czech crowns "TCZK")

In 2018, there were the following changes in non-current financial assets:

a) On 28 February 2018, a 100 % share in DCR INVESTMENT a.s. of TCZK 2 562 was acquired,

b) The subsidiary company RUBY Equity Investment S. á r.l. was established in March 2018, and the subsidiary company EP Hagibor a.s. was established in August 2018,

c) On 25 October 2018, the share in EP Slovakia B.V. was increased by TEUR 790 (TCZK 20 406), in December by another TEUR 163 (TCZK 4 199),

d) On 7 September 2018, the share of EP Properties, a.s. was increased by a contribution into the other capital funds of TCZK 58 000,

e) On 12 December 2018, the share of EPH Financing CZ, a.s. was increased by a contribution into the other capital funds of TCZK 10 000,

f) On 27 December 2018, the Company purchased a 100% share in EP Real Estate, a.s. from Pražská teplárenská Holding a.s. totalling TCZK 1 300 000.

Other non-current investments include acquired participation certificates valued at fair value of TCZK 103 896 (as at 31 December 2017: TCZK 100 931).

6. Long-term receivables

A RECEIVABLES – CONTROLLED AND CONTROLLING ENTITY

31 DECEMBER 2018

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2018 (in TCZK)	Due date
EP Logistics International, a.s.	109 030	-	2027
Total at 31/12/2018	**109 030**	**-**	

Receivable from EP Power Europe, a.s. is presented within short term receivables – controlled and controlling entity.

31 DECEMBER 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)	Due date
JTSD Braunkohlebergbau GmbH	43 173	3 936	2024
EP Logistics International, a.s.	183 000	-	2027
EP Power Europe, a.s.	1 430 240	4 146*	2025
EP Power Europe, a.s.	5 339 803	68 723*	2019
EP Germany GmbH	6 153	855	2019
Total at 31/12/2017	**7 002 369**	**4 791**	

* The outstanding interest as at 31 December 2017 is presented as short-term in line Short-term payables – controlled or controlling entity.

B OTHER RECEIVABLES

Other receivables comprise a loan provided to a third party, including outstanding interest, which is due on 10 April 2025 and bears a fixed interest rate, totalling TCZK 3 835 101 (TCZK 1 492 788 as at 31 December 2017). As at 31 December 2018, the Company recorded as a result of the carried out credit analysis a valuation allowance of TCZK 2 238 130 (TCZK 376 607 as at 31 December 2017) to Other receivables, as the Company has doubts about a borrower´s ability to fully settle its debts towards EPH.

7. Short-term receivables

A TRADE RECEIVABLES AND PAYABLES

Trade receivables total TCZK 624 846 (TCZK 618 774 as at 31 December 2017).
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 totalling TCZK 47 164 (TCZK 217 444 as at 31 December 2017).

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)
Energetický a průmyslový holding, a.s.
Year ended 31 December 2018
(All amounts are shown in thousands of Czech crowns "TCZK")

B RECEIVABLES – CONTROLLED AND CONTROLLING ENTITY

31 DECEMBER 2018

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2018 (in TCZK)
Mining Services and Engineering Sp. z o.o.	26 910	10 548
ABS PROPERTY LIMITED	36 273	23 117
EP Power Europe, a.s.	10 663 530	14 012
EP Logistics International, a.s.	33 957	2
EP Properties, a.s.	3 750	1
EP Hagibor a.s.	54 666	109
EP Coal Trading, a.s.	471 786	3 019
Total as at 31/12/2018	**11 290 872**	**50 808**

As at 31 December 2017 the balance further includes an outstanding receivable resulting from the declared dividend by EP Coal Trading, a.s. totalling TCZK 90 197.

31 DECEMBER 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)
EP Investment Advisors, s.r.o.	103 629	534
Mining Services and Engineering Sp. z o.o.	27 513	8 583
Woogel Limited	1 216	83
EP Properties, a.s..	63 000	5
ABS PROPERTY LIMITED	96 273	19 468
EP Power Europe, a.s.	10 475 529	73 513
EP Coal Trading, a.s.	106 455	1 278
Eggborough Power Limited	2 879	611
EP Logistics International, a.s.	2 000	-
SLUGGERIA a.s.	314	-
LEAG Holding, a.s.	715	61
Total as at 31/12/2017	**10 879 523**	**104 136**

Receivables – controlled and controlling entity as at 31 December 2017 also include receivables from the sale of subsidiaries JTSD (TCZK 3 404 226) and ZERTILIO a.s. (TCZK 17 700).

