

A photograph of an industrial facility, likely a power plant or refinery. In the foreground, there are large, curved, metallic pipes. In the background, there is a tall, cylindrical structure with a lattice-like exterior, possibly a cooling tower or chimney. The sky is blue with some clouds. The ground is covered in gravel.

Transmission Distribution Storage

Gas Electricity Heat

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## Consolidated Financial Statements

as at and for the year ended 31 December 2019



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EPIF confirmed its role of major infrastructure player in the Central European region by delivering reliable and quality service to its customers at attractive prices.

Daniel Křetínský Chairman of the Board of Directors

## Introduction by the Chairman of the Board of Directors

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## Dear shareholders, business partners, colleagues and friends,

In 2019, EP Infrastructure, a.s. (“EPIF”) continued to operate its traditional energy infrastructure assets in Central Europe. Its activities concentrated on the transmission, distribution and storage of natural gas, the distribution of electricity and the heat industry. Supported by steady economic growth in countries where it operates, EPIF again confirmed its role of major infrastructure player in the Central European region by delivering reliable and quality service to its customers at attractive prices. Acknowledging the impact of its operations on communities and other stakeholders, EPIF also issued its first sustainability report during 2019 enabling readers to get a better understanding of our approach to environmental, social and governance matters.

The EPIF Group subsidiaries operate a transit gas pipeline, the most robust corridor for gas supplies to Western, Central and Southern Europe, and act as the major distributors of natural gas and electricity in Slovakia. The EPIF Group also operates the largest gas storage capacities in Central Europe with additional storage facilities in Germany and is significant heat distribution network operator and heat producer in the Czech Republic and Hungary.

The Gas transmission segment reported excellent results in 2019 due to increased transit volumes, while maintaining its full technical capacity and availability of services for its customers. In 2019, the volume of natural gas transported by Eustream was more than 69 billion cubic metres, which is 16% more than in the previous year and is partly attributable to front-loading of volumes from 2020 to prepare for a potential Russian–Ukrainian crisis which has not however materialized as a new gas transit agreement was closed between respective parties in December 2019. Within development projects focusing on the enhancement of energy security and the creation of new business opportunities, we substantially

increased gas transmission capacities from the Czech Republic to Slovakia after the CS05 compressor station was launched in January 2020, and continued works on a strategic project of the Slovak–Polish Interconnector with expected completion in 2021, which is on a list of critical EU infrastructural projects and is supported from the EU.

Resilience of the Gas and power distribution segment was confirmed by 2019 results which were in line with our expectations, supported by regulated distribution tariffs and broadly stable volumes. The annual volume of distributed natural gas was 52 TWh, which is slightly above the volume distributed in 2018. 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 6.2 TWh of electricity, which is slightly below volume distributed in the previous year but still above the long-term average. 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 exceeded EUR 80 million.

Despite challenging year due to warmer weather in the heating season and pressure of CO<sub>2</sub> allowance prices on electricity spreads, the Heat infrastructure segment generated broadly stable EBITDA. The Group supplied almost 23 PJ of heat and produced 3.8 TWh of electricity, confirming its position of a key heat supplier and provider of ancillary services both in the Czech Republic and Hungary with significant contribution to the transmission network’s stability. The companies also commenced major modernization investment projects leading to higher production efficiency and reduced environmental impact of its operations. Acquisition of a new entity Plzeňská teplárenská at the end of 2018 to our portfolio marked a partial shift of our energy mix in 2019 towards fuels with lower carbon footprint such as biomass and communal waste.

For Gas storage segment, we keep holding our position as major player in the Central European region, making every endeavour to further strengthen our role. The overall storage capacity is more than 61 TWh and includes assets in strategic regions connected to key gas routes. In addition to its traditional assets in Slovakia, EPIF operated storage facilities in South-Eastern Bavaria acquired at the end of 2018 with capacity of almost 20 TWh. These are currently contracted to a major extent until 2027 on a store-or-pay basis. In 2019, we also continued to invest in operational security, storage technology modernisation, automation enhancement and utilisation of collected information to further optimise processes.

Results in 2019 proved the quality of assets being operated, most of which are regulated and contracted on a long-term basis. Consolidated Adjusted EBITDA<sup>1</sup> for 2019 was EUR 1 606 million, which is a 10% increase of this vital indicator compared to 2018. At the same time, Adjusted Free Cash Flow<sup>2</sup> rose by 8% to EUR 1 107 million, which confirms that thanks to the high-quality structure of assets and highly efficient operational management, EPIF shows the above-average rate of converting operating profits into free cash flows. Owing to this and other positive factors, in 2019, the EPIF Group's investment ratings previously awarded by renowned rating agencies Moody's Investors Service, Fitch Ratings and S&P Global Ratings were all affirmed.

We issue this annual report at difficult times in the light of the coronavirus pandemic posing great challenges for many aspects of our society including business matters of EPIF. I would like to assure our stakeholders that from the very beginning of the outbreak, we have continuously identified potential risks and implemented appropriate measures to mitigate the impact on our stakeholders, having two central objectives in mind: guaranteeing the health and safety of our employees, which remains our top priority and safeguarding the continuity of the essential energy security service in the countries where EPIF operates. In terms of maintaining operations of our critical infrastructure assets, precautionary measures have been implemented, special teams have been set up to manage the situation and critical employees strictly divided into smaller teams.

I strongly believe that EPIF operations are resilient to withstand the current challenges with no substantial disruptions in supplies of key commodities to our customers.

To support fast recovery, we have also substantially participated on large scale humanitarian aid representing a purchase of vital medical supplies which were donated to healthcare facilities, municipalities and others in need in Slovakia and Czech Republic.

To conclude, I would like to express my thanks to our employees, investors and partners who have been participating in the realisation of our strategy and cooperating with us, thus supporting us to fulfil our main business objective, which is to ensure a safe, reliable and profitable operation of the energy infrastructure for prices favourable for our customers. We owe our success to all of you.

Daniel Křetínský

Chairman of the Board of Directors

<sup>1</sup> Adjusted EBITDA represents operating profit plus depreciation of property, plant and equipment and amortisation of intangible assets less negative goodwill (if applicable), adjusted by (a) excluding non-cash non-recurring impairment charge relating to property, plant and equipment and intangible assets (2019: EUR -45 million; 2018: EUR -20 million), (b) excluding one-off gain from sale of unused non-operational land and assets (2019 EUR 0 million; 2018: EUR 20 million) and (c) adding back (if negative) or deducting (if positive) the difference between (i) compensation for the expenses for mandatory purchase and off-take of energy from renewable sources pursuant to the Slovak RES Promotion Act and the Decree recognised in revenues in the relevant period and (ii) net expenses accounted for the mandatory purchase of energy from renewable resources in accordance with the Slovak RES Promotion Act, in each case inclusive of accruals (2019: EUR 50 million; 2018: EUR -41 million).

Slovak RES Promotion Act means Slovak Act No. 309/2009 Coll., on promotion of renewable energy sources and high-efficiency cogeneration and on amendments to certain acts (zákon o podpore obnoviteľných zdrojov energie a vysoko účinnej kombinovanej výroby a o zmene a doplnení niektorých zákonov).

Decree means the Slovak Decree of the Regulator No. 18/2017 Coll. (or any other applicable decree or law replacing it).

Reconciliation is as follows:

Key Metrics	Gas Transmission	Gas and Power Distribution	Heat Infra	Gas Storage	Total segments (in EUR millions)	Other	Holding entities	Intersegment-eliminations	Consolidated financial information
<b>2019</b>									
Profit from operations	606	368	93	146	1,213	1	(6)	-	<b>1,208</b>
Depreciation and amortisation	130	159	82	29	400	3	-	-	<b>403</b>
Negative goodwill	-	-	-	-	-	-	-	-	-
EBITDA	736	527	175	175	1,613	4	(6)	-	<b>1,611</b>
Non-cash non-recurring impairments of assets	1	39	-	5	45	-	-	-	<b>45</b>
System Operation Tariff (surplus) / deficit	-	(50)	-	-	(50)	-	-	-	<b>(50)</b>
<b>Adjusted EBITDA</b>	<b>737</b>	<b>516</b>	<b>175</b>	<b>180</b>	<b>1,608</b>	<b>4</b>	<b>(6)</b>	<b>-</b>	<b>1,606</b>
<b>2018</b>									
Profit from operations	579	308	78	123	1,088	17	(6)	-	<b>1,099</b>
Depreciation and amortisation	84	153	70	21	328	3	-	-	<b>331</b>
Negative goodwill	-	-	-	(5)	(5)	-	-	-	<b>(5)</b>
EBITDA	663	461	148	139	1,411	20	(6)	-	<b>1,425</b>
Non-cash non-recurring impairments of assets	2	-	10	8	20	-	-	-	<b>20</b>
One off gain from sale of unused non-operational land and assets	-	-	(5)	-	(5)	(15)	-	-	<b>(20)</b>
System Operation Tariff (surplus) / deficit	-	41	-	-	41	-	-	-	<b>41</b>
<b>Adjusted EBITDA</b>	<b>665</b>	<b>502</b>	<b>153</b>	<b>147</b>	<b>1,467</b>	<b>5</b>	<b>(6)</b>	<b>-</b>	<b>1,466</b>

<sup>2</sup> Adjusted Free Cash Flow represents Cash generated from operations, disregarding Change in restricted cash, less Income tax paid, Acquisition of property, plant and equipment and intangible assets and Purchase of emission rights as presented in the consolidated statement of cash flows of the Group, excluding the cash impact of the purchases of energy from renewable energy sources and the subsequent compensation pursuant to the Slovak RES Promotion Act (so called "SOT") (2019: EUR 10 million; 2018: EUR -1 million).



## Independent Auditor's Report to the Consolidated Annual Report



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” In 2019, the EPIF Group's investment ratings previously awarded by renowned rating agencies were all affirmed.





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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 EP Infrastructure, a.s.

### Report on the Audit of the Consolidated Financial Statements

#### Opinion

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

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

#### Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and of the Council, 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.



#### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Revenue recognition

The carrying amount as at 31 December 2019: EUR 3,476 million

See Note 3 of notes to the consolidated financial statements (Significant Accounting Policies) and 7 (Sales)

Key audit matter	How the key audit matter was addressed
<b>The Group derives substantially all of its revenues and profits from sales of electricity, heat, gas, coal, and from related services.</b>	In this area, our audit procedures included the following:  Assisted by our own information technology (IT) specialists, we assessed the IT general controls, system application controls and management review controls in relation to the revenue and billing systems.  We tested the implementation, set up, and effectiveness of other selected key controls in the revenue process, including those over the determination of the amounts of energy not yet invoiced. In particular, we tested the functionality of recalculations being performed on a monthly basis directly in the customer systems.  We assessed the Group's revenue recognition policy for compliance with relevant provisions of the financial reporting standards.  We tested the accuracy of the data used by the Group in its balance formula, in respect of volume of energy produced, purchased and sold, by reference to the supporting system-generated reports. We also recalculated estimated average prices used in the equation, based on customer pricelists, and challenged the assumed distribution network losses by reference to the Group's historical experience.
<b>Revenues from sales to retail customers are recognised at the time the electricity, heat or gas are supplied, primarily based on periodic meter readings. The amount of revenue for the year also includes an estimate of the value of electricity and consumption for the period between the date of the last meter reading and the reporting date. Developing the estimate of unread revenue requires significant management judgment and is based on estimates of daily consumption, based on historical patterns, adjusted to take into account weather conditions and other relevant factors.</b>	
<b>In the wake of the above factors, we considered revenue recognition to be associated with a significant risk of material misstatement in the consolidated financial statements. Therefore, the area required our increased attention in the audit and as such was determined to be a key audit matter.</b>	



We assessed the accuracy and completeness of the Group's revenue estimates, by tracing the amounts estimated to the corresponding customer bills raised after the reporting date, on a sample basis.

We assessed the overall reasonableness of the amount of revenue recognized for the year, by building an independent revenue expectation, based on sales volume and selling price data derived from the Group's IT systems independent of its accounting system.

We examined whether the Group's revenue recognition-related disclosures in the consolidated financial statements appropriately describe the relevant quantitative and qualitative information required by the relevant financial reporting standards.

#### Impairment of non-current assets, including goodwill

The carrying amount of non-current assets as at 31 December 2019: EUR 9,102 million

See Note 3 of notes to the consolidated financial statements (Significant Accounting Policies), 16 (Property, plant and equipment) and 17 (Intangible assets including goodwill).

Key audit matter	How the key audit matter was addressed
<b>In conjunction with its business acquisitions, the Group recognized goodwill, carried at EUR 102 million as at 31 December 2019. The Group also carries significant balances of long-term assets used to produce electricity and heat (included in property, plant, and equipment). Pursuant to the relevant provisions the financial reporting standards, annual impairment testing is required for cash-generating units (CGUs) to which goodwill has been allocated.</b>	<p>In this area, our audit procedures, performed with the assistance from our own business valuation specialists, included the following:</p> <p>We considered the appropriateness of the Group's value in use model ("impairment model") applied to perform the annual impairment test, against the relevant requirements of the financial reporting standards;</p> <p>We assessed the integrity of the impairment model, including the accuracy of the underlying calculation formulas.</p>

**A complex model is applied in the test, relying on adjusted historical performance, and a range of internal and external sources as inputs to the assumptions. Significant judgment is required in making key forward-looking assumptions applied in the model, including projected operating efficiency, operating costs, and expected energy and distribution prices. The assumptions are influenced by political and economic aspects, both globally and in the receiving country. Judgement is also required in building up a discount rate that appropriately reflects the risks associated with the cash flows of the CGU being tested for impairment.**

**Complex models using forward-looking assumptions tend to be prone to greater risk of management bias, error and inconsistent application. These conditions necessitate our additional attention in the audit, in particular to address the objectivity of sources used for assumptions, and their consistent application.**

**Due to the above factors, we considered this area to be a key audit matter.**

We tested the Group's impairment-related internal controls, including management review controls over the key inputs and assumptions of the impairment model and the validation of the impairment tests.

Using our knowledge of the Group, its past performance, business and customers, and our industry experience, we challenged significant forecast cash flow and growth assumptions. As part of the procedure we:

- Applied increased skepticism to forecasts in any areas where previous year's forecasts were not achieved,
- Challenged the discount rate used by reference to publicly available market data, adjusted by risk factors specific to the Group and its industry/sectors,
- Checked the assumed growth rate and terminal rate by reference to the Group's past performance, its approved plan and strategy, and our experience regarding the feasibility of these in the economic environment in which it operates,
- Assessed reasonableness of the assumptions relating to future prices, as well as those in respect of expected sales, output and operating costs, by reference to publicly available market reports and the Group's internal documents, such as the approved budgets;

We evaluated the historical reliability of the Group's forecasting by comparing the assumptions included in the impairment test prepared in 2018 to 2019 actual outcomes. We also challenged any significant changes in cash flow projections between those used in 2018 and 2019 impairment tests.



We considered the sensitivity of the impairment model to changes in key assumptions, such as the forecast growth rate and discount rate to identify the assumptions at higher risk of bias or inconsistency in application.

We assessed impairment-related disclosures in the consolidated financial statements against the requirements of the financial reporting standards.

#### Revaluation of fixed assets

The carrying amount of fixed assets carries under the revaluation model as at 31 December 2019: EUR 3,766 million

See Note 3 of notes to the consolidated financial statements (Significant Accounting Policies) and 16 (Property, plant and equipment).

Key audit matter	How the key audit matter was addressed
<p><b>The Group carries certain of its non-current assets related to gas transmission (transmission pipeline) under the revaluation model of IAS 16. The carrying amount of these assets represents a significant portion of the Group's total assets.</b></p> <p><b>Management's assessment of the fair value of the assets is based on valuations performed by external appraisers contracted by the Group. The fair values are determined based on the replacement cost method, supplemented by an economic obsolescence test relying on the discounted future cash flow (DCF) projections.</b></p> <p><b>Therefore, the determination of these fair values involves application of significant management judgement in respect of the assumptions underlying the replacement cost, such as the cost to reproduce the assets or the adjustment for depreciation, and in respect of the DCF projections and discount rate applied.</b></p>	<p>In this area, our audit procedures, performed with the assistance from our own business valuation specialists, included the following:</p> <p>We tested the design and implementation of selected key controls in the process of selection of external appraisers, and management review and validation of key appraisal assumptions and outcomes.</p> <p>We evaluated the competence, experience and objectivity of the external appraiser engaged by the Group and the scope of his engagement.</p> <p>We assessed the valuation of the transmission pipeline, as follows:</p> <ul style="list-style-type: none"> <li>— we challenged the Group's estimate the cost to reproduce the pipeline by reference to publicly available independent studies for this type of assets, with appropriate adjustments to current price levels and in respect of depreciation (taking into account the age of the pipeline);</li> </ul>

**We identified measurement of non-current assets carried under the revaluation model as a key audit matter because of the magnitude of the amounts involved and the fact that the fair valuation is inherently subjective. These factors increase the risk of material misstatement or potential for management bias, and as such required our increased attention in the audit.**

— we assessed the key inputs used in the economic obsolescence test, such as the expected operational performance, expected cash flows and discount rate by benchmarking them against publicly available external data and approved budgets.

We evaluated whether any evidence exists that could adversely affect the valuation of these fixed assets.

We assessed the adequacy and accuracy of the fair value-related financial statements disclosures against the requirements of the financial reporting framework.

#### Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the 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 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 consolidated financial statements is, in all material respects, consistent with the separate and 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, Supervisory Board and Audit Committee 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, in collaboration with the Audit Committee, is responsible for overseeing the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the

related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

***Report on Other Legal and Regulatory Requirements***

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

***Appointment of Auditor and Period of Engagement***

We were appointed as the auditors of the Group by the General Meeting of Shareholders on 10 May 2019 and our uninterrupted engagement has lasted for 6 years.

***Consistency with Additional Report to Audit Committee***

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 2 April 2020 in accordance with Article 11 of Regulation (EU) No 537/2014 of the European Parliament and of the Council.



*Provision of Non-audit Services*

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

Except for the statutory audit we did not provide the Company and its controlled undertakings with any other services that have not been disclosed in notes to the consolidated financial statements or consolidated annual report.

**Statutory Auditor Responsible for the Engagement**

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

Prague  
8 April 2020

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

*Karel Charvát*  
Karel Charvát  
Partner  
Registration number 2032



## Other Information



In 2019, EPIF commenced major modernization investment projects leading to higher production efficiency and reduced environmental impact of its operations.

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### EXPECTED DEVELOPMENT OF THE EP INFRASTRUCTURE, A.S. GROUP (“EPIF GROUP” OR “GROUP”)

In 2020, the EPIF Group will continue the development of its activities across its core segments of gas transmission, gas and power distribution, heat infra and gas storage.

This annual report is issued at difficult times in the light of the coronavirus pandemic posing great challenges for many aspects of our society including business matters of EPIF. From the very beginning of the outbreak, the EPIF Group has been continuously identifying potential risks and implemented appropriate measures to mitigate or decrease the impact on the business as well as on the EPIF Group's stakeholders, having two central objectives in mind: guaranteeing the health and safety of employees, which remains the EPIF Group's top priority and safeguarding the continuity of the essential energy security service in the countries where EPIF operates. In terms of maintaining operations of run critical infrastructure assets, precautionary measures have been implemented, special teams have been set up to manage the situation and critical employees strictly divided into smaller teams.

Despite the potential temporary challenges, the management believes that the EPIF operations are resilient to withstand the current situation with no substantial disruptions in supplies of key commodities to our customers.

In spite of the current demanding situation, the EPIF Group will continue to place its emphasis on maintaining strong financial results coupled with a continued cash conversion profile.

### OTHER INFORMATION ABOUT SUBSEQUENT EVENTS THAT OCCURRED AFTER THE REPORTING DATE

Except the subsequent events described in the Note 38 of attached Financial statements for the year 2019, management is not aware of any additional subsequent events that occurred after reporting date to be disclosed.

### BRANCHES

The EPIF Group has the following organizational units abroad:

- AISE, s.r.o., organizačná zložka located in Slovakia;
- EP ENERGY TRADING, a.s., organizačná zložka located in Slovakia
- NAFTA a.s. – organizační složka located in Czech Republic

### RESEARCH AND DEVELOPMENT ACTIVITIES

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

### ACQUISITION OF OWN SHARES OR OWN OWNERSHIP INTERESTS

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

### RISK MANAGEMENT POLICIES

The EPIF Group's risk management policies are set out in the notes to the consolidated financial statements.

### INFORMATION ON ENVIRONMENTAL PROTECTION ACTIVITIES

In 2019, the EPIF Group continued to be very active in the area of environmental protection. The companies within the EPIF Group are operated in a manner to ensure their failure-free operation and high efficiency

in producing electricity and heat, which has direct impact on the volume of produced emissions.

The EPIF Group activities are regulated by a number of environmental regulations in the Czech Republic, Slovakia and Hungary. These include regulations governing the discharge of pollutants, the handling of hazardous substances and their disposal, cleaning of contaminated sites and health and safety of employees. For example, the EPIF Group is subject to regulations imposing strict limits on emissions of CO<sub>2</sub>, sulfur oxides (SO<sub>x</sub>), nitrogen oxides (NO<sub>x</sub>), carbon monoxide (CO) and solid dust particles emissions (SDP).

Although EPIF Group currently did not employ an environmental policy at the Group level at the end of 2019 (but approved on the EPIF level in Q1 2020, see Environmental, Social and Governance matters part later in the document for more details), the respective subsidiaries have implemented their own policies focused on meeting the legislative requirements and on mitigating the environmental footprint of the EPIF Group. This affects not only the activities for which EPIF seeks to minimize their impact on the environment but also investment activities.

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

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

In 2019, during a supervisory audit, Elektrárny 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., eustream, a.s., Stredoslovenská distribučná, a.s., Plzeňská teplárenská, a.s., POZAGAS a.s., TERMONTA PRAHA a.s. or NAFTA a.s.

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

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

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

In Western Ukraine, under the Uzhhorod licence NAFTA implemented our first exploration drill with its partner, Cub Energy Inc. The Uzhhorod licence represents a geological continuation of intense exploration of East Slovakia regions and copies the trend of discovered deposits in Slovakia. NAFTA have been actively present

in the Ukraine since 2016, and successfully continue its planned expansion. At the end of 2019, NAFTA participated in a tender procedure and obtained the Vatazhkivska licence (181 square kilometres) near Poltava town in Eastern Ukraine. The Vatazhkivska licence represents another opportunity to utilise its know-how from long-term experience in the area of research and mining of hydrocarbon.

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

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

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

In 2019 eustream, a.s. completed projects focused on the transmission system development with total investment costs of more than €65 million, including 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. By the end of 2019 the project successfully entered into the final testing phase.

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.

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

#### **EMPLOYMENT, SOCIAL RELATIONS AND RESPECT FOR HUMAN RIGHTS**

The main strengths of the EPIF Group include good relationships with employees and their loyalty. The Group maintains good and fair relations with the trade unions within the Group companies through regular meetings and discussions on labour, social and wage related issues. Similarly, respecting the human rights and implemented non-discriminatory guidelines are viewed as essential for securing employee-friendly working environment across the EPIF Group. Safety and quality management covers health protection at work, safety management systems, technology and human resources all of which are an integral part of the management of the EPIF Group.

The management believes that the EPIF Group, its companies and equipment are in compliance 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 EPIF 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.

EPIF employees are interested in overall EPIF 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.

#### **ANTI-BRIBERY AND ANTI-CORRUPTION PROCEDURES**

The EPIF Group has an anti-bribery and anti-corruption policy in place in order to ensure compliance with all applicable anti-bribery regulations, and to ensure the Group's business is conducted in a socially responsible manner. This policy applies to all employees and all the countries and territories that the EPIF Group operates in. EPIF also requires its business partners to abide by these high standards as well when engaged in business with the EPIF Group.

#### **ENVIRONMENTAL, SOCIAL AND GOVERNANCE MATTERS**

EPIF views the areas of environmental, social and governance matters as being vital to the overall well-being of the EPIF Group and its stakeholders. In 2019 EPIF Group obtained an ESG rating "Average Performer" from the renowned ESG rating agency Sustainalytics. In addition, on 8 April 2020 EPIF obtained an ESG rating 65/100 from the top in class rating agency S&P.

EPIF is committed to further improve its awareness of the ESG areas, incl. implementation of new ESG policies and disclosures which should lead to an ESG rating upgrade as well. These new ESG policies were approved on the EPIF level on 10 March 2020 and are being rolled out to the Group entities for implementation.

These policies are:

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

#### **SUSTAINABILITY REPORT**

EPIF issued its first Sustainability report on 11 September 2019 covering year 2018. Sustainability report for year 2019 will be issued during Q2 2020. Same as the report for prior year the Sustainability report for year 2019 will cover a wide spectrum of economic, environmental, social and governance related topics and will enable report users to obtain a comprehensive understanding of the EPIF Group's business and the links between EPIF's strategy and commitment to a sustainable global economy.



## Report on relations



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EPIF's primary business objective is to ensure safe, reliable and profitable operation of the energy infrastructure for prices favourable to our customers.

Eustream KS 05, Slovakia

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# Report on relations

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

—

prepared by the board of directors of **EP Infrastructure, a.s.** (“the Company”), with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 024 13 507, 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 profit or the settlement of its loss.

The Report has been prepared for the 2019 accounting period.

## II. STRUCTURE OF RELATIONS BETWEEN THE ENTITIES

### CONTROLLED ENTITY

The controlled entity is EP Infrastructure, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 024 13 507, recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, insert 21608.

### DIRECTLY CONTROLLING ENTITIES

EPIF Investments, a.s.  
Registered office: Pařížská 130/26, Josefov,  
110 00 Praha 1, Czech Republic  
Reg. No.: 05711452

### INDIRECTLY CONTROLLING ENTITIES

Energetický a průmyslový holding, a.s.  
Registered office: Pařížská 130/26, Josefov,  
110 00 Praha 1, Czech Republic  
Reg. No.: 28356250

EP Investment S.a r.l.  
Registered office: 39, Avenue J.F. Kennedy,  
L – 1855 Luxembourg, Luxembourg  
Reg. No.: B 184488

### OTHER CONTROLLED ENTITIES

Entities controlled by the same controlling entities are specified in the appendix to the Report.

## 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 treating the Company’s ownership interests and other assets.

### METHOD AND MEANS OF CONTROL

The controlling entities hold a majority share of voting rights in EP Infrastructure, 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

In 2019, no other actions were taken at the initiative or in the interest of the controlling entity that would concern assets exceeding 10% of the controlled entity’s equity as determined from the most recent financial statements.

## V. AGREEMENTS CONCLUDED BETWEEN EP INFRASTRUCTURE, A.S. AND OTHER RELATED ENTITIES

### V.1.1. IN 2019, THE FOLLOWING LOAN AGREEMENTS WERE EFFECTIVE:

On 16 March 2016, a loan agreement, including valid amendments, was signed by and between EP Infrastructure, a.s. as the creditor and Slovak Gas Holding B.V. as the debtor.

On 19 June 2017, a loan agreement was signed by and between EP Infrastructure, a.s. as the creditor and EPH Gas Holding B.V., a.s. as the debtor.

On 20 April 2018, a loan agreement was signed by and between EP Infrastructure, a.s. as the creditor and EP Energy, a.s., as the debtor.

On 14 October 2019, a loan agreement was signed by and between EP Infrastructure, a.s. as the creditor and EP Energy, a.s. as the debtor.

On 18 October 2019, a loan agreement was signed by and between EP Infrastructure, a.s. as the creditor and EP Energy, a.s. as the debtor.

### V.1.2. IN 2019, THE FOLLOWING OPERATING AGREEMENTS WERE EFFECTIVE:

An agreement on providing professional assistance signed by and between AISE, s.r.o. and EP Infrastructure, a.s. on 2 January 2018.

An agreement on providing professional assistance signed by and between Alternative Energy, s.r.o. and EP Infrastructure, a.s. on 2 January 2018.

An agreement on providing professional assistance signed by and between ARISUN, s.r.o. and EP Infrastructure, a.s. on 2 January 2018.

An agreement on providing professional assistance signed by and between Budapesti Erőmű Zártkörűen Működő Részvénytársaság and EP Infrastructure, a.s. on 2 January 2018.

An agreement on providing professional assistance, including valid amendments, signed by and between Elektrárny Opatovice, a.s. and EP Infrastructure, a.s. on 1 October 2018.

An agreement on processing of personal data signed by and between Elektrárny Opatovice, a.s. and EP Infrastructure, a.s. on 1 October 2018.

An agreement on providing professional assistance signed by and between Energetický a průmyslový holding, a.s. as the provider and EP Infrastructure, a.s. as the client, on 2 January 2017.

An agreement on providing professional assistance signed by and between Energetický a průmyslový holding, a.s. as the client and EP Infrastructure, a.s. as the provider, on 2 January 2018.

An agreement on providing professional assistance signed by and between EP Cargo a.s. and EP Infrastructure, a.s. on 26 October 2018.

An agreement on processing of personal data signed by and between EP Cargo a.s. and EP Infrastructure, a.s. on 26 October 2018.

An agreement on providing professional assistance signed by and between EP ENERGY TRADING, a.s. and EP Infrastructure, a.s. on 1 October 2018.

An agreement on processing of personal data signed by and between EP ENERGY TRADING, a.s. and EP Infrastructure, a.s. on 1 October 2018.

An agreement on providing professional assistance signed by and between EP Industries, a.s. as the provider and EP Infrastructure, a.s. as the client, on 2 January 2018.

An agreement on providing professional assistance signed by and between EP Industries, a.s. as the client and EP Infrastructure, a.s. as the provider, on 2 January 2018.

An agreement on providing professional assistance signed by and between EP Investment Advisors, s.r.o. and EP Infrastructure, a.s. on 2 January 2015, including all amendments.

A sublease agreement signed by and between EP Investment Advisors, s.r.o. and EP Infrastructure, a.s. on 15 June 2017, including all amendments.

An agreement on providing professional assistance signed by and between EP Power Europe, a.s. as the provider and EP Infrastructure, a.s. as the client, on 2 January 2018.

An agreement on providing professional assistance signed by and between EP Power Europe, a.s. as the client and EP Infrastructure, a.s. as the provider, on 2 January 2018.

An agreement on providing professional assistance signed by and between EP Slovakia B.V. and EP Infrastructure, a.s. on 3 April 2017.

An agreement on providing professional assistance signed by and between EP Sourcing, a.s. and EP Infrastructure, a.s. on 26 October 2018.

An agreement on processing of personal data signed by and between EP Sourcing, a.s. and EP Infrastructure, a.s. on 26 October 2018.

An agreement on providing professional assistance signed by and between Plzeňská teplárenská a.s. (as the legal successor of Plzeňská energetika, a.s.) and EP Infrastructure, a.s. on 1 October 2018.

An agreement on processing of personal data signed by and between Plzeňská teplárenská a.s. (as the legal successor of Plzeňská energetika, a.s.) and EP Infrastructure, a.s. on 1 October 2018.

An agreement on providing professional assistance signed by and between POZAGAS a.s. and EP Infrastructure, a.s. on 2 January 2019.

An agreement on processing of personal data signed by and between POZAGAS a.s. and EP Infrastructure, a.s. on 2 January 2019.

An agreement on providing professional assistance signed by and between POWERSUN a.s. and EP Infrastructure, a.s. on 2 January 2018.

An agreement on providing professional assistance signed by and between Plzeňská teplárenská, a.s. and EP Infrastructure, a.s. on 1 October 2018.

An agreement on processing of personal data signed by and between Pražská teplárenská a.s. and EP Infrastructure, a.s. on 28 January 2019.

An agreement on providing professional assistance signed by and between Severočeská teplárenská, a.s. and EP Infrastructure, a.s. on 1 October 2018.

An agreement on processing of personal data signed by and between Severočeská teplárenská, a.s. and EP Infrastructure, a.s. on 1 October 2018.

An agreement on providing professional assistance signed by and between SPP Storage, s.r.o. and EP Infrastructure, a.s. on 2 January 2019.

An agreement on processing of personal data signed by and between SPP Storage, s.r.o. and EP Infrastructure, a.s. on 2 January 2019.

An agreement on providing professional assistance signed by and between TERMONTA PRAHA a.s. and EP Infrastructure, a.s. on 2 January 2018.

An agreement on providing professional assistance signed by and between Triskata, s.r.o. and EP Infrastructure, a.s. on 2 January 2018.

An agreement on providing professional assistance, including valid amendments, signed by and between United Energy, a.s. and EP Infrastructure, a.s. on 1 October 2018.

An agreement on processing of personal data signed by and between United Energy, a.s. and EP Infrastructure, a.s. on 1 October 2018.

An agreement on providing professional assistance signed by and between VTE Moldava II, a.s. and EP Infrastructure, a.s. on 2 January 2018.

An agreement on providing professional assistance signed by and between VTE Pchery, s.r.o. and EP Infrastructure, a.s. on 2 January 2018.

Orders on providing professional assistance received by EP Infrastructure, a.s. from NAFTA, a.s. as the client, on 8 January 2019.

Orders on providing professional assistance received by EP Infrastructure, a.s. from Stredoslovenská distribučná, a.s. as the client, on 3 May 2019.

### V.2. OTHER JURIDICAL ACTS MADE BETWEEN EP INFRASTRUCTURE, A.S. AND OTHER RELATED ENTITIES

Except for the above mentioned, no other agreements were entered into by and between EP Infrastructure, a.s. and related entities, and no supplies or considerations were provided between EP Infrastructure, a.s. and related entities.

EP Infrastructure, 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 EP INFRASTRUCTURE, A.S. VIS-À-VIS RELATED ENTITIES

The receivables and payables of EP Infrastructure, a.s. from/to related parties as at 31 December 2019 are disclosed in the notes to the financial statements of EP Infrastructure, a.s.

### VI.

We hereby confirm that we have included in this Report on relations between related entities of EP Infrastructure, a.s., prepared pursuant to Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended) for the accounting period from 1 January 2019 to 31 December 2019, all information known as at the date of signing this report, regarding:

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

In addition, the board of directors of EP Infrastructure, a.s. declares that EP Infrastructure, 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 or 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 EP Infrastructure, a.s.