C RECEIVABLE – ASSOCIATES

31 DECEMBER 2018

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2018 (in TCZK)	Due date
Przedsiebiorstwo Górnicze Silesia Sp. z o.o.	2 836 549	367 465	2019
Total as at 31/12/2018	**2 836 549**	**367 465**	

31 DECEMBER 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)	Due date
Przedsiebiorstwo Górnicze Silesia Sp. z o.o.	1 511 860	522 446	2018
Total as at 31/12/2017	**1 511 860**	**522 446**	

An allowance of TCZK 19 574 (as at 31 December 2017: TCZK 0) to provided loan was recorded.

D STATE – TAX RECEIVABLES

As at 31 December 2017 income tax prepayments total TCZK 70 436 and were decreased by the income tax provision of TCZK 30 000.

Value added tax receivable is also presented within State – tax receivables.

E OTHER RECEIVABLES

Other receivables primarily include loans granted to non-related entities of TCZK 1 547 726 (as at 31 December 2017: TCZK 1 629 260) and receivables following from positive fair value of derivatives stated in the table below, totalling TCZK 43 109 (as at 31 December 2017: TCZK 22 197).

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)
Energetický a průmyslový holding, a.s.
Year ended 31 December 2018
(All amounts are shown in thousands of Czech crowns "TCZK")

31 DECEMBER 2018

Forward exchange contracts	Counterparty	Due date	Fair value at 31/12/2018
Currency forward	Bank # 1	2019	4 472
Currency forward	Bank # 2	2019	12 096
Currency forward	Bank # 3	2019	10 799
Currency forward	Bank # 4	2019	12 471
Currency forward	Bank # 5	2019	3 271
Total			**43 109**

31 DECEMBER 2017

Forward exchange contracts	Counterparty	Due date	Fair value at 31/12/2017
Currency forward	Bank # 1	2018	6 066
Currency forward	Bank # 2	2018	6 328
Currency forward	Bank # 3	2018	9 803
Total			**22 197**

8. Equity

The change in the line "Gains or losses from the revaluation of assets and liabilities" is due to a foreign exchange differences arising from the revaluation of foreign currency ownership interests.

On 2 February 2018, the Company declared to its shareholders (irrespective of own shares held) a profit share prepayment in the amount of TCZK 247 458.

On 2 May 2018, the General Meeting of EPH decided to reduce the share capital of the Company from the current balance totalling of CZK 5,050 million to the amount of CZK 3,535 million. The purpose of reducing the share capital is to cancel own shares by destroying them, which the Company till now holds. The decrease in the registered capital was recorded in the Commercial Register on 19 September 2018. The retained profit of TCZK 39 014 942 was decreased by the difference between the acquisition cost and the nominal value of the eliminated own shares. The retained profit was further decreased by the difference between the acquisition cost and the nominal value of the eliminated own shares after the reduction of the share capital in 2016 (TCZK 23 978 859).

On 29 June 2018, the general meeting decided to transfer the 2017 profit to the retained profit account and confirmed previously paid profit share prepayments as at the date of the decision.

In September, October and November 2018, EPH declared dividends to its shareholders of TCZK 2 649 627, which were paid in cash.

(All amounts are shown in thousands of Czech crowns "TCZK")

As at the date of approval of the financial statements, there is no proposal for distribution of the 2018 profit in place yet. The proposal for distribution of the 2018 profit will be prepared by the Board of Directors for the Company's shareholders and subsequently discussed and approved by the general meeting.

9. Income tax reserve

The Company accounted an income tax reserve for 2018 of TCZK 97 000, which has been decreased by income tax prepayments in TCZK 14 235.

10. Long-term payables

A PAYABLES TO CREDIT INSTITUTIONS

(in TCZK)

Bank	Balance as at 31/12/2018 (principal)	Balance as at 31/12/2018 (interest)	Form of security	Due date
Bank # 1	514 500	1 591	• None	2021
Bank # 2	507 250	650	• None*	2020
Bank # 3	1 440 600	-	• None*	2025
Total	**2 462 350**	**2 241**		

* procedurally secured with promissory note.