Prague, 24 March 2020



Daniel Křetínský

Chairman of the Board of Directors



Gary Wheatley Mazzotti

Vice-Chairman of the Board of Directors

## Appendix to the Report on Relations

Company	Country of incorporation
ABS Property Ltd.	Ireland
Adconcretum real estate Ltd.	Serbia
Aerodis, S.A.	France
AISE, s.r.o.	Czech Republic
Alternative Energy, s.r.o.	Slovakia
Arisun s.r.o.	Slovakia
Biomasse Crotone S.p.A.	Italy
Biomasse Italia S.p.A.	Italy
Biomasse Servizi S.r.l.	Italy
Bohr & Brunnenbau GmbH	Germany
Budapesti Erőmű Zrt (BERT)	Hungary
Central European Gas HUB AG	Austria
Centro Energia Ferrara S.p.A.	Italy
Centro Energia Teverola S.p.A.	Italy
Centrum pre vedu a výskum, s.r.o.	Slovakia
Claymore Equity, s.r.o.	Slovakia
CNG Holdings Netherlands B.V.	Netherlands
CNG LLC	Ukraine
CR-EP s.r.o.	Czech Republic
Czech Gas Holding Investment B.V.	Netherlands
Czech Gas Holding N.V.	Netherlands
CZECH MEDIA INVEST a.s.	Czech Republic
DCR INVESTMENT a.s.	Czech Republic
eastring B.V.	Netherlands
Eggborough Power Ltd	Great Britain
Elektrárny Opatovice, a.s.	Czech Republic
Elektroenergetické montáže s.r.o. (EEM)	Slovakia
ENERGOPROJEKTA plan s.r.o.	Czech Republic
Energotel a.s.	Slovakia
Energotel, a.s.	Slovakia
Energy Scanner Ltd	Great Britain
ENERGZET SERVIS a.s.	Czech Republic
EOP & HOKA s.r.o.	Czech Republic
EOP HOKA POLSKA SPÓŁKA Z OGRANICZONA ODPOWIEDZIALNOSCIA	Poland
EOP HOKA SK, s.r.o.	Slovakia
EP Auto, s.r.o.	Czech Republic
EP Ballylumford Limited	Great Britain
EP Cargo a.s.	Czech Republic
EP Cargo Deutschland GmbH	Germany
EP Cargo Invest, a.s.	Czech Republic

Company	Country of incorporation
EP CARGO POLSKA s.a.	Poland
EP COAL TRADING POLSKA S.A. (dříve UNITED ENERGY COAL TRADING POLSKA S.A.)	Poland
EP Coal Trading, a.s. (dříve EP Coal a.s.)	Czech Republic
EP Commodities, a.s.	Czech Republic
EP ENERGY HR d.o.o.	Croatia
EP ENERGY TRADING, a.s.	Czech Republic
EP Energy, a.s.	Czech Republic
EP Fleet, k.s.	Czech Republic
EP France S.A.S. (Uniper France S.A.S.)	France
EP Germany GmbH	Germany
EP Group Investments a.s.	Czech Republic
EP Hagibor, a.s.	Czech Republic
EP Intermodal a.s.	Czech Republic
EP Invest Limited	Great Britain
EP Investments Advisors, s.r.o.	Czech Republic
EP Kilroot Limited	Great Britain
EP Langage Limited (Centrica Langage Limited)	Great Britain
EP Logistics International, a.s.	Czech Republic
EP Mehrum GmbH	Germany
EP Merseburg Transport und Logistik GmbH	Germany
EP New Energies GmbH (Blitz B19-604 GmbH)	Germany
EP New Energy Italia S.r.l.	Italy
EP Power Europe, a.s.	Czech Republic
EP Produzione S.p.A.	Italy
EP Produzione Centrale Livorno Ferraris S.p.A.	Italy
EP Properties, a.s.	Czech Republic
EP Resources AG	Switzerland
EP SHB Limited (Centrica SHB Limited)	Great Britain
EP Slovakia B.V.	Netherlands
EP Sourcing, a.s.	Czech Republic
EP UK Finance Limited	Great Britain
EP UK Investments Ltd	Great Britain
EP UK Power Development Ltd	Great Britain
EP Ukraine B.V. (EP Sophievska B.V.)	Netherlands
EP Yuzivska B.V.	Netherlands
EPH Financing CZ, a.s.	Czech Republic
EPH Financing SK, a.s.	Slovakia



Company	Country of incorporation
EPH Gas Holding B.V.	Netherlands
EPPE Germany a.s.	Czech Republic
Ergosud S.p.A.	Italy
eustream, a.s.	Slovakia
EVO – Komořany, a.s.	Czech Republic
Fernwärme GmbH Hohenmölsen – Webau	Germany
Fiume Santo S.p.A.	Italy
Fores Italia S.r.l.	Italy
Fusine Energia S.r.l.	Italy
GABIT spol. s r.o.	Czech Republic
GALA-MIBRAG-Service GmbH (GALA)	Germany
GALANTATERM spol. s r.o.	Slovakia
Gazel Energie Generation S.A.S. (Uniper France Power S.A.S.)	France
Gazel Energie Renouvelables S.A.S. (Uniper Energies Renouvelables S.A.S.)	France
Gazel Energie Solaire S.A.S. (Uniper Climate & Renewables France Solar S.A.S.)	France
Gazel Energie Solutions S.A.S. (Uniper France Energy Solutions S.A.S.)	France
GEOTHERM KOŠICE, a.s.	Slovakia
GMB GmbH	Germany
Greeninvest Energy, a.s.	Czech Republic
Helmstedter Revier GmbH ( HSR) (Buschhaus)	Germany
HG1 s.r.o.	Czech Republic
HG5 s.r.o.	Czech Republic
Humberland Limited	Great Britain
CHIFFON ENTERPRISES LIMITED	Cyprus
Ingenieurbüro für Grundwasser GmbH	Germany
JTSD Braunkohlebergbau GmbH	Germany
Kardašovská Properties a.s.	Czech Republic
Karotáž a cementace, s.r.o.	Czech Republic
KŐBÁNYAHŐ Kft.	Hungary
Kraftwerk Mehrum GmbH	Germany
Kraftwerk Schkopau Betriebsgesellschaft mbH	Germany
Kraftwerk Schkopau GbR	Germany
Kraftwerk Schwarze Pumpe	Germany
Lausitz Energie Bergbau AG	Germany
Lausitz Energie Kraftwerke AG	Germany
Lausitz Energie Verwaltungs GmbH	Germany
Lausitz Energie Verwaltungsgesellschaft Brandenburg mbH (Lausitz Energie Erneuerbare Verwaltungs GmbH)	Germany
Lausitz Energie Verwaltungsgesellschaft Sachsen mbH	Germany

Company	Country of incorporation
Lausitz Energie Vorsorge- und Entwicklungsgesellschaft Brandenburg GmbH & Co. KG (juwi Wind Germany 188 GmbH & Co. KG)	Germany
Lausitz Energie Vorsorge- und Entwicklungsgesellschaft Sachsen mbH & Co. KG	Germany
LEAG Holding, a.s.	Czech Republic
LOCON BENELUX B.V.	Netherlands
LOCON Logistik & Consulting AG	Germany
LOCON Personalservice GmbH	Germany
LOCON Service GmbH	Germany
LokoTrain s.r.o.	Czech Republic
Lynemouth Power Limited	Great Britain
MACKAREL ENTERPRISES LIMITED	Cyprus
MIBRAG Consulting International GmbH	Germany
MIBRAG Neue Energie GmbH (MNE)	Germany
Mining Services and Engineering Sp. z o.o.	Poland
Mitteldeutsche Braunkohlen Gesellschaft mbH (MIBRAG )	Germany
Mitteldeutsche Umwelt- und Entsorgung GmbH (MUEG)	Germany
MR TRUST s.r.o.	Czech Republic
Nadácia EPH	Slovakia
NADURENE 2 a.s.	Czech Republic
NADURENE a.s.	Czech Republic
NAFTA a.s.	Slovakia
NAFTA Bavaria GmbH	Germany
Nafta Exploration s.r.o.	Slovakia
NAFTA Germany GmbH	Germany
NAFTA International B.V.	Netherlands
NAFTA RV	Ukraine
NAFTA Services, s.r.o.	Czech Republic
NAFTA Speicher GmbH & CO. KG (DEA Speicher Holding GmbH & Co. KG)	Germany
NAFTA Speicher Inzenham GmbH (DEA Speicher GmbH)	Germany
NAFTA Speicher Management GmbH (DEA Speicher Management GmbH)	Germany
Norddeutsche Gesellschaft zur Ablagerung von Mineralstoffen mbH (NORGAM mbH )	Germany
Nová Invalidovna, a.s.	Czech Republic
Nové Modřany, a.s.	Czech Republic
NPTH, a.s.	Czech Republic
Ochrana a bezpečnosť SE, a.s.	Slovakia
PGP Terminal, a.s.	Czech Republic
PLAZMA LIPTOV, a.s.	Slovakia

Company	Country of incorporation
Plynárenská metrológia, s.r.o.	Slovakia
Plzeňská teplárenská a.s.	Czech Republic
Plzeňská teplárenská SERVIS IN a.s	Czech Republic
Plzeňská teplárenská, AUTODOPRAVA s.r.o.	Czech Republic
POWERSUN a.s.	Czech Republic
POZAGAS a.s.	Slovakia
Pražská teplárenská	Czech Republic
Pražská teplárenská Holding a.s.	Czech Republic
Przedsiębiorstwo Górnicze Silesia	Poland
PT Distribuční, s.r.o. (Devátá energetická, s.r.o.)	Czech Republic
PT Holding Investment B.V.	Netherlands
PT Koncept, a.s. (Pražská teplárenská Trading, a.s.)	Czech Republic
PT měření, a.s.	Czech Republic
PT Properties I, a.s.	Czech Republic
PT Properties II, a.s.	Czech Republic
PT Properties III, a.s.	Czech Republic
PT Properties IV, a.s.	Czech Republic
PT Real Estate, a.s.	Czech Republic
PT Transit, a.s.(Energotrans SERVIS a.s.)	Czech Republic
RAILSPED, s.r.o.	Czech Republic
REAKTORTEST, s.r.o.	Slovakia
RM LINES, a.s.	Czech Republic
RPC, a.s.	Czech Republic
RUBY Equity Investments S.à. r. l.	Luxembourg
RVA Consulting Engineers Ltd	Great Britain
RVA Engineering Solutions Ltd	Great Britain
RVA GmbH	Germany
RVA Group Ltd	Great Britain
Saale Energie GmbH	Germany
SAJDOK a.s.	Czech Republic
SE Služby inženýrských staveb, s.r.o.	Slovakia
Seattle Holding B.V	Netherlands
Sedilas Enterprises limited	Cyprus
Severočeská teplárenská, a.s.	Czech Republic
SGC-LOGISTIC GmbH	Germany
Slovak Gas Holding B.V.	Netherlands
Slovak Power Holding B.V.	Netherlands
Slovenské elektrárne – energetické služby, s.r.o. (SE Predaj, s.r.o.)	Slovakia
Slovenské elektrárne Czech Republic, s.r.o.	Czech Republic
Slovenské elektrárne, a.s.	Slovakia
SLOVGEOTHERM a.s.	Slovakia
SLUGGERIA a.s.	Czech Republic

Company	Country of incorporation
Société des Eaux de l'Est S.A.	France
SPEDICA GROUP COMPANIES, s.r.o.	Czech Republic
SPEDICA LOGISTIC, s.r.o.	Czech Republic
SPEDICA, s.r.o.	Czech Republic
SPP – distribúcia Servis, s.r.o.	Slovakia
SPP – distribúcia, a.s.	Slovakia
SPP Infrastructure Financing B.V.	Netherlands
SPP Infrastructure, a.s.	Slovakia
SPP Storage, s.r.o.	Czech Republic
SPV100, s.r.o.	Slovakia
SPX s.r.o.	Slovakia
SSE – CZ spol. s r.o.	Czech Republic
SSE – MVE, s.r.o.	Slovakia
SSE – Solar s.r.o.	Slovakia
Stredoslovenská distribučná, a.s. (Stredoslovenská energetika – Distribúcia, a.s.)	Slovakia
Stredoslovenská energetika – Metrológia s.r.o. (SSE-M)	Slovakia
Stredoslovenská energetika – Projekt Development spol. s r.o. (SSE - PD)	Slovakia
Stredoslovenská energetika Holding, a.s. (Stredoslovenská energetika a.s.)	Slovakia
Stredoslovenská energetika, a.s. (Stredoslovenská energetika Obchod, a.s.)	Slovakia
Surschiste, S.A.	France
Tepló Neratovice spol. s r.o.	Czech Republic
Termonta Praha a.s.	Czech Republic
Terrakomp GmbH	Germany
Transport- und Speditionsgesellschaft Schwarze Pumpe mbH	Germany
Triskata, s.r.o.	Slovakia
Tynagh Energy Limited	Ireland
ÚJV Řež a.s.	Czech Republic
United Energy, a.s.	Czech Republic
United Energy Invest a.s.	Czech Republic
United Energy Moldova,s.r.o.	Czech Republic
V A H O s.r.o.	Czech Republic
VESA EQUITY INVESTMENT S.à.r.l.	Luxembourg
VTE Moldava II, a.s.	Czech Republic
VTE Pchery s.r.o.	Czech Republic
WOOGEL LIMITED	Cyprus



Consolidated Adjusted EBITDA for 2019 was EUR 1,606 million, which is a 10% increase in this vital indicator compared to 2018.

## Consolidated Financial Statements and Notes to the Consolidated Financial Statements

Introduction by the Chairman of the Board of Directors

Independent Auditor's Report to the Consolidated Annual Report

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**Consolidated Financial Statements and Notes to the Consolidated Financial Statements**

Independent Auditor's Report to the Statutory Financial Statements

Statutory Financial Statements and Notes to the Statutory Financial Statements

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## Consolidated Financial Statements

as of and for the year ended 31 December 2019

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

# Consolidated statement of comprehensive income

For the year ended 31 December 2019  
In millions of EUR ("MEUR")

	Note	2019	2018
Sales: Energy	7	3,437	3,053
of which: Gas		1,583	1,454
Electricity		1,437	1,229
Heat		391	350
Coal		26	20
Sales: Other	7	30	28
Gain (loss) from commodity derivatives for trading with electricity and gas, net		9	4
<b>Total sales</b>		<b>3,476</b>	<b>3,085</b>
Cost of sales: Energy	8	(1,476)	(1,342)
Cost of sales: Other	8	(27)	(28)
<b>Total cost of sales</b>		<b>(1,503)</b>	<b>(1,370)</b>
<b>Subtotal</b>		<b>1,973</b>	<b>1,715</b>
Personnel expenses	9	(240)	(214)
Depreciation and amortisation	16, 17	(403)	(331)
Repairs and maintenance		(15)	(10)
Emission rights, net	10	(41)	(22)
Negative goodwill		-	5
Taxes and charges	11	(9)	(8)
Other operating income	12	56	54
Other operating expenses	13	(149)	(130)
Own work capitalized		36	40
<b>Profit (loss) from operations</b>		<b>1,208</b>	<b>1,099</b>
Finance income	14	20	6
Finance expense	14	(140)	(170)
Profit (loss) from financial instruments	14	(4)	(7)
<b>Net finance income (expense)</b>		<b>(124)</b>	<b>(171)</b>
Share of profit (loss) of equity accounted investees, net of tax	18	1	-
<b>Profit (loss) before income tax</b>		<b>1,085</b>	<b>928</b>
Income tax expenses	15	(295)	(254)
<b>Profit (loss) for the year</b>		<b>790</b>	<b>674</b>

## Consolidated statement of comprehensive income

	Note	2019	2018
<b>Items that are not reclassified subsequently to profit or loss</b>			
Revaluation of property, plant and equipment	3(a)	1,615	-
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Foreign currency translation differences for foreign operations	15	(43)	14
Foreign currency translation differences from presentation currency	15	28	(21)
Effective portion of changes in fair value of cash-flow hedges, net of tax	15	(37)	(44)
Fair value reserve included in other comprehensive income, net of tax	15	-	1
<b>Other comprehensive income for the year, net of tax</b>		<b>1,563</b>	<b>(50)</b>
<b>Total comprehensive income for the year</b>		<b>2,353</b>	<b>624</b>
<b>Profit (loss) attributable to:</b>			
Owners of the Company		401	329
Non-controlling interest	26	389	345
<b>Profit (loss) for the year</b>		<b>790</b>	<b>674</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		1,123	289
Non-controlling interest		1,230	335
<b>Total comprehensive income for the year</b>		<b>2,353</b>	<b>624</b>
<b>Basic and diluted earnings per share in EUR</b>	<b>25</b>	<b>1,24</b>	<b>1,02</b>

The notes presented on pages 56 to 188 form an integral part of these consolidated financial statements.



# Consolidated statement of financial position

As at 31 December 2019  
In millions of EUR ("MEUR")

	Note	31 December 2019	31 December 2018
<b>Assets</b>			
Property, plant and equipment	16	8,791	6,748
Intangible assets	17	132	120
Goodwill	17	102	101
Equity accounted investees	18	3	1
Restricted Cash		1	1
Financial instruments and other financial assets	30	15	18
Trade receivables and other assets	21	39	47
Prepayments and other deferrals		2	1
Deferred tax assets	19	17	5
<b>Total non-current assets</b>		<b>9,102</b>	<b>7,042</b>
Inventories	20	202	200
Trade receivables and other assets	21	428	367
Financial instruments and other financial assets	30	70	39
Contract assets	7	59	37
Prepayments and other deferrals		10	11
Tax receivables	23	11	28
Cash and cash equivalents	22	674	416
Restricted cash		3	4
<b>Total current assets</b>		<b>1,457</b>	<b>1,102</b>
<b>Total assets</b>		<b>10,559</b>	<b>8,144</b>
<b>Equity</b>			
Share capital	24	2,988	2,988
Share premium		8	8
Reserves	24	(3,226)	(3,932)
Retained earnings		641	675
<b>Total equity attributable to equity holders</b>		<b>411</b>	<b>(261)</b>
Non-controlling interest	26	2,371	1,495
<b>Total equity</b>		<b>2,782</b>	<b>1,234</b>

## Consolidated statement of financial position

	Note	31 December 2019	31 December 2018
<b>Liabilities</b>			
Loans and borrowings	27	4,105	4,022
Financial instruments and financial liabilities	30	161	80
Provisions	28	239	240
Deferred income	29	88	112
Contract liabilities	7	105	94
Deferred tax liabilities	19	1,478	972
Trade payables and other liabilities	31	7	12
<b>Total non-current liabilities</b>		<b>6,183</b>	<b>5,532</b>
Trade payables and other liabilities	31	373	363
Contract liabilities	7	62	74
Loans and borrowings	27	902	797
Financial instruments and financial liabilities	30	44	53
Provisions	28	83	65
Deferred income	29	25	10
Current income tax liability	15	105	16
<b>Total current liabilities</b>		<b>1,594</b>	<b>1,378</b>
<b>Total liabilities</b>		<b>7,777</b>	<b>6,910</b>
<b>Total equity and liabilities</b>		<b>10,559</b>	<b>8,144</b>

The notes presented on pages 56 to 188 form an integral part of these consolidated financial statements.

# Consolidated statement of changes in equity

For the year ended 31 December 2019  
In millions of EUR ("MEUR")

	Attributable to owners of the Company		
	Share capital	Share premium	Non-distributable reserves
Balance at 1 January 2019 (A)	2,988	8	1
Adjustment on initial application of IFRS 16 (net of tax)	-	-	-
Adjusted balance at the beginning of the period	2,988	8	1
Total comprehensive income for the year:			
Profit or loss (B)	-	-	-
Other comprehensive income:			
Foreign currency translation differences for foreign operations	-	-	-
Foreign currency translation differences from presentation currency	-	-	-
Fair value reserve included in other comprehensive income, net of tax	-	-	-
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-
Total other comprehensive income (C)	-	-	-
Total comprehensive income for the year (D) = (B + C)	-	-	-
Contributions by and distributions to owners:			
Transfer from non-distributable reserves	-	-	-
Dividends to equity holders	-	-	-
Total contributions by and distributions to owners (E)	-	-	-
Changes in ownership interests in subsidiaries:			
Effect of changes in shareholding on non-controlling interests	-	-	-
Effect of acquisitions through business combinations	-	-	-
Total changes in ownership interests in subsidiaries (F)	-	-	-
Total transactions with owners (G) = (E + F)	-	-	-
Balance at 31 December 2019 (H) = (A + D + G)	2,988	8	1

Consolidated statement of changes in equity

	Attributable to owners of the Company						
	Translation reserve	Revaluation reserve	Hedging reserve	Other capital reserves	Retained earnings	Total	Noncontrolling interest
							Total Equity
	(71)	(1)	(47)	(3,814)	675	(261)	1,495
	-	-	-	-	(1)	(1)	-
	(71)	(1)	(47)	(3,814)	674	(262)	1,495
	-	-	-	-	401	401	389
	(18)	-	-	-	-	(18)	(25)
	2	-	-	-	-	2	26
	-	791	-	-	-	791	824
	-	-	(53)	-	-	(53)	16
	(16)	791	(53)	-	-	722	841
	(16)	791	(53)	-	401	1,123	1,230
	-	(16)	-	-	16	-	-
	-	-	-	-	(450)	(450)	(354)
	-	(16)	-	-	(434)	(450)	(354)
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	(16)	-	-	(434)	(450)	(354)
	(87)	774	(100)	(3,814)	641	411	2,371

The notes presented on pages 56 to 188 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	Non-distributable reserves
<b>Balance at 1 January 2018 (A)</b>	<b>2,988</b>	<b>8</b>	<b>1</b>
Adjustment on initial application of IFRS 9 (net of tax)	-	-	-
Adjusted balance at the beginning of the period	<b>2,988</b>	<b>8</b>	<b>1</b>
<i>Total comprehensive income for the year:</i>			
<b>Profit or loss (B)</b>	-	-	-
<i>Other comprehensive income:</i>			
Foreign currency translation differences for foreign operations	-	-	-
Foreign currency translation differences from presentation currency	-	-	-
Fair value reserve included in other comprehensive income, net of tax	-	-	-
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-
<b>Total other comprehensive income (C)</b>	-	-	-
<b>Total comprehensive income for the year (D) = (B + C)</b>	-	-	-
<i>Contributions by and distributions to owners:</i>			
Dividends to equity holders	-	-	-
<b>Total contributions by and distributions to owners (E)</b>	-	-	-
<i>Changes in ownership interests in subsidiaries:</i>			
Effect of changes in shareholding on non-controlling interests	-	-	-
Effect of acquisitions through business combinations	-	-	-
<b>Total changes in ownership interests in subsidiaries (F)</b>	-	-	-
<b>Total transactions with owners (G) = (E + F)</b>	-	-	-
<b>Balance at 31 December 2018 (H) = (A + D + G)</b>	<b>2,988</b>	<b>8</b>	<b>1</b>

## Consolidated statement of changes in equity

	Attributable to owners of the Company						
	Translation reserve	Revaluation reserve	Hedging reserve	Other capital reserves	Retained earnings	Total	Noncontrolling interest
							Total Equity
<b>(65)</b>	<b>(1)</b>	<b>(13)</b>	<b>(3,814)</b>	<b>587</b>	<b>(309)</b>	<b>1,497</b>	<b>1,188</b>
-	-	-	-	(3)	(3)	(1)	(4)
<b>(65)</b>	<b>(1)</b>	<b>(13)</b>	<b>(3,814)</b>	<b>584</b>	<b>(312)</b>	<b>1,496</b>	<b>1,184</b>
-	-	-	-	329	329	345	674
(8)	-	-	-	-	(8)	22	14
2	-	-	-	-	2	(23)	(21)
-	-	-	-	-	-	1	1
-	-	(34)	-	-	(34)	(10)	(44)
<b>(6)</b>	-	<b>(34)</b>	-	-	<b>(40)</b>	<b>(10)</b>	<b>(50)</b>
<b>(6)</b>	-	<b>(34)</b>	-	<b>329</b>	<b>289</b>	<b>335</b>	<b>624</b>
-	-	-	-	(235)	(235)	(454)	(689)
-	-	-	-	(235)	(235)	(454)	(689)
-	-	-	-	(3)	(3)	39	36
-	-	-	-	-	-	79	79
-	-	-	-	(3)	(3)	118	115
-	-	-	-	(240)	(239)	(336)	(575)
<b>(71)</b>	<b>(1)</b>	<b>(47)</b>	<b>(3,814)</b>	<b>675</b>	<b>(261)</b>	<b>1,495</b>	<b>1,234</b>

The notes presented on pages 56 to 188 form an integral part of these consolidated financial statements.

# Consolidated statement of cash flows

For the year ended 31 December 2019  
In millions of EUR ("MEUR")

	Note	2019	2018
<b>OPERATING ACTIVITIES</b>			
Profit (loss) for the year		790	674
<i>Adjustments for:</i>			
Income taxes	15	295	254
Depreciation and amortisation	16, 17	403	331
Dividend income	14	(2)	(1)
Impairment losses on property, plant and equipment, intangible assets and financial assets	13	45	20
Non-cash (gain) from commodity derivatives for trading with electricity and gas, net		(9)	5
(Gain) on disposal of property, plant and equipment, investment property and intangible assets	12	(1)	(21)
Emission rights	10	41	22
Share of (profit) loss of equity accounted investees	18	(1)	-
Loss on financial instruments	14	4	7
Net interest expense	14	134	164
Change in allowance for impairment to trade receivables and other assets, write-offs	13	3	1
Change in provisions		(10)	(11)
Other finance fees, net	14	4	5
Negative goodwill	6	-	(5)
Foreign exchange (gains) losses, net		(22)	4
<b>Operating profit before changes in working capital</b>		<b>1,674</b>	<b>1,449</b>
Change in trade receivables and other assets		(79)	86
Change in inventories (including proceeds from sale)		(2)	22
Change in trade payables and other liabilities		26	(18)
Change in restricted cash		1	(4)
<b>Cash generated from (used in) operations</b>		<b>1,620</b>	<b>1,535</b>
Interest paid		(128)	(139)
Income taxes paid		(228)	(292)
<b>Cash flows generated from (used in) operating activities</b>		<b>1,264</b>	<b>1,104</b>
<b>INVESTING ACTIVITIES</b>			
Dividends received, other		2	2
Loans provided to the other entities		(3)	-
Proceeds (outflows) from sale (settlement) of financial instruments		5	(9)
Acquisition of property, plant and equipment, investment property and intangible assets	16, 17	(220)	(192)
Purchase of emission rights	17	(54)	(26)
Proceeds from sale of emission rights		7	-
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		3	50
Acquisition of associates and joint-ventures	6	(1)	-
Acquisition of subsidiaries, joint-ventures and associates, net of cash acquired	22, 6	-	(46)
Increase (decrease) in participation in existing subsidiaries, special purpose entities, joint-ventures and associates	6	-	(12)
<b>Cash flows from (used in) investing activities</b>		<b>(261)</b>	<b>(233)</b>

## Consolidated statement of cash flows

	Note	2019	2018
<b>FINANCING ACTIVITIES</b>			
Proceeds from loans received	27	1,056	1,705
Repayment of borrowings	27	(1,612)	(2,267)
Proceeds from bonds issued	27	1,170	750
Repayment of bonds issued	27	(499)	(598)
Finance fees paid from repayment of borrowings		(13)	(13)
Payment of lease liability	33	(13)	(5)
Loans provided to non-controlling shareholders as a prepayment for a dividend		(340)	(318)
Dividends paid		(494)	(291)
<b>Cash flows from (used in) financing activities</b>		<b>(745)</b>	<b>(1,037)</b>
<i>Net increase (decrease) in cash and cash equivalents</i>		<i>258</i>	<i>(166)</i>
<b>Cash and cash equivalents at beginning of the year</b>		<b>416</b>	<b>584</b>
Effect of exchange rate fluctuations on cash held		-	(2)
<b>Cash and cash equivalents at end of the year</b>		<b>674</b>	<b>416</b>

The notes presented on pages 56 to 188 form an integral part of these consolidated financial statements.



# Notes to the consolidated financial statements

## 1. Background

EP Infrastructure, a.s. (the “Parent Company” or the “Company” or “EPIF” or “infrastructure subholding”) is a joint-stock company, with its registered office at Pařížská 130/26, 110 00 Praha 1, Czech Republic. The Company was founded by Energetický a průmyslový holding, a.s. (“EPH”) on 6 December 2013 as at that time a subsidiary that will hold/consolidate investments in entities belonging to the energy segment of Energetický a průmyslový holding, a.s. and its subsidiaries (the “EPH Group”).

The infrastructure subholding was established to separate the strategic infrastructure energy assets from other business activities of the EPH Group.

The main activities of the EPIF Group are natural gas transmission, gas and power distribution and supply, gas storage and heat production and distribution.

The consolidated financial statements of the Company for the year ended 31 December 2019 include the statements of the Parent Company and its subsidiaries and the Group’s interests in associates and joint-ventures (together referred to as the “Group” or the “EPIF Group”). The Group entities are listed in Note 36 – Group entities.

The shareholders of the Company as at 31 December 2019 and 31 December 2018 were as follows:

	Interest in share capital		Voting rights
	MEUR	%	%
EPIF Investments a.s.	2,062	69.00	69.00
CEI INVESTMENTS S.a.r.l.	926	31.00	31.00
<b>Total</b>	<b>2,988</b>	<b>100.00</b>	<b>100.00</b>

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

- Daniel Křetinský (Chairman of the Board of Directors)
- Jiří Zrůst (Vice-chairman of the Board of Directors)
- Gary Wheatley Mazzotti (Vice-chairman of the Board of Directors)
- Stéphane Louis Brimont (Member of the Board of Directors)
- Marek Spurný (Member of the Board of Directors)
- Pavel Horský (Member of the Board of Directors)
- Milan Jalový (Member of the Board of Directors)

Information relating to the establishment of the parent company Energetický a průmyslový holding, a.s. and its shareholder structure was disclosed in the 2010 consolidated financial statements of Energetický a průmyslový holding, a.s. published on 20 May 2011.

As the Company was established by its parent Energetický a průmyslový holding, a.s. under the common control principle (refer to Note 3 – Significant Accounting Policies), the Company opted to present the contributed entities as if sold by EPH to the Company on the date when the respective entities were acquired by the EPH Group or were contributed to the EPH Group.

Under Czech law the non-cash contribution to the share capital must be valued by an independent valuation specialist. The difference between the value contributed to the statutory share capital as determined by the independent valuation specialist and net book value (after potential fair value adjustments recorded during the Purchase Price Allocation process when acquired by EPH) of the contributed entity as at the date when acquired or contributed by the parent company was presented as a pricing difference in Other capital reserves in Equity, rather than a goodwill from acquisition under IFRS 3.

## 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 8 April 2020.

### B BASIS OF MEASUREMENT

This is the first set of the Group’s financial statements where IFRS 16 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:

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

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

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

## C FUNCTIONAL AND PRESENTATION CURRENCY

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

## D USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with International Financial Reporting Standards requires the use of certain critical accounting estimates that affect the reported amounts of assets, liabilities, income and expenses. It also requires management to exercise judgment 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 of resulting in a material adjustment in the following years is included in the following notes:

- Notes 6 and 17 – Accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill;

- Note 7 – revenues;
- Note 16 – measurement of gas transmission pipelines at revalued amounts;
- Note 28 – Recognition and measurement of provisions;
- Notes 27, 30 and 34 – Valuation of loans and borrowings and financial instruments;
- Note 37 – 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 revenue 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 and IFRS 16 is not applicable to the gas pipeline, transportation, distribution networks and to gas storage
- Note 26 – information relating to assessment of the control over the subsidiaries
- Note 28 – recognition and measurement of provisions.

## E RECENTLY ISSUED ACCOUNTING STANDARDS

### I. NEWLY ADOPTED STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2019 THAT HAVE BEEN APPLIED IN PREPARING THE GROUP'S FINANCIAL STATEMENTS

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

#### IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. As a result, the Group, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities under representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

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

#### DEFINITION OF A LEASE

Previously, the Group determined at contract inception whether an arrangement was or contained a lease under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. The Group now assesses whether a contract is or contains a lease based on the new definition

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

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

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

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

#### LESSOR ACCOUNTING

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

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

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

#### LESSEE ACCOUNTING

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

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

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

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

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

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

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

In millions of EUR

	Land and buildings	Technical equipment, plant and machinery
Balance at 1 January 2019	41	43
Balance at 31 December 2019	42	45

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

#### SERVICE PART OF A LEASE PAYMENT

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

#### LEASE TERM

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

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

#### LEASE OF LAND OR LEASE OF LAND AND BUILDING

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

#### SUBLEASING

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

#### SALE AND LEASE BACK

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

#### RENEWAL OPTIONS

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

#### TRANSITION

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

The weighted average incremental borrowing rate applied to discount lease liabilities as at 1 January 2019 was 2.52 %.

In millions of EUR

	1 January 2019
Right-of-use assets presented in property, plant and equipment	84
Deferred tax asset	-
Lease liabilities presented in Loans and borrowings	85
Retained earnings	(1)

**IFRIC 23 UNCERTAINTY OVER INCOME TAX TREATMENTS  
(EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)**

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

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

**AMENDMENTS TO IAS 28 – LONG-TERM INTERESTS IN ASSOCIATES AND JOINT VENTURES  
(EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)**

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

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

**AMENDMENT TO IAS 19 – PLAN AMENDMENTS, CURTAILMENT OR SETTLEMENT  
(EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)**

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

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

**AMENDMENT TO IFRS 9 – PREPAYMENT FEATURES WITH NEGATIVE COMPENSATION  
(EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)**

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

Negative compensation arises where the contractual terms permit the borrower to prepay the instrument before its contractual maturity, but the prepayment amount could be less than unpaid

amounts of principal and interest. However, to qualify for amortised cost measurement, the negative compensation must be “reasonable compensation for early termination of the contract”.

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

**AMENDMENTS FROM THE 2015–2017 CYCLE OF ANNUAL IMPROVEMENTS  
(EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)**

The amendments affect the following standards: IFRS 3 and IFRS 11 (clarified that when obtaining control of a business that is joint operation, previously held interest in that business is remeasured; when obtaining joint control of a business that is joint operation, previously held interest 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 had no material impact on the Group's financial statements.

**II. STANDARDS NOT YET EFFECTIVE**

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

**AMENDMENTS TO REFERENCES TO THE CONCEPTUAL FRAMEWORK IN IFRS STANDARDS  
(EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020)**

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

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

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

**AMENDMENT TO IFRS 3 – DEFINITION OF A BUSINESS  
(EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020  
(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 amendments are not expected to have any material impact on the Group's financial statements.

**AMENDMENTS TO IAS 1 AND IAS 8 – DEFINITION OF MATERIAL  
(EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020)**

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

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

**IFRS 17 INSURANCE CONTRACTS  
(EFFECTIVE FOR ANNUAL REPORTING PERIODS BEGINNING ON OR AFTER 1 JANUARY 2021  
(NOT ADOPTED BY EU YET))**

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

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

**AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7 – INTEREST RATE BENCHMARK REFORM  
(EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020)**

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

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

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

### 3. Significant Accounting Policies

The EPIF Group has consistently applied the accounting policies set out below to all periods presented in these consolidated financial statements, except as described in note 2(e) and 3(a).

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

#### A CHANGE IN ACCOUNTING POLICIES

##### REVALUATION MODEL FOR PROPERTY, PLANT AND EQUIPMENT

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

as the secondary adjustment of the reference prices calculated on the cost base principles. As such, fair value of eustream's gas transmission assets will be of a primary importance in order to assess recoverability of costs, therefore we believe that presentation of revalued amounts of these assets is more relevant than reporting these assets at depreciated historical costs.

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

- Transmission pipelines are all made of steel and operate under high pressure whereas the gas distribution network pipelines are made of combination of steel and polyethylene while the vast majority of the gas networks runs under low pressure;
- Eustream's transmission pipeline system mainly consists of four to five parallel pipelines mostly 1200 or 1400 mm in diameter with an operating pressure of 7.35 MPa. The total length of the pipeline is app. 2,332 kilometres. In comparison, SPP - Distribúcia, a.s. (“SPPD”) owns over 33 thousand kilometres of gas distribution network. The difference is also in the number of pressure regulation stations – eustream operates just 5 while SPPD needs 1,732 to keep the gas distribution network functioning;
- The gas transmission pipeline is circumscribed by entry and exit points which are as follows:
  - Veľké Kapušany (entry/exit point to/from the gas transmission system in Ukraine);
  - Baumgarten (entry/exit point to/from the gas transmission system in Austria);
  - Lanžhot (entry/exit point to/from the gas transmission system in Czech Republic);
  - Budince (entry/exit point to/from the gas transmission system in Ukraine);

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

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

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

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

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

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

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

## B BASIS OF CONSOLIDATION

### I. SUBSIDIARIES

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

## II. EQUITY ACCOUNTED INVESTEEES

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. 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 the acquisition of subsidiaries from Energetický a průmyslový holding, a.s. or subsidiaries contributed to the share capital of the Company by Energetický a průmyslový holding, a.s. As these acquired or contributed entities were under common control of Energetický a průmyslový holding, a.s., they were therefore excluded from the 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 treated under the net book value presented in the consolidated financial statements of Energetický a průmyslový holding, a.s. (i.e. including historical goodwill less potential impairment) as at the date these entities were acquired by Energetický a průmyslový

holding, a.s. (acquisition date). 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. Pricing differences are presented in Other capital reserves in Equity. “Note 6 – Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates” summarises the effects of all common control transactions in both periods.