A short-term portion of the bank loan of TEUR 7 000 (TCZK 180 075), as at 31 December 2017 – TEUR 7000 (TCZK 178 780) is presented within short-term payables – Payables to credit institutions.

(in TCZK)

Bank	Balance as at 31/12/2017 (principal)	Balance as at 31/12/2017 (interest)	Form of security	Due date
Bank # 3	1 609 020	-	• None*	2025
Total	**1 609 020**	**-**		

* procedurally secured with promissory note.

B LONG-TERM BILLS OF EXCHANGE TO BE PAID

31 DECEMBER 2018

	Nominal value	Interest as at 31/12/2018
Bills maturing in 2020	716 945	8 654
Bills maturing in 2021	465 000	4 766
Total as at 31/12/2018	**1 181 945**	**13 420**

31 DECEMBER 2017

	Nominal value	Interest as at 31/12/2017
Bills maturing in 2019	149 640	4 640
Total as at 31/12/2017	**149 640**	**4 640**

C PAYABLES – CONTROLLED OR CONTROLLING ENTITY

31 DECEMBER 2018

Counterparty	Principal	Outstanding interest as at 31/12/2018	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.	2 573	46	2021
EP Investment Advisors, s.r.o.	45 000	207	2022
Total as at 31/12/2018	**7 400 948**	**65 658**	

The loan payable to EP Produzione S.p.A. was partially paid during 2018 and subsequently fully set off.

31 DECEMBER 2017

Counterparty	Principal	Outstanding interest as at 31/12/2017	Due date
EPH Financing SK, a.s.	1 379 160	16 090	2020
EPH Financing CZ, a.s.	3 000 000	6 125	2020
EP Produzione S.p.A.	3 350 784	54 804	2021
Total as at 31/12/2017	**7 729 944**	**77 019**	

(All amounts are shown in thousands of Czech crowns "TCZK")

The outstanding interest as at 31 December 2018 and as at 31 December 2017 is presented in short-term payables in line Short-term payables – controlled or controlling entity.

D SUNDRY PAYABLES

31 DECEMBER 2018

Forward exchange contract	Counterparty	Due date	Fair value as at 31/12/2018
Interest rate swap	Bank # 1	2022	6 349
Interest rate swap	Bank # 2	2022	5 587
Total			**11 936**

As at 31 December 2017 sundry payables include financial borrowings of TCZK 200 000.

11. Short-term payables

A PAYABLES TO CREDIT INSTITUTIONS

Includes a short-term part of the bank loan and accrued interest (see Note 10 (a)).

B TRADE PAYABLES

None of the trade payables is due in more than five years as at the balance sheet date.

C SHORT-TERM BILLS OF EXCHANGE TO BE PAID

31 DECEMBER 2018

Bill holder	Nominal value	Interest as at 31/12/2018
Bills maturing in 2019	912 833	18 930
Total as at 31/12/2018	**912 833**	**18 930**

31 DECEMBER 2017

Bill holder	Nominal value	Interest as at 31/12/2017
Bills maturing in 2018	1 348 536	48 344
Total as at 31/12/2017	**1 348 536**	**48 344**

D PAYABLES – CONTROLLED OR CONTROLLING ENTITY

31 DECEMBER 2018

Counterparty	Principal	Outstanding interest as at 31/12/2018
SEDILAS ENTERPRISES LIMITED	2 466	40
DCR INVESTMENT a.s.	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
Total as at 31/12/2018	**12 248 092**	**112 347**

* The loan principal totalling TCZK 7 400 948 is presented on the line of long-term payables – controlled or controlling entity (see Note10 (c)).
** The payable arising from a contribution into the other capital funds made in December 2018.

31 DECEMBER 2017

Counterparty	Principal	Outstanding interest as at 31/12/2017
SEDILAS ENTERPRISES LIMITED	2 450	26
EPH Financing CZ, a.s.	3 000 000	31 500
EPH Financing SK, a.s.	1 915 500	225
EPPE Italy N.V. (formerly Czech Gas Holding N.V.)*	628 889	4 872
Total as at 31/12/2017	**5 546 839**	**36 623**

* In 2017, the liability was reduced by the offset of the principal and interest against the debit advices from guarantees.