## VIII. 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 (see Note 3(a) – Pricing differences), the pricing differences are reclassified from other capital reserves to retained earnings at the date of the subsidiary’s disposal.

## C FOREIGN CURRENCY

### I. FOREIGN CURRENCY TRANSACTIONS

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

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

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

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

A summary of the main foreign exchange rates applicable for the reporting period is presented in Note 34 – Risk management policies and disclosures.

### II. TRANSLATION TO PRESENTATION CURRENCY

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

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

The consolidated financial statements are then translated into Euros. The assets and liabilities, including goodwill and fair value adjustments arising on consolidation,

are translated from Czech crowns into Euros at foreign exchange rate at the reporting date. The income and expenses are translated from Czech crowns into Euros using a foreign exchange rate that approximates the foreign exchange rate at the date of the transaction.

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

## D NON-DERIVATIVE FINANCIAL ASSETS

### I. CLASSIFICATION

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

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

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

Principal is the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. Loans and receivables which meet SPPI test and business model test are normally classified by the Group as financial asset at amortised cost.

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

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

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

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

A financial asset shall be measured at fair value through profit or loss unless it is measured at amortised cost or at fair value through other comprehensive income. The key type of financial assets measured at fair value through profit or loss by the Group are derivatives.

The Group may, at initial recognition, irrevocably designate a financial asset, that would be measured at amortized cost or at FVOCI, as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an “accounting mismatch”)



that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

## II. RECOGNITION

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

## III. MEASUREMENT

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

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

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

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

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

## IV. 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

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

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

## OTHER NON-TRADING DERIVATIVES

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

## SEPARABLE EMBEDDED DERIVATIVES

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

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

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

## CASH FLOW HEDGES AND FAIR VALUE HEDGES

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

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

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

In the case of a cash flow hedge, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument is recognised in profit or loss. If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then the hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss. In case the future transaction is still expected to occur then the balance remains in equity and is recycled to profit or loss when the transaction occurs.

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

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

## TRANSACTIONS WITH EMISSION RIGHTS AND ENERGY

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

In particular, forward purchases and sales settled by delivery of the underlying are considered to fall outside the scope of application of IFRS 9, when the contract concerned is considered to have been entered into as

part of the Group's normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

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

Contracts, which don't meet above mentioned conditions, fall under the scope of IFRS 9 and are accounted for in line with the requirements of IFRS 9.

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

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

## G CASH AND CASH EQUIVALENTS

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

## H INVENTORIES

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

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

Internally manufactured inventory and work in progress are initially stated at production costs. Production costs include direct costs (direct material, direct labour and other direct costs) and part of overhead directly attributable to inventory production (production overhead). The valuation is written down to net realisable value if the net realisable value is lower than production costs.

## I IMPAIRMENT

### I. NON-FINANCIAL ASSETS

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

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

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

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

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

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

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

## II. FINANCIAL ASSETS (INCLUDING TRADE AND OTHER RECEIVABLES AND CONTRACT ASSETS)

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

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

The Group measures loss allowances at an amount equal to lifetime ECLs except for those financial assets for which credit risk has not increased significantly since initial recognition. For trade receivables and contract assets, the Group has elected to measure loss allowances at an amount equal to lifetime ECLs.

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

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

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

- (b) the Group negotiates with the debtor about debt's restructuring (at the request of the debtor or the Company); or
- (c) the probability of default (PD) of the debtor increases by 20%; or
- (d) other material events occur which require individual assessment (e.g., development of external ratings of sovereign credit risk).

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

- (a) a financial asset or its significant part is overdue for more than 90 days; or
- (b) legal action has been taken in relation to the debtor which outcome or the actual process may have an impact on the debtor's ability to repay the debt; or
- (c) insolvency proceedings or similar proceedings under the foreign legislation have been initiated in respect of the debtor, which may lead to a declaration of bankruptcy and the application for the opening of this proceeding has not been refused or rejected or the proceedings have not been discontinued within 30 days of initiation ((b) and (c) are considered as "Default event"); or
- (d) the probability of default of the borrower increases by 100% compared to the previous rating (not relevant condition in ECL model for intercorporate loans and receivables); or
- (e) other material events occur which require individual assessment (e.g. development of external ratings of sovereign credit risk).

For the purposes of ECL calculation, the Group uses components needed for the calculation, namely probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). Forward-looking information means any macroeconomic factor projected for future, which has a significant impact on the development of credit losses ECLs are present

values of probability-weighted estimate of credit losses. The Group considers mainly expected growth of gross domestic product, reference interest rates, stock exchange indices or unemployment rates.

#### PRESENTATION OF LOSS ALLOWANCES

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

#### III. EQUITY ACCOUNTED INVESTEEES

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 (h) – Impairment). Opening balances are presented at net book values, which include adjustment 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 (m) – Finance income and costs). The cost also includes costs of dismantling and removing the items and restoring the site on which they are located.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at fair value until

construction or development is complete, at which time it is reclassified as investment property.

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

#### II. LEASED ASSETS

##### POLICY APPLICABLE BEFORE 1 JANUARY 2019

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as leases. Under 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 (h) – Impairment).

Minimum lease payments 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.

#### 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 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.

#### 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	50–100 years
• Buildings and structures	20–50 years
• Gas pipelines	30–70 years
• Machinery, electric generators, gas producers, turbines and drums	20–30 years
• Distribution network	10–30 years
• Machinery and equipment	4–20 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 (h) – 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 (h) – Impairment). Intangible assets with a definite useful life are amortised over their useful lives and are recorded at cost less accumulated amortisation (see below) and impairment losses (refer to accounting policy (h) – Impairment).

II. RESEARCH AND DEVELOPMENT

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

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

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

III. EMISSION RIGHTS

RECOGNITION AND MEASUREMENT

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

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 rights. The release of deferred income to a profit and loss account is performed on a quarterly basis; any subsequent update to the estimate of total annual pollutants is taken into account during the following monthly or quarterly assessment. Any disposals of certificates or changes in their carrying amount do not affect the manner in which grant income is recognised.

RECOGNITION, MEASUREMENT OF PROVISION

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

It is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. It means that the provision is measured based on the current carrying amount of the certificates on hand if sufficient certificates are owned to settle the current obligation, by using a FIFO method. The group companies identify (in each provision measurement period) which of the certificates are "marked for settling" the provision and this allocation is consistently applied.

Otherwise, if a shortfall of emission rights 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 (h) – 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 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 long-term employee benefits and service awards (including actuarial gains and losses) is 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. It is determined as the best estimate

of possible outcomes, stated based on a legal study and considering all risks and uncertainty.

## IV. PROVISION FOR EMISSION RIGHTS

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

## V. RESTRUCTURING

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

## VI. ASSET RETIREMENT OBLIGATION AND PROVISION FOR ENVIRONMENTAL REMEDIATION

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

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

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

Provisions for environmental remediation in respect of contaminated sites are recognised when the site

is contaminated and when there is a legal or constructive obligation to remediate the related site.

Rehabilitation provisions are recognised for the following restoration activities:

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

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

## 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.

## M REVENUE

### I. REVENUES FROM CONTRACTS WITH CUSTOMERS

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

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

The Group'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 recognized 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 recognized 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 recognized 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.

- *Non-cash considerations received*

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

### II. 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.

### III. GOVERNMENT GRANTS

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

the expenses the grant is intended to compensate are recognised. Grants that compensate the Company for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

### IV. REVENUES FROM FREE-OF-CHARGE PROPERTY

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

### V. RENTAL INCOME

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

## N 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.

## O 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.

#### P DIVIDENDS

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

#### Q 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.

#### R SEGMENT REPORTING

Due to the fact that the Group has 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.

## 4. Determination of fair values

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

### A PROPERTY, PLANT AND EQUIPMENT

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

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

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

with the cost approach, physical deterioration, plus technological and economic obsolescence of assets was acknowledged.

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

### B INTANGIBLE ASSETS

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

### C 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.

### D NON-DERIVATIVE FINANCIAL ASSETS

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets 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, excluding construction work in progress, but 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 held-to-maturity investments is determined for disclosure purposes only.

## E 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.

## F DERIVATIVES

The fair value of forward electricity and gas 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

The Group operates in four reportable segments under IFRS 8: Gas transmission, Gas and power distribution, Gas storage and Heat Infra.

Operating segments have been identified primarily on the basis of internal reports used by the EPH'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 ("EBITDA") and capital expenditures.

## I. GAS TRANSMISSION

The 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 Group assessed the contractual conditions in the ship-or-pay arrangement and concluded that the arrangement does not include a derivative as the contract does not give flexibility to the Group that always has 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 Asian 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 IFRS 16. 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 and the related shipping arrangements accounted for in accordance with IFRS 15.

## II. 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 Holding, a.s. (further “SSE”), Stredoslovenská distribučná, a.s. (further “SSD”), SPP - distribúcia, a.s. (further “SPPD”), and EP ENERGY TRADING, a.s.

The subsidiary companies SPPD 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 regulatory framework where 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 variable 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.

## III. 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 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.

## IV. HEAT INFRA

The Heat Infra segment owns and operates four large-scale combined heat and power plants (CHPs) in the Czech Republic mainly operated in highly efficient co-generation mode and represented primarily by: Elektrárny Opatovice, a.s., United Energy, a.s., Plzeňská teplárenská, a.s. and Pražská teplárenská a.s., which is operating the largest district heating system in the Czech Republic, supplying heat to the City of Prague, and three CHPs in Hungary, represented by Budapesti Erőmű Zrt., which is supplying the City of Budapest. The heat generated in its co-generation power plants is supplied mainly to retail customers through well maintained and robust district heating systems that the 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.

## V. OTHER

The Other operations represents mainly 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 Group also runs two solar power plants in Slovakia, and a biogas facility in Slovakia.

## VI. HOLDING ENTITIES

The Holding entities mainly represent 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. and Czech Gas Holding Investment B.V. The segment profit therefore primarily represents dividends received from its subsidiaries, finance expense and results from acquisition accounting or disposals of subsidiaries and associates.



## PROFIT OR LOSS

## FOR THE YEAR ENDED 31 DECEMBER 2019

In millions of EUR

	Gas trans- mission	Gas and power distribu- tion	Gas storage	Heat Infra	Total seg- ments	Other	Holding	Inter- segment elimina- tions	Con- solidated financial informa- tion
Sales: Energy	826	1,880	253	653	3,612	6	-	(181)	3,437
<i>external revenues</i>	794	1,862	222	554	3,432	5	-	-	3,437
<i>of which: Gas</i>	794	567	222	-	1,583	-	-	-	1,583
<i>Electricity</i>	-	1,295	-	137	1,432	5	-	-	1,437
<i>Heat</i>	-	-	-	391	391	-	-	-	391
<i>Coal</i>	-	-	-	26	26	-	-	-	26
<i>inter-segment revenues</i>	32	18	31	99	180	1	-	(181)	-
Sales: Other	-	7	-	17	24	6	-	-	30
<i>external revenues</i>	-	7	-	17	24	6	-	-	30
<i>inter-segment revenues</i>	-	-	-	-	-	-	-	-	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net	-	9	-	-	9	-	-	-	9
<b>Total sales</b>	<b>826</b>	<b>1,896</b>	<b>253</b>	<b>670</b>	<b>3,645</b>	<b>12</b>	<b>-</b>	<b>(181)</b>	<b>3,476</b>
Cost of sales: Energy	(48)	(1,207)	(29)	(371)	(1,655)	-	-	179	(1,476)
<i>external cost of sales</i>	(46)	(1,045)	(28)	(357)	(1,476)	-	-	-	(1,476)
<i>inter-segment cost of sales</i>	(2)	(162)	(1)	(14)	(179)	-	-	179	-
Cost of sales: Other	-	(1)	(1)	(21)	(23)	(4)	-	-	(27)
<i>external cost of sales</i>	-	(1)	(1)	(21)	(23)	(4)	-	-	(27)
<i>inter-segment cost of sales</i>	-	-	-	-	-	-	-	-	-
Personnel expenses	(30)	(104)	(31)	(69)	(234)	(2)	(4)	-	(240)
Depreciation and amortisation	(130)	(159)	(29)	(82)	(400)	(3)	-	-	(403)
Repairs and maintenance	(1)	(4)	-	(10)	(15)	-	-	-	(15)
Emission rights, net	-	-	-	(41)	(41)	-	-	-	(41)
Taxes and charges	(1)	(1)	(4)	(3)	(9)	-	-	-	(9)
Other operating income	3	17	-	36	56	-	-	-	56
Other operating expenses	(17)	(89)	(14)	(26)	(146)	(2)	(3)	2	(149)
Own work, capitalized	4	20	1	10	35	-	1	-	36
<b>Operating profit</b>	<b>606</b>	<b>368</b>	<b>146</b>	<b>93</b>	<b>1,213</b>	<b>1</b>	<b>(6)</b>	<b>-</b>	<b>1,208</b>

	Gas trans- mission	Gas and power distribu- tion	Gas storage	Heat Infra	Total seg- ments	Other	Holding	Inter- segment elimina- tions	Con- solidated financial informa- tion
Finance income	2	-	3	7	12	-	*862	*(854)	20
<i>external finance revenues</i>	2	-	1	3	6	-	14	-	20
<i>inter-segment finance revenues</i>	-	-	2	4	6	-	*848	*(854)	-
Finance expense	(45)	(18)	(8)	(14)	(85)	(1)	(121)	68	(140)
Profit (loss) from derivative financial instruments	2	(2)	(3)	(7)	(10)	-	(2)	8	(4)
Share of profit (loss) of equity accounted investees, net of tax	-	-	-	-	-	1	-	-	1
Gain (loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-	-	-	-	-	-	-	-
<b>Profit (loss) before income tax</b>	<b>565</b>	<b>348</b>	<b>138</b>	<b>79</b>	<b>1,130</b>	<b>1</b>	<b>*733</b>	<b>*(779)</b>	<b>1,085</b>
Income tax expenses	(153)	(87)	(35)	(16)	(291)	-	(4)	-	(295)
<b>Profit (loss) for the year before discontinued operations</b>	<b>412</b>	<b>261</b>	<b>103</b>	<b>63</b>	<b>839</b>	<b>1</b>	<b>*729</b>	<b>*(779)</b>	<b>790</b>
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-	-
<b>Profit (loss) for the year</b>	<b>412</b>	<b>261</b>	<b>103</b>	<b>63</b>	<b>839</b>	<b>1</b>	<b>*729</b>	<b>*(779)</b>	<b>790</b>

\* EUR 781 million is attributable to intra-group dividends primarily recognised by Slovak Gas Holding B.V., Czech Gas Holding Investment B.V., SPP Infrastructure, a.s. and EP Energy, a.s.

## Other financial information:

EBITDA <sup>(1)</sup>	736	527	175	175	1,613	4	(6)	-	1,611
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(1) EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortisation of intangible assets (negative goodwill not included, if applicable).  
For EBITDA reconciliation to the closest IFRS measure explanation see below.

## FOR THE YEAR ENDED 31 DECEMBER 2018

In millions of EUR

	Gas trans- mission	Gas and power distribu- tion	Gas storage	Heat Infra	Total seg- ments	Other	Holding	Inter- segment elimina- tions	Con- solidated financial informa- tion
Sales: Energy	752	1,760	192	582	3,286	6	-	(239)	3,053
<i>external revenues</i>	658	1,742	160	487	3,047	6	-	-	3,053
<i>of which: Gas</i>	658	636	160	-	1,454	-	-	-	1,454
<i>Electricity</i>	-	1,106	-	117	1,223	6	-	-	1,229
<i>Heat</i>	-	-	-	350	350	-	-	-	350
<i>Coal</i>	-	-	-	20	20	-	-	-	20
<i>inter-segment revenues</i>	94	18	32	95	239	-	-	(239)	-
Sales: Other	-	8	-	15	23	5	-	-	28
<i>external revenues</i>	-	8	-	15	23	5	-	-	28
<i>inter-segment revenues</i>	-	-	-	-	-	-	-	-	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net	-	4	-	-	4	-	-	-	4
<b>Total sales</b>	<b>752</b>	<b>1,772</b>	<b>192</b>	<b>597</b>	<b>3,313</b>	<b>11</b>	<b>-</b>	<b>(239)</b>	<b>3,085</b>
Cost of sales: Energy	(44)	(1,187)	(13)	(337)	(1,581)	-	-	239	(1,342)
<i>external cost of sales</i>	(41)	(970)	(11)	(320)	(1,342)	-	-	-	(1,342)
<i>inter-segment cost of sales</i>	(3)	(217)	(2)	(17)	(239)	-	-	239	-
Cost of sales: Other	-	(1)	-	(23)	(24)	(4)	-	-	(28)
<i>external cost of sales</i>	-	(1)	-	(23)	(24)	(4)	-	-	(28)
<i>inter-segment cost of sales</i>	-	-	-	-	-	-	-	-	-
Personnel expenses	(30)	(97)	(21)	(61)	(209)	(1)	(4)	-	(214)
Depreciation and amortisation	(84)	(153)	(21)	(70)	(328)	(3)	-	-	(331)
Repairs and maintenance	(1)	(4)	-	(5)	(10)	-	-	-	(10)
Emission rights, net	-	-	-	(22)	(22)	-	-	-	(22)
Negative goodwill	-	-	5	-	5	-	-	-	5
Taxes and charges	(1)	(1)	(3)	(3)	(8)	-	-	-	(8)
Other operating income	1	15	-	22	38	<sup>(2)</sup> 16	1	(1)	54
Other operating expenses	(17)	(56)	(16)	(37)	(126)	(2)	(3)	1	(130)
Own work, capitalized	3	20	-	17	40	-	-	-	40
<b>Operating profit</b>	<b>579</b>	<b>308</b>	<b>123</b>	<b>78</b>	<b>1,088</b>	<b>17</b>	<b>(6)</b>	<b>-</b>	<b>1,099</b>

	Gas trans- mission	Gas and power distribu- tion	Gas storage	Heat Infra	Total seg- ments	Other	Holding	Inter- segment elimina- tions	Con- solidated financial informa- tion
Finance income	1	2	5	2	10	-	*1,235	*(1,239)	6
<i>external finance revenues</i>	1	2	1	-	4	-	2	-	6
<i>inter-segment finance revenues</i>	-	-	4	2	6	-	*1,233	*(1,239)	-
Finance expense	(45)	(17)	(7)	(19)	(88)	(1)	(150)	69	(170)
Profit (loss) from derivative financial instruments	(1)	(2)	(1)	(1)	(5)	-	(2)	-	(7)
Share of profit (loss) of equity accounted investees, net of tax	-	-	-	-	-	-	-	-	-
Gain (loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-	-	-	-	-	-	-	-
<b>Profit (loss) before income tax</b>	<b>534</b>	<b>291</b>	<b>120</b>	<b>60</b>	<b>1,005</b>	<b>16</b>	<b>*1,077</b>	<b>*(1,170)</b>	<b>928</b>
Income tax expenses	(142)	(75)	(30)	(10)	(257)	-	3	-	(254)
<b>Profit (loss) for the year</b>	<b>392</b>	<b>216</b>	<b>90</b>	<b>50</b>	<b>748</b>	<b>16</b>	<b>*1,080</b>	<b>*(1,170)</b>	<b>674</b>

\* EUR 1,170 million is attributable to intra-group dividends primarily recognised by Slovak Gas Holding B.V., Czech Gas Holding Investment B.V., SPP Infrastructure, a.s. and EP Energy, a.s.

Other financial information:									
EBITDA <sup>(1)</sup>	663	461	139	148	1,411	20	(6)	-	1,425

(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.

(2) This position includes gain on disposal of unused non-operating fixed assets (mainly land plots) totalling EUR 15 million.

**EBITDA RECONCILIATION TO THE CLOSEST IFRS MEASURE**

It must be noted that EBITDA is not an indicator that is defined under IFRS. This indicator 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 indicator as derived in accordance with IFRS. This non-IFRS indicator should not be used in isolation. This indicator may not be comparable to similarly titled indicators used by other companies.

**FOR THE YEAR ENDED 31 DECEMBER 2019**

In millions of EUR

	Gas transmission	Gas and power distribution	Gas storage	Heat Infra	Total segments	Other	Holding	Inter-segment eliminations	Consolidated financial information
<b>Profit from operations</b>	<b>606</b>	<b>368</b>	<b>146</b>	<b>93</b>	<b>1,213</b>	<b>1</b>	<b>(6)</b>	<b>-</b>	<b>1,208</b>
Depreciation and amortisation	130	159	29	82	400	3	-	-	403
Negative goodwill	-	-	-	-	-	-	-	-	-
<b>EBITDA</b>	<b>736</b>	<b>527</b>	<b>175</b>	<b>175</b>	<b>1,613</b>	<b>4</b>	<b>(6)</b>	<b>-</b>	<b>1,611</b>

**FOR THE YEAR ENDED 31 DECEMBER 2018**

In millions of EUR

	Gas transmission	Gas and power distribution	Gas storage	Heat Infra	Total segments	Other	Holding	Inter-segment eliminations	Consolidated financial information
<b>Profit from operations</b>	<b>579</b>	<b>308</b>	<b>123</b>	<b>78</b>	<b>1,088</b>	<b>17</b>	<b>(6)</b>	<b>-</b>	<b>1,099</b>
Depreciation and amortisation	84	153	21	70	328	3	-	-	331
Negative goodwill	-	-	(5)	-	(5)	-	-	-	(5)
<b>EBITDA</b>	<b>663</b>	<b>461</b>	<b>139</b>	<b>148</b>	<b>1,411</b>	<b>20</b>	<b>(6)</b>	<b>-</b>	<b>1,425</b>

**SEGMENT ASSETS AND LIABILITIES****FOR THE YEAR ENDED 31 DECEMBER 2019**

In millions of EUR

	Gas transmission <sup>(2)</sup>	Gas and power distribution	Gas storage	Heat Infra	Total reportable segments	Other	Holding	Inter-segment eliminations	Consolidated financial information
Reportable segment assets	4,766	4,155	911	1,232	11,034	35	1,616	(2,126)	10,559
Reportable segment liabilities	(2,607)	(1,576)	(530)	(465)	(5,178)	(34)	(4,691)	2,126	(7,777)
Additions to tangible and intangible assets <sup>(1)</sup>	72	87	12	127	298	-	-	-	298
Additions to tangible and intangible assets (excl. emission rights, right-of-use assets and goodwill)	69	82	11	58	220	-	-	-	220
Equity accounted investees	-	2	-	1	3	-	-	-	3

(1) This balance includes additions to right of use assets, emission rights and goodwill.  
(2) Gas pipelines held by Gas transmission segment were revalued to their Fair value in 2019.

**FOR THE YEAR ENDED 31 DECEMBER 2018**

In millions of EUR

	Gas transmission	Gas and power distribution	Gas storage	Heat Infra	Total reportable segments	Other	Holding	Inter-segment eliminations	Consolidated financial information
Reportable segment assets	2,418	3,963	979	1,263	8,623	37	1,824	(2,340)	8,144
Reportable segment liabilities	(1,915)	(1,492)	(625)	(548)	(4,580)	(39)	(4,631)	2,340	(6,910)
Additions to tangible and intangible assets <sup>(1)</sup>	53	81	6	90	230	1	-	-	231
Additions to tangible and intangible assets (excl. emission rights and goodwill)	51	81	6	53	191	1	-	-	192
Equity accounted investees	-	1	-	-	1	-	-	-	1

(1) This balance includes additions to emission rights and goodwill.



### INFORMATION ABOUT GEOGRAPHICAL AREAS

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

#### FOR THE YEAR ENDED 31 DECEMBER 2019

In millions of EUR

	Czech Republic	Slovakia	Other	Total
Property, plant and equipment	874	7,700	217	8,791
Intangible assets	169	48	17	234
<b>Total</b>	<b>1,043</b>	<b>7,748</b>	<b>234</b>	<b>9,025</b>

In millions of EUR

	Czech Republic	Slovakia	Hungary	Other	Total
Sales: Gas	195	985	119	284	1,583
Sales: Electricity	360	924	41	112	1,437
Sales: Heat	314	-	77	-	391
Sales: Coal	16	1	-	9	26
Sales: Other	22	8	-	-	30
Gain (loss) from commodity derivatives for trading with electricity and gas, net	9	-	-	-	9
<b>Total</b>	<b>916</b>	<b>1,918</b>	<b>237</b>	<b>405</b>	<b>3,476</b>

The geographical area “Other” comprises income items primarily from United Kingdom and Ukraine.

#### FOR THE YEAR ENDED 31 DECEMBER 2018

In millions of EUR

	Czech Republic	Slovakia	Other	Total
Property, plant and equipment	859	5,666	223	6,748
Intangible assets	146	67	8	221
<b>Total</b>	<b>1,005</b>	<b>5,733</b>	<b>231</b>	<b>6,969</b>

In millions of EUR

	Czech Republic	Slovakia	Hungary	Other	Total
Sales: Gas	224	1,125	-	105	1,454
Sales: Electricity	306	811	29	83	1,229
Sales: Heat	284	-	67	-	350
Sales: Coal	4	3	-	12	20
Sales: Other	20	8	-	-	28
Gain (loss) from commodity derivatives for trading with electricity and gas, net	4	-	-	-	4
<b>Total</b>	<b>842</b>	<b>1,947</b>	<b>96</b>	<b>200</b>	<b>3,085</b>

The geographical area “Other” comprises income items primarily from Hungary, United Kingdom and Ukraine.

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

As described in the Note 1 – Background, the Company was established on 6 December 2013 by the parent company Energetický a průmyslový holding, a.s.

On 24 January 2014 EPIF acquired from EPH 100% shares in EP Energy, a.s. (“EPE”) for EUR 1,500 million, on 23 March 2016 acquired 100% share in EPH Gas Holding B.V. (“EPH Gas”) for EUR 3,235 million and on 30 March 2016 acquired 100% share in Czech Gas Holding Investment B.V. (“CGHI”) for EUR 356 million. For the purpose of preparation of these consolidated financial statements, the entities acquired as part of acquisition of shares in EPE, CGHI and EPH Gas are presented using one of the following two methods:

1. If the acquired entities were previously acquired by the parent company Energetický a průmyslový holding, a.s. under the scope of IFRS 3, the Company presents the acquired entities in its consolidated financial statements under the scope of IFRS 3 from the original date of acquisition by the parent company Energetický a průmyslový holding, a.s. From the view of the EPIF Group consolidated financial statements, these transactions are reflected as if carried out directly by the Company, including all goodwill or negative goodwill impacts. The consideration paid or payable by the EPIF Group is presented as a decrease of Other capital reserves in Equity.
2. If the acquired entities were previously acquired by the parent company Energetický a průmyslový holding, a.s. in a transaction under common control, the Company presents the acquired entities in its consolidated financial statements as common control acquisition from the original date of acquisition by the parent company Energetický a průmyslový holding, a.s. The difference between the value contributed to the equity of the Group as determined by the independent valuation specialist and the net book value of the contributed entity as at the date when contributed to EPH was presented as a pricing difference in Other capital reserves in Equity.

### A ACQUISITIONS AND STEP-ACQUISITIONS

#### I. 31 DECEMBER 2019

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

#### II. 31 DECEMBER 2018

In millions of EUR

	Date of acquisition	Consideration transferred	Cash paid	Other consideration	Equity interest acquired %	Equity interest after acquisition %
<b>New subsidiaries</b>						
Plzeňská teplárenská, a.s.	31/10/2018	43	-	<sup>(1)</sup> 43	<sup>(4)</sup> 35	35
NAFTA Germany GmbH and its subsidiaries	31/12/2018	113	118	<sup>(2)</sup> (5)	100	<sup>(3)</sup> 100
		<b>156</b>	<b>118</b>	<b>38</b>	<b>-</b>	<b>-</b>

- (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) Transfer tax from acquisition paid by previous owner.  
(3) Effective ownership of EPIF group is 69%.  
(4) Including management control.

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 Group would have a 35% interest and management control. Prior to the merger, the Group made a cash contribution of EUR 23 million (CZK 604 million) to the entity PE, as a result the NAV of PE amounted to EUR 66 million as at the date of the merger. The Group subsequently contributed 100% of shares of PE and the City of Pilsen contributed 100% of shares in PLTEP to PLTEP as the successor company. The consideration transferred is therefore calculated as 65% of NAV of PE which amounted to EUR 43 million as at the date of merger.

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

#### ACQUISITION OF NON-CONTROLLING INTEREST

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

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

On 10 October 2018 the Group acquired remaining 2% shares in PT měření, a.s. and 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.

On 12 October 2018 the Group acquired 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. The total squeeze out costs were EUR 9 million.

All these transaction resulted in derecognition of non-controlling interest in total amount of EUR 4 million.

**B EFFECT OF ACQUISITIONS****I. 31 DECEMBER 2019**

There were no significant acquisitions or step-acquisitions in 2019.

**II. 31 DECEMBER 2018**

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date of Plzeňská teplárenská, a.s. and NAFTA Germany GmbH and its subsidiaries are provided in the following table.

In millions of EUR

	Carrying amount <sup>(1)</sup>	Fair value adjustment	2018 Total <sup>(1)</sup>
Property, plant, equipment, land, buildings	303	13	316
Intangible assets	3	1	4
Deferred tax assets	6	6	12
Inventories	3	-	3
Trade receivables and other assets	13	-	13
Financial instruments – assets	2	2	4
Cash and cash equivalents	75	-	75
Provisions	(87)	(22)	(109)
Deferred tax liabilities	(10)	(10)	(20)
Loans and borrowings	(33)	-	(33)
Trade payables and other liabilities	(25)	-	(25)
<b>Net identifiable assets and liabilities</b>	<b>250</b>	<b>(10)</b>	<b>240</b>
Non-controlling interest			(79)
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(5)
<b>Cost of acquisition</b>			<b>156</b>
Consideration paid, satisfied in cash (A)			118
Consideration, other			38
<b>Total consideration transferred</b>			<b>156</b>
Less: Cash acquired (B)			75
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>(43)</b>

(1) Represents values at 100% share.

(2) Consideration other is presented mainly by the 65% of net book value of previously recognized share in Plzeňská energetika a.s.

The purchase price allocation process was completed in 2019 and no significant differences between final figures and provisional figures, initially recorded for the year ended 31 December 2018, were noted.

**C BUSINESS COMBINATIONS – ACQUISITION ACCOUNTING 2019 AND 2018**

The acquiree's identifiable assets, liabilities and contingent liabilities were recognised and measured at their fair values at the acquisition date by the Group (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 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.

There were no significant acquisitions or step-acquisitions in 2019.

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	Deferred tax assets	Financial instruments – assets	Provisions	Deferred tax liabilities	Total net effect on financial position
<b>Subsidiary</b>							
Plzeňská teplárenská, a.s.	(63)	1	6	2	(16)	10	(60)
NAFTA Germany GmbH	76	-	-	-	(6)	(20)	50
<b>Total</b>	<b>13</b>	<b>1</b>	<b>6</b>	<b>2</b>	<b>(22)</b>	<b>(10)</b>	<b>(10)</b>

**D DISPOSAL OF INVESTMENTS IN 2019 AND 2018****I. 31 DECEMBER 2019**

During the year 2019 the Group didn't dispose any of its investment.

**II. 31 DECEMBER 2018**

During the year 2018 the Group didn't dispose any of its investment.



## 7. Sales

In millions of EUR

	2019	2018
<b>Sales: Energy</b>		
Gas	1,583	1,454
Electricity	1,437	* 1,229
Heat	391	350
Coal	26	20
<b>Total Energy</b>	<b>3,437</b>	<b>*3,053</b>
<b>Sales: Other</b>	<b>30</b>	<b>28</b>
<b>Total revenues from customers</b>	<b>3,467</b>	<b>*3,081</b>
<b>Gain (loss) from commodity derivatives for trading with electricity and gas, net</b>	<b>9</b>	<b>*4</b>
<b>Total</b>	<b>3,476</b>	<b>*3,085</b>

\* For improved presentation of the effect of derivatives on revenues and cost of sales the comparative amounts for the year ended 31 December 2018 were adjusted by EUR 21 million (Decrease of Sales Electricity and decrease of Cost of sold electricity) and EUR 27 million (Decrease of Sales Electricity and increase of Gain (loss) from commodity derivatives for trading with electricity and gas, net).

The presentation of the effect of commodity cash flow hedge on revenues and cost of sales was adjusted in comparative amounts as at 31 December 2018.

The amount of EUR 426 million (31 December 2018: EUR 425 million) from Sales: Energy (gas) relates to distribution of gas. The amount of EUR 358 million (31 December 2018: EUR 277 million) from Sales: Energy (electricity) relates to distribution of electricity.

Other sales are represented mainly by sales of gypsum, revenues from transportation and disposal costs, sewage sludge incineration and restoration services to third parties.

In 2019 no revenue was recognised from performance obligations satisfied (or partially satisfied) in previous periods.

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

Contract assets and liabilities primarily relate to not invoiced part of fulfilled performance obligation, received payments for services and goods where control over the assets was not transferred to customer and deferred income related to grid connection fees collected and free-of-charge non-current assets transferred from customers.

Several items of gas equipment (typically connection terminals) were obtained “free of charge” from developers and from local authorities (this does not represent a grant, because in such cases the local

Sales

authorities act in the role of a developer). This equipment was recorded as property, plant, and equipment at the costs incurred by the developers and local authorities with a corresponding amount recorded as contract liability as receipt of the free of charge property is related to obligation to connect the customers to the grid. These costs approximate the fair value of the obtained assets. This contract liability is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets acquired free of charge.

In millions of EUR

	31 December 2019	31 December 2018
<b>Contract assets</b>	<b>59</b>	<b>37</b>
Current	59	37
Non-current	-	-
<b>Contract liabilities</b>	<b>167</b>	<b>168</b>
Current	62	74
Non-current	105	94

The amount of EUR 74 million recognised in current contract liabilities at the beginning of the period has been recognised as revenue during the year 2019.

## 8. Cost of sales

In millions of EUR

	2019	2018
<b>Cost of Sales: Energy</b>		
Cost of sold electricity	930	*842
Consumption of energy	289	257
Consumption of coal and other material	122	112
Cost of sold gas and other energy products	100	105
Other cost of sales	35	26
<b>Total Energy</b>	<b>1,476</b>	<b>*1,342</b>
<b>Cost of Sales: Other</b>		
Other cost of goods sold	10	8
Consumption of material	9	12
Consumption of energy	4	4
Other cost of sales	4	4
<b>Total Other</b>	<b>27</b>	<b>28</b>
<b>Total</b>	<b>1,503</b>	<b>*1,370</b>

\* For improved presentation of the effect of commodity cash flow hedge on revenues and cost of sales the comparative amounts for the year ended 31 December 2018 were adjusted by EUR 21 million (Decrease of Sales Electricity and decrease of Cost of sold electricity).

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 overhead (particularly personnel expenses, depreciation and amortisation, repairs and maintenance, emission rights, taxes and charges etc.).

## 9. Personnel expenses

In millions of EUR

	2019	2018
Wages and salaries	171	144
Compulsory social security contributions	57	52
Board members' remuneration (including boards of subsidiaries)	-	5
Expenses related to employee benefits (IAS 19)	-	2
Other social expenses	12	11
<b>Total</b>	<b>240</b>	<b>214</b>

The average number of employees during 2019 was 6,458 (2018: 6,593), of which 127 were executives (2018: 128).