(All amounts are shown in thousands of Czech crowns "TCZK")

E PAYABLES TO PARTNERS

As at 31 December 2017, payables to partners comprise unpaid dividend declared on 22 November 2017, which was paid in 2018.

F ESTIMATED PAYABLES

Estimated payables primarily comprise non-invoiced expenses from the insurance company of TCZK 479 340 (as at 31 December 2017: TCZK 353 592).

G SUNDRY PAYABLES

Sundry payables TCZK 6 494 primarily include the fair value of the commodity swap and currency forward (as at 31 December 2017: TCZK 160 360):

31 DECEMBER 2018

Forward exchange contract	Counterparty	Due date	Fair value as at 31/12/2018
Currency forward	Bank # 1	1Q 2019	437
Currency forward	Bank # 2	1Q 2019	5 223
Currency forward	Bank # 3	1Q 2019	834
Total			**6 494**

31 DECEMBER 2017

Forward exchange contract	Counterparty	Due date	Fair value as at 31/12/2017
Currency forward	Bank # 1	2018	28 368
Commodity swap	Bank # 2	2018	13 333
Currency forward	Bank # 2	2018	118 659
Total			**160 360**

At 31 December 2018, short-term payables also include short-term financial borrowings of TCZK 203 025.

12. Revenues and expenses

Increase in revenues was influenced by centralized intercompany services provided, mainly in the area of controlling, financial management, legal advisory, central procurement and information technologies.

Services relate especially to costs for bookkeeping, audit, consolidation, legal services, attorney-at-law services and travel expenses.

Other operating revenues and other operating costs are formed in particular by revenues and expenses from re-invoicing, respectively.

The income from equity investments – controlled or controlling entity comprise the revenues from the dividend declared by EPIF Investments a.s. of TCZK 4 693 728 and DCR INVESTMENT a.s. of TCZK 213 675.

Adjustments to values and reserves relating to financial activities in 2018 and 2017 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 consolidation group that are wholly owned by the Company.

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 2018	Expenses 2018	Revenues 2017	Expenses 2017
– Income / expense interest	226 554	57	198 230	27
– Other operating income / expenses	4 504	16 420	3 219	9 139
– Other financial income / expenses	10 287	-	27 737	-
Total	**241 345**	**16 477**	**229 186**	**9 166**

14. Employees and executives

As at 31 December 2018, the Company had 17 employees (10 employees in 2017). 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 2018.

16. Income tax

A CURRENT TAX

The Company created an income tax provision for 2018 of TCZK 97 000 (2017: TCZK 30 000). TCZK 1 531 is the difference between income tax liability and the income tax provision 2017 release.

17. Significant off-balance sheet transactions

The Company provides a commitment to grant a loan to EP Power Europe, a.s. of TCZK 683 715 and to other companies in the group of up to TCZK 88 093.

The Company has received commitments from EPPE Italy N.V. (TCZK 138 306), EPH Financing CZ, a.s. (TCZK 2 076 000) and from bank institutions of up to TCZK 3 267 075.

Notes to the Czech statutory financial statements (unconsolidated, translated from the Czech original)
Energetický a průmyslový holding, a.s.
Year ended 31 December 2018
(All amounts are shown in thousands of Czech crowns "TCZK")

The Company reports an off-balance sheet receivable from derivative transactions in the nominal value of TCZK 17 445 522 (as at 31/12/2017: TCZK 9 764 340). The Company reports an off-balance sheet liability from derivative transactions in the nominal value of TCZK 17 371 706 (as at 31/12/2017: TCZK 9 896 357) related to currency and commodity derivatives.

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 2018 amounted to TCZK 5 424 000 for EPH Financing CZ, a.s. and 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 liabilities of its certain subsidiaries up to cumulated amount of TCZK 32 396 746 in favour of third party beneficiaries.

18. Significant subsequent events

On 8 March 2019 EPH issued a fixed rate notes in the anticipated aggregate nominal value of up to MEUR 61,9 due in 2020.

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 2018.

Prepared on: 17 June 2019

JUDr. Daniel Křetínský

Chairman of the Board of Directors

Mgr. Pavel Horský

Member of the Board of Directors