## 10. Emission rights

In millions of EUR

	2019	2018
Profit from sale of emission rights for trading	5	-
Deferred income (grant) released to profit and loss	21	14
Creation of provision for emission rights	(67)	(36)
Use of provision for emission rights	39	30
Consumption of emission rights	(39)	(30)
<b>Total</b>	<b>(41)</b>	<b>(22)</b>

The increase of emission rights cost is caused by the increase of average price of 1 piece of emission allowance from 16.26 EUR/piece in 2018 to 24.39 EUR/piece in 2019.

The Ministries of the Environment of the Czech Republic, Slovakia and Hungary 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., Stredoslovenská energetika, a.s., NAFTA a.s., SPP Storage, s.r.o., eustream, a.s. and Budapesti Erőmű Zrt.

## 11. Taxes and charges

In millions of EUR

	2019	2018
Property tax and real estate transfer tax	2	2
Other taxes and charges expenses	7	6
<b>Total</b>	<b>9</b>	<b>8</b>

## 12. Other operating income

In millions of EUR

	2019	2018
Decentralization and cogeneration fee <sup>(1)</sup>	16	4
Property acquired free-of-charge and fees from customers	7	6
Rental income	6	6
Compensation from insurance companies	5	3
Consulting fees	5	4
Waste disposal	3	-
Contractual penalties	2	3
Profit from disposal of tangible and intangible assets	1	<sup>(2)</sup> 21
Profit from sale of material	1	1
Other	10	6
<b>Total</b>	<b>56</b>	<b>54</b>

(1) Decentralization and cogeneration fees relate to subsidy for producing electricity in cogeneration with heat. This revenue does not met the criteria of revenues from customers as mentioned in Note 3(n)

(2) 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 and sale of PT Real Estate Group in amount of EUR 15 million representing not business but a land and not utilized non-production buildings.

## 13. Other operating expenses

In millions of EUR

	2019	2018
Impairment losses	48	21
<i>Of which relates to: Property, plant and equipment and intangible assets</i>	<sup>(1)</sup> 45	<sup>(2)</sup> 20
<i>Trade receivables and other assets</i>	3	1
Outsourcing and other administration fees	29	26
Information technologies costs	12	11
Consulting expenses	11	11
Transport expenses	10	8
Rent expenses	9	20
Office equipment and other material	8	8
Advertising expenses	4	3
Insurance expenses	4	3
Gifts and sponsorship	2	2
Contractual penalties	2	1
Communication expenses	1	1
Security services	1	1
Training, courses, conferences	1	1
Change in provisions (continuing operations), net	(9)	(5)
Shortages and damages	-	1
Other	16	17
<b>Total for continuing operations</b>	<b>149</b>	<b>130</b>

- (1) The amount includes impairment of tangible assets of EUR 39 million recorded by SPP - distribúcia, a.s. ("SPPD"). Since 1 January 2020 SPPD has been recognizing property, plant and equipment ("PPE") used for natural gas distribution under the IAS 16 Revaluation model (for the Group reporting purposes). The effect on revaluation reserve in equity as of 1 January 2020 is expected to be positive as a result of this PPE revaluation. As part of this exercise, in 2019 SPPD performed detailed evaluation of the PPE with the aim to identify non-performing assets. During this activity SPPD compared the net book value of its individual distribution assets with estimated fair value. For certain items a negative difference was identified, i.e. estimated fair value was lower than the net book value. For such items SPPD recorded an impairment charge, in total EUR 39 million.
- (2) The amount includes impairment of tangible assets in the amount of EUR 7 million and impairment of goodwill of EUR 3 million, both 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.

No material research and development expenses were recognised in profit and loss for the year ended 31 December 2019 and 31 December 2018.

### FEES PAYABLE TO STATUTORY AUDITORS

In millions of EUR

	2019	2018
Statutory audits	1	1
Other attestation services	-	-
<b>Total</b>	<b>1</b>	<b>1</b>

### Other operating expenses

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 following services:

- IT advisory
- Transfer pricing
- Comfort letter
- Tax advisory
- Management consulting advisory
- Agreed-upon-procedures
- Sustainability report
- Financial review

## 14. Finance income and expense, profit (loss) from financial instruments

### RECOGNISED IN PROFIT OR LOSS

In millions of EUR

	2019	2018
Dividend income	2	1
Interest income	1	1
Fee and commission income	1	-
Net foreign exchange profit	16	4
<b>Finance income</b>	<b>20</b>	<b>6</b>
Interest expense	(132)	(162)
Interest expense from unwind of provision discounting	(3)	(3)
Fees and commissions expense for other financing services	(5)	(5)
<b>Finance costs</b>	<b>(140)</b>	<b>(170)</b>
Profit (loss) from hedging derivatives	(1)	(3)
Profit (loss) from currency derivatives for trading <sup>(1)</sup>	(2)	(3)
Impairment losses from financial assets	(1)	(1)
<b>Profit (loss) from financial instruments</b>	<b>(4)</b>	<b>(7)</b>
<b>Net finance income (expense) recognised in profit or loss for continuing operations</b>	<b>(124)</b>	<b>(171)</b>

- (1) All derivatives are for the risk management purposes.



## 15. Income tax expenses

### INCOME TAXES RECOGNISED IN PROFIT OR LOSS

In millions of EUR

	2019	2018
<i>Current taxes:</i>		
Current year	(336)	(268)
Adjustment for prior periods	1	-
<b>Total current taxes</b>	<b>(335)</b>	<b>(268)</b>
<i>Deferred taxes:</i>		
Origination and reversal of temporary differences <sup>(1)</sup>	40	14
<b>Total deferred taxes</b>	<b>40</b>	<b>14</b>
<b>Total income taxes (expense) benefit recognised in profit or loss for continuing operations</b>	<b>(295)</b>	<b>(254)</b>

(1) For details refer to Note 19 – Deferred tax assets and liabilities.

Balance of current income tax liability in amount of EUR 105 million (2018: EUR 16 million) is mainly represented by eustream, a.s. of EUR 75 million (2018: EUR 0 million) and NAFTA Germany GmbH of EUR 17 million (2018: EUR 12 million).

Deferred taxes are calculated using currently enacted tax rates expected to apply when the asset is realised or the liability settled. According to Czech legislation the corporate income tax rates is 19% for fiscal year 2019 (19% for 2018) and Hungarian legislation the corporate income tax rate is 9% for fiscal year 2019 (9% for 2018). The Slovak corporate income tax rate is 21% for fiscal year 2019 (21% for 2018). Current year income tax line includes also special sector tax effective in Slovakia and Hungary.

### INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

In millions of EUR

	2019	
	Gross	Income tax
Foreign currency translation differences for foreign operations	(43)	-
Foreign currency translation differences from presentation currency	28	-
Effective portion of changes in fair value of cash-flow hedges	(48)	11
Revaluation reserve included in other comprehensive income	2,166	(551)
<b>Total</b>	<b>2,103</b>	<b>(540)</b>

### Income tax expenses

In millions of EUR

	2018	
	Gross	Income tax
Foreign currency translation differences for foreign operations	14	-
Foreign currency translation differences from presentation currency	(21)	-
Effective portion of changes in fair value of cash-flow hedges	(57)	13
Revaluation reserve included in other comprehensive income	1	-
<b>Total</b>	<b>(63)</b>	<b>13</b>

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

	2019	2018
	%	%
Profit from continuing operations before tax	1,085	928
Income tax using the Czech domestic rate (19%)	206	176
Effect of tax rates in foreign jurisdictions	20	16
Non-deductible expenses <sup>(1)</sup>	13	17
Other non-taxable income	(4)	(10)
Effect of special levy for business in regulated services <sup>(2)</sup>	57	53
Current year losses for which no deferred tax asset was recognised	4	2
Withholding tax	(1)	0
<b>Income taxes recognised in profit or loss for continuing operations</b>	<b>27.19%</b>	<b>27.30%</b>

(1) The basis consists mainly of non-deductible interest expense of EUR 41 million (2018: EUR 81 million)

(2) This item relates to special industry tax applied in Slovakia and Hungary. The balance consist mainly of amount recognized by eustream, a.s. of EUR 34 million (2018: EUR 29 million), SPP - distribúcia, a.s. of EUR 11 million (2018: EUR 14 million), NAFTA a.s. of EUR 4 million (2018: EUR 5 million), Stredoslovenská distribučná, a.s. of EUR 4 million (2018: EUR 2 million) and Budapesti Erőmű Zrt. of EUR 4 million (2018: EUR 2 million).

## 16. Property, plant and equipment

In millions of EUR

	Land and buildings <sup>(1)</sup>	Gas pipelines – fair value model	Gas pipelines – cost model	Technical equipment, plant and machinery <sup>(1)</sup>	Other equipment, fixtures and fittings	Under construction	Total
<b>Cost</b>							
<b>Balance at 31 December 2018</b>	<b>2,329</b>	-	<b>4,568</b>	<b>1,796</b>	<b>46</b>	<b>137</b>	<b>8,876</b>
Adjustment for change in accounting policy (IFRS 16)	41	-	-	43	-	-	84
<b>Balance at 1 January 2019</b>	<b>2,370</b>	-	<b>4,568</b>	<b>1,839</b>	<b>46</b>	<b>137</b>	<b>8,960</b>
Effects of movements in foreign exchange rates	7	-	3	3	-	-	13
Additions	47	-	1	32	-	139	219
Reclassification	-	1,637	(1,978)	-	-	-	(341)
Revaluation	-	<sup>(2)</sup> 2,166	-	-	-	-	2,166
Disposals	(15)	-	(30)	(19)	-	(1)	(65)
Transfers	17	-	28	19	2	(66)	-
Change in provision recorded in property, plant and equipment	(8)	-	-	-	-	-	(8)
Effect from PPA corrections	(87)	-	-	113	(30)	2	(2)
<b>Balance at 31 December 2019</b>	<b>2,331</b>	<b>3,803</b>	<b>2,592</b>	<b>1,987</b>	<b>18</b>	<b>211</b>	<b>10,942</b>
<b>Depreciation and impairment losses</b>							
<b>Balance at 1 January 2019</b>	<b>(650)</b>	-	<b>(738)</b>	<b>(733)</b>	<b>(3)</b>	<b>(4)</b>	<b>(2,128)</b>
Effects of movements in foreign exchange rates	(2)	-	-	(4)	-	-	(6)
Reclassification (eliminated against cost)	-	49	292	-	-	-	341
Depreciation charge for the year	(97)	(86)	(71)	(122)	-	-	(376)
Disposals	14	-	31	18	-	-	63
Impairment losses recognised in profit or loss	(4)	-	(39)	(1)	-	(1)	(45)
<b>Balance at 31 December 2019</b>	<b>(739)</b>	<b>(37)</b>	<b>(525)</b>	<b>(842)</b>	<b>(3)</b>	<b>(5)</b>	<b>(2,151)</b>
<b>Carrying amounts</b>							
<b>At 1 January 2019</b>	<b>1,679</b>	-	<b>3,830</b>	<b>1,063</b>	<b>43</b>	<b>133</b>	<b>6,748</b>
<b>At 31 December 2019</b>	<b>1,592</b>	<b>3,766</b>	<b>2,067</b>	<b>1,145</b>	<b>15</b>	<b>206</b>	<b>8,791</b>

(1) Including right-of-use assets

(2) For more information on revaluation of gas transmission pipelines, refer to note 3 (a).

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
<b>Cost</b>						
<b>Balance at 1 January 2018</b>	<b>2,094</b>	<b>4,548</b>	<b>1,715</b>	<b>42</b>	<b>38</b>	<b>8,437</b>
Effects of movements in foreign exchange rates	(7)	-	(6)	-	-	(13)
Additions	52	11	27	-	97	187
Acquisitions through business combinations	205	-	62	4	45	316
Disposals	(38)	(4)	(18)	-	(3)	(63)
Transfers	13	13	14	-	(40)	-
Change in provision recorded in property, plant and equipment	10	-	2	-	-	12
<b>Balance at 31 December 2018</b>	<b>2,329</b>	<b>4,568</b>	<b>1,796</b>	<b>46</b>	<b>137</b>	<b>8,876</b>
<b>Depreciation and impairment losses</b>						
<b>Balance at 1 January 2018</b>	<b>(562)</b>	<b>(631)</b>	<b>(646)</b>	<b>(2)</b>	<b>(4)</b>	<b>(1,845)</b>
Effects of movements in foreign exchange rates	5	-	3	-	-	8
Depreciation charge for the year	(95)	(110)	(99)	(1)	-	(305)
Disposals	18	3	14	-	-	35
Impairment losses recognised in profit or loss	(12)	-	(5)	-	-	(17)
Change in provision recorded in property, plant and equipment	(4)	-	-	-	-	(4)
<b>Balance at 31 December 2018</b>	<b>(650)</b>	<b>(738)</b>	<b>(733)</b>	<b>(3)</b>	<b>(4)</b>	<b>(2,128)</b>
<b>Carrying amounts</b>						
<b>At 1 January 2018</b>	<b>1,532</b>	<b>3,917</b>	<b>1,069</b>	<b>40</b>	<b>34</b>	<b>6,592</b>
<b>At 31 December 2018</b>	<b>1,679</b>	<b>3,830</b>	<b>1,063</b>	<b>43</b>	<b>133</b>	<b>6,748</b>

The Company considered potential implication of IFRIC 12 on recognition of the assets held in regulated sectors. However management concluded that the interpretation is not relevant for the Group as the operation of the infrastructure assets is not under Service Concession agreement.

### REVALUATION OF GAS PIPELINE

Gas pipeline for natural gas transmission by eustream a.s. is recognised at revalued amount, primarily using the cost approach, especially the replacement cost method. Replacement costs are based on the acquisition cost of equivalent assets (EA) and are the estimated net book value of the assets from the acquisition cost of EA, useful lives and age of existing assets (replacement cost less depreciation methodology). For more details on revaluation, refer to Note 2 (a) and Note 4 (a).

If the pipeline was accounted for using the cost model, the net book value of the asset as at 31 December 2019 would be EUR 1,647 million.

**IDLE ASSETS**

As at 31 December 2019 and 31 December 2018 the Group had no significant idle assets.

**SECURITY**

At 31 December 2019 no property, plant and equipment (2018: EUR 379 million) is subject to pledges to secure bank loans or issued debentures.

## 17. Intangible assets (including goodwill)

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
<b>Balance at 1 January 2019</b>	<b>112</b>	<b>68</b>	<b>48</b>	<b>168</b>	<b>11</b>	<b>407</b>
Effect of movements in foreign exchange rates	1	1	-	-	-	2
Additions	-	3	74	-	2	79
Disposals	-	(1)	(41)	-	(2)	(44)
Transfers	-	1	-	-	(1)	-
<b>Balance at 31 December 2019</b>	<b>113</b>	<b>72</b>	<b>81</b>	<b>168</b>	<b>10</b>	<b>444</b>
<b>Amortisation and impairment losses</b>						
<b>Balance at 1 January 2019</b>	<b>(11)</b>	<b>(41)</b>	<b>-</b>	<b>(129)</b>	<b>(5)</b>	<b>(186)</b>
Amortisation for the year	-	(10)	-	(17)	-	(27)
Disposals	-	1	-	-	2	3
<b>Balance at 31 December 2019</b>	<b>(11)</b>	<b>(50)</b>	<b>-</b>	<b>(146)</b>	<b>(3)</b>	<b>(210)</b>
<b>Carrying amount</b>						
<b>At 1 January 2019</b>	<b>101</b>	<b>27</b>	<b>48</b>	<b>39</b>	<b>6</b>	<b>221</b>
<b>At 31 December 2019</b>	<b>102</b>	<b>22</b>	<b>81</b>	<b>22</b>	<b>7</b>	<b>234</b>

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
<b>Balance at 1 January 2018</b>	<b>112</b>	<b>67</b>	<b>36</b>	<b>171</b>	<b>11</b>	<b>397</b>
Effect of movements in foreign exchange rates	-	-	(1)	-	-	(1)
Additions	-	3	39	-	2	44
Disposals	-	(4)	(30)	(3)	-	(37)
Additions through business combinations	-	-	4	-	-	4
Transfers	-	2	-	-	(2)	-
<b>Balance at 31 December 2018</b>	<b>112</b>	<b>68</b>	<b>48</b>	<b>168</b>	<b>11</b>	<b>407</b>
<b>Amortisation and impairment losses</b>						
<b>Balance at 1 January 2018</b>	<b>(8)</b>	<b>(36)</b>	<b>-</b>	<b>(115)</b>	<b>(5)</b>	<b>(164)</b>
Amortisation for the year	-	(9)	-	(17)	-	(26)
Impairment losses recognised in profit or loss	(3)	-	-	-	-	(3)
Disposals	-	4	-	3	-	7
<b>Balance at 31 December 2018</b>	<b>(11)</b>	<b>(41)</b>	<b>-</b>	<b>(129)</b>	<b>(5)</b>	<b>(186)</b>
<b>Carrying amount</b>						
<b>At 1 January 2018</b>	<b>104</b>	<b>31</b>	<b>36</b>	<b>56</b>	<b>6</b>	<b>233</b>
<b>At 31 December 2018</b>	<b>101</b>	<b>27</b>	<b>48</b>	<b>39</b>	<b>6</b>	<b>221</b>

In 2019, the Group purchased emission allowances of EUR 54 million (2018: EUR 26 million). The remaining part of EUR 20 million (2018: EUR 13 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.

All intangible assets, excluding goodwill, were recognised as assets with definite useful life.

The Group did not capitalise any development costs in 2019 and 2018.

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. However, no significant research costs were incurred during 2019 and 2018.

**IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL**

For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units which represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to single cash generating units are as follows:

In millions of EUR

	31 December 2019	31 December 2018
Elektrárny Opatovice, a.s.	91	90
EP Cargo a.s.	5	5
EP ENERGY TRADING, a.s.	5	5
SPV100, s.r.o.	1	1
<b>Total goodwill</b>	<b>102</b>	<b>101</b>

**GOODWILL AND IMPAIRMENT TESTING**

In compliance with IAS 36, the Group annually conducts impairment testing of goodwill. The Group also conducts impairment testing of other intangible assets with indefinite useful lives, and of cash generating units (CGUs) where a trigger for impairment testing is identified. 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 as at 31 December 2019 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 additional six years of modelled projections followed by projected results based on 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%, 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 4.81% to 6.08% (2018: 5.43% to 7.65%). Changes in used discount rates compared to prior year reflect recent market development, namely decrease in risk-free rates and cost of debt used for calculation.

No impairment of Goodwill was recognized in 2019 (2018: EUR 3 million as result of commercial negotiation between EP Infrastructure and City of Pilsen in relation to a merger of Plzeňská energetika and Plzeňská teplárenská, in which EP Infrastructure received 35% shareholding and a management control in exchange of contribution of cash and 100% shares in Plzeňská energetika).

**ADDITIONAL INFORMATION ON CGU WITH SIGNIFICANT GOODWILL ASSIGNED:**

The recoverable amount of Elektrárny Opatovice, a.s. was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of Elektrárny Opatovice, a.s. Value in use in 2019 was determined in a similar manner as in 2018. Management estimated that the recoverable amount for Elektrárny Opatovice, a.s. exceeded its carrying amount (including goodwill) by EUR 341 million (2018: EUR 254 million). Key assumptions used in the calculation of value in use were the discount rate, the terminal value growth rate and the planned EBITDA. These selected assumptions were as follows:

	2019	2018
Discount rate	4.94%	6.10%
Terminal value growth rate	0.50%	2.00%

EPIF 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 EBITDA was based on an expectation of future outcomes taking into account past experience. In particular, we have reflected the following:

- estimated refurbishments necessary to comply with applicable regulations (impact especially on electricity output/sales, OPEX and CAPEX);
- market expectations regarding power and CO<sub>2</sub> prices, development based on historical trends;
- a slight decrease in heat supplies and modest increase of heat prices;
- 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. Equity accounted investees

The Group has the investments in associates that are stated in the table below. All these associates are in line with the Group strategic activities.

In millions of EUR

		Ownership 31 December 2019	Carrying amount 31 December 2019
Associates	Country	%	
Energotel, a.s.	Slovakia	20.00	1
Greeninvest Energy, a.s. <sup>(1)</sup>	Czech Republic	41.70	1
PT Distribuční, s.r.o.	Czech Republic	85.00	1
<b>Total</b>			<b>3</b>

(1) The Group has changed the classification of its investment in Greeninvest Energy, a.s. from IFRS 5 to equity accounted investees. The carrying amount has however not changed due to the recognition of an impairment and comparatives were therefore not restated.

In millions of EUR

		Ownership 31 December 2018	Carrying amount 31 December 2018
Associates	Country	%	
Energotel, a.s.	Slovakia	20.00	1
<b>Total</b>		-	<b>1</b>

The Group had no significant share in the profit or loss of associates for the year ended 31 December 2019 (EUR 0 million for the year ended 31 December 2018).

Summary financial information for standalone associates, presented at 100% as at 31 December 2019 and for the year then ended.

In millions of EUR

Associates	Revenue	Profit (loss)	Other comprehensive income	Total comprehensive income	Assets	Liabilities	Equity
Energotel, a.s.	12	1	-	1	12	5	7
Greeninvest Energy, a.s. <sup>(1)</sup>	4	2	-	2	22	11	11
PT Distribuční, s.r.o.	2	1	-	1	1	1	-
	<b>18</b>	<b>4</b>	<b>-</b>	<b>4</b>	<b>35</b>	<b>17</b>	<b>18</b>

(1) The Group has changed the classification of its investment in Greeninvest Energy, a.s. from IFRS 5 to equity accounted investees. The carrying amount has however not changed due to the recognition of an impairment and comparatives were therefore not restated.

Equity accounted investees

In millions of EUR

Associates	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Energotel, a.s.	5	7	-	5
Greeninvest Energy, a.s.	18	4	10	-
PT Distribuční, s.r.o.	1	-	1	-
<b>Total</b>	<b>24</b>	<b>11</b>	<b>11</b>	<b>5</b>

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	Revenue	Profit (loss)	Other comprehensive income	Total comprehensive income	Assets	Liabilities	Equity
Energotel, a.s.	12	1	-	1	12	5	7
	<b>12</b>	<b>1</b>	<b>-</b>	<b>1</b>	<b>12</b>	<b>5</b>	<b>7</b>

In millions of EUR

Associates	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Energotel, a.s.	5	7	-	5
<b>Total</b>	<b>5</b>	<b>7</b>	<b>-</b>	<b>5</b>

## 19. 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 2019	31 December 2019	31 December 2019	31 December 2018	31 December 2018	31 December 2018
Temporary difference related to:	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	1	(1,481)	(1,480)	15	(988)	(973)
Intangible assets	-	(15)	(15)	-	(15)	(15)
Inventories	2	-	2	2	-	2
Trade receivables and other assets	2	-	2	4	-	4
Provisions	48	-	48	32	-	32
Employee benefits (IAS 19)	7	-	7	5	-	5
Loans and borrowings	-	(16)	(16)	1	(20)	(19)
Tax losses	-	-	-	2	-	2
Derivatives	23	-	23	18	(5)	13
Other items	11	(43)	(32)	6	(24)	(18)
<b>Subtotal</b>	<b>94</b>	<b>(1,555)</b>	<b>(1,461)</b>	<b>85</b>	<b>(1,052)</b>	<b>(967)</b>
Set-off tax	(77)	77	-	(80)	80	-
<b>Total</b>	<b>17</b>	<b>(1,478)</b>	<b>(1,461)</b>	<b>5</b>	<b>(972)</b>	<b>(967)</b>

### MOVEMENTS IN DEFERRED TAX DURING THE YEAR

In millions of EUR

Balances related to:	Balance at 1 January 2019	Recognised in profit or loss	Recognised in other comprehen- sive income <sup>(1)</sup>	Transfer	Effect from PPA corrections	Effect of movements in foreign exchange rate	Balance at 31 December 2019
Property, plant and equipment	(973)	39	(551)	(1)	4	2	(1,480)
Intangible assets	(15)	-	-	-	-	-	(15)
Inventories	2	-	-	-	-	-	2
Trade receivables and other assets	4	(2)	-	-	-	-	2
Provisions	32	-	-	16	-	-	48
Employee benefits (IAS 19)	5	-	1	1	-	-	7
Loans and borrowings	(19)	-	-	3	-	-	(16)
Tax losses	2	(2)	-	-	-	-	-
Derivatives	13	-	10	-	-	-	23
Other	(18)	5	-	(19)	-	-	(32)
<b>Total</b>	<b>(967)</b>	<b>40</b>	<b>(540)</b>	<b>-</b>	<b>4</b>	<b>2</b>	<b>(1,461)</b>

(1) Revaluation of gas pipelines (FV model) in Eustream of EUR 549 million and finalisation of PPA in NAFTA Germany GmbH of EUR (4) million.

### Deferred tax assets and liabilities

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 <sup>(1)</sup>	Disposed entities <sup>(2)</sup>	Effect of movements in foreign exchange rate	Balance at 31 December 2018
Property, plant and equipment	(971)	5	-	(11)	1	3	(973)
Intangible assets	(16)	-	-	-	-	1	(15)
Inventories	2	-	-	-	-	-	2
Trade receivables and other assets	2	2	-	-	-	-	4
Provisions	28	2	-	3	-	(1)	32
Employee benefits (IAS 19)	5	-	-	-	-	-	5
Loans and borrowings	(22)	3	-	-	-	-	(19)
Tax losses	5	(2)	-	-	-	(1)	2
Derivatives	(1)	2	13	-	-	(1)	13
Other	(20)	2	-	-	-	-	(18)
<b>Total</b>	<b>(988)</b>	<b>14</b>	<b>13</b>	<b>(8)</b>	<b>1</b>	<b>1</b>	<b>(967)</b>

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

(2) Disposal of RPC, a.

### 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 EPIF Group entities:

In millions of EUR

	31 December 2019	31 December 2018
Tax losses carried forward	328	308
<b>Total</b>	<b>328</b>	<b>308</b>

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 2019	31 December 2018
Slovak Gas Holding B.V.	161	158
Seattle Holding B.V.	96	77
EPH Gas Holding B.V.	55	53
Czech Gas Holding Investment B.V.	12	11
PT Holding Investment B.V.	4	4
EP Infrastructure, a.s.	-	3
SPP Infrastructure, a.s.	-	2
<b>Total</b>	<b>328</b>	<b>308</b>

The entities in the table represent holding companies with insignificant operating activities. The Group does not expect significant taxable profit growth on these entities, so no deferred tax was recognized. If sufficient taxable profit were to be achieved in 2019, then the associated tax income (savings) would be up to EUR 62 million (2018: 59 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:

	2020	2021	2022	2023	After 2024	Total
<b>Tax losses</b>	-	-	1	3	324	<b>328</b>

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.

## 20. Inventories

In millions of EUR

	31 December 2019	31 December 2018
Natural gas	147	149
Fossil fuel	25	20
Raw material and supplies	13	17
Spare parts	16	13
Work in progress	1	1
<b>Total</b>	<b>202</b>	<b>200</b>

At 31 December 2019 no inventories (2018: EUR 12 million) were subject to pledges.

## 21. Trade receivables and other assets

In millions of EUR

	31 December 2019	31 December 2018
Trade receivables	235	242
Accrued income <sup>(1)</sup>	138	98
Estimated receivables	3	1
Advance payments	56	37
Other receivables and assets	55	61
Allowance for bad debts	(20)	(25)
<b>Total</b>	<b>467</b>	<b>414</b>
<i>Non-current</i>	<i>39</i>	<i>47</i>
<i>Current</i>	<i>428</i>	<i>367</i>
<b>Total</b>	<b>467</b>	<b>414</b>

(1) For more detail on accrued income refer to Note 32 – Commitments and contingencies.

In 2019 EUR 0 million receivables were written-off through profit or loss (2018: EUR 0 million).

As at 31 December 2019 no receivables are subject to pledges (2018: 17 million).

As at 31 December 2019 trade receivables and other assets amounting EUR 453 million are not past due (2018: EUR 404 million) remaining net balance of EUR 14 million is overdue (2018: EUR 10 million). For more detailed aging analysis refer to Note 34 (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 34 – Risk management policies and disclosures.

## 22. Cash and cash equivalents

In millions of EUR

	31 December 2019	31 December 2018
Current accounts with banks	674	397
Term deposits	-	19
<b>Total</b>	<b>674</b>	<b>416</b>

Term deposits with original maturity of up to three months are classified as cash equivalents.

As at 31 December 2019 no cash equivalents are subject to pledges (2018: EUR 64 million).

## 23. Tax receivables

In millions of EUR

	31 December 2019	31 December 2018
Current income tax receivables	3	21
Value added tax receivables	7	6
Energy tax	1	1
<b>Total</b>	<b>11</b>	<b>28</b>

## 24. Equity

### SHARE CAPITAL AND SHARE PREMIUM

The authorised, issued and fully paid share capital as at 31 December 2019 consisted of 222,870,000 ordinary shares with a par value of CZK 250 each (2018: 222,870,000 ordinary shares) ("Shares A") and 100,130,000 shares (with which special rights relating to profit distribution are connected as specified in the Articles of Incorporation) with a par value of CZK 250 each (2018: 100,130,000 shares) ("Shares B").

The shareholder is entitled to receive dividends and to cast 1 vote per 1 share of nominal value CZK 250 at meetings of the Company's shareholders.

In 2019 the Company declared dividends in amount of EUR 450 million (2018: EUR 235 million) to its shareholders.

### 31 DECEMBER 2019

In thousands of pieces

	Number of shares		Ownership	Voting rights
	250 CZK		%	%
	Shares A	Shares B		
EPIF Investments a.s.	222,870	-	69.00	69.00
CEI INVESTMENTS S.a.r.l.	-	100,130	31.00	31.00
<b>Total</b>	<b>222,870</b>	<b>100,130</b>	<b>100.00</b>	<b>100.00</b>

### 31 DECEMBER 2018

In thousands of pieces

	Number of shares		Ownership	Voting rights
	250 CZK		%	%
	Shares A	Shares B		
EPIF Investments a.s.	222,870	-	69.00	69.00
CEI INVESTMENTS S.a.r.l.	-	100,130	31.00	31.00
<b>Total</b>	<b>222,870</b>	<b>100,130</b>	<b>100.00</b>	<b>100.00</b>

Reserves recognised in equity comprise the following items:

In millions of EUR

	31 December 2019	31 December 2018
Non-distributable reserves	1	1
Revaluation reserve	774	(1)
Hedging reserve	(100)	(47)
Translation reserve	(87)	(71)
Other capital reserves	(3,814)	(3,814)
<b>Total</b>	<b>(3,226)</b>	<b>(3,932)</b>



**OTHER CAPITAL RESERVES**

As stated in section 3 (b) vii – Pricing differences, the Group accounted for pricing differences which arose from the acquisition of subsidiaries from Energetický a průmyslový holding, a.s. or subsidiaries contributed to the share capital of the Company by Energetický a průmyslový holding, a.s. As these acquired or contributed entities were under common control of Energetický a průmyslový holding, a.s., they were therefore excluded from the 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 treated under the net book value presented in the consolidated financial statements of Energetický a průmyslový holding, 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. Pricing differences are presented in Other capital reserves in Equity. "Note 6 – Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates" summarises the effects of all common control transactions in both periods.

**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.

**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 30 – Financial instruments and Note 34 – Risk management policies and disclosure).

**REVALUATION RESERVE**

Revaluation reserve primarily represents an effect from revaluation of gas transmission pipeline as per IAS 16 to fair value beginning 1 January 2019. The fixed assets revaluation effect including a relevant deferred tax impact totalled EUR 791 million as of 31 December 2019. For detail refer to Note 3(a) and Note 4(a).

**25. Earnings per share****BASIC EARNINGS PER SHARE**

Basic earnings per share in EUR per 1 share of CZK 250 (2018: in EUR per 1 share of CZK 250) nominal value equal 1.24 (2018: 1.02).

The calculation of basic earnings per share as at 31 December 2019 was based on profit attributable to ordinary shareholders of EUR 401 million (2018: EUR 329 million), and a weighted average number of ordinary shares outstanding of 323,000,000 (2018: 323,000,000).

**WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2019**

In pieces

	Nominal	Weighted
Issued shares	323,000,000	323,000,000
<i>of which on 6 February 2017 classified as:</i>		
<i>Ordinary shares "A" (1 share/CZK 250)</i>	<i>222,870,000</i>	<i>222,870,000</i>
<i>Shares "B" (1 share/CZK 250)</i>	<i>100,130,000</i>	<i>100,130,000</i>
<b>Total</b>	<b>323,000,000</b>	<b>323,000,000</b>

**WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2018**

In pieces

	Nominal	Weighted
Issued shares	323,000,000	323,000,000
<i>of which on 6 February 2017 classified as:</i>		
<i>Ordinary shares "A" (1 share/CZK 250)</i>	<i>222,870,000</i>	<i>222,870,000</i>
<i>Shares "B" (1 share/CZK 250)</i>	<i>100,130,000</i>	<i>100,130,000</i>
<b>Total</b>	<b>323,000,000</b>	<b>323,000,000</b>

**DILUTIVE EARNINGS PER SHARE**

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

26. Non-controlling interest

31 DECEMBER 2019

In millions of EUR

	Stredoslovenská energetika, a.s. and its subsidiaries	NAFTA a.s. and its subsidiaries	SPP Infrastructure, a.s. and its subsidiaries <sup>(3)</sup>
Non-controlling percentage	<sup>(6)</sup> 51.00%	31.01%	<sup>(6)</sup> 51.00%
Business activity	Distribution of electricity	Gas storage and exploration	Distribution of gas
Country <sup>(1)</sup>	Slovakia	Slovakia, Germany	Slovakia
Carrying amount of NCI at 31 December 2019	480	102	(284)
Profit (loss) attributable to non-controlling interest	65	25	-
Dividends declared	(5)	(1)	(340)
Statement of financial position information <sup>(2)</sup>			
Total assets	1,256	855	6,253
of which: non-current	827	757	<sup>(4)</sup> 5,461
current	429	98	792
Total liabilities	314	527	1,746
of which: non-current	142	476	546
current	172	51	1,200
Net assets	942	328	4,507
Statement of comprehensive income information <sup>(2)</sup>			
Total revenues	1,209	217	654
of which: dividends received	-	-	<sup>(5)</sup> 608
Profit after tax	127	80	608
Total other comprehensive income for the period, net of tax	-	3	-
Total comprehensive income for the year <sup>(2)</sup>	127	83	608
Net cash inflows (outflows) <sup>(2)</sup>	86	(13)	4

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 36 – Group entities)

(2) Financial information derived from individual financial statements prepared in accordance with IFRS including fair value adjustments arising from the acquisition by the Group

(3) Excluding NAFTA a.s. and its subsidiaries, SPP Storage, s.r.o. and SPP - distribúcia, a.s. and its subsidiaries, eustream, a.s. and POZAGAS a.s.

(4) Includes financial investments in eustream, a.s., SPP - distribúcia, a.s., NAFTA, a.s. and POZAGAS eliminated in calculation of NCI

(5) Includes dividends from eustream, a.s., SPP - distribúcia, a.s., NAFTA, a.s. and POZAGAS eliminated in calculation of NCI

(6) Even though the Group holds less than half of the voting rights it assumes its control over the subgroups through shareholders' agreements that provide the Group with management control. As the shareholder's agreement provides the Group with right and ability to manage subgroups activities and influence thus their performance and return on the investment.

(7) Increase of NCI on eustream, a.s. relates to revaluation of Property, plant and equipment of EUR 2,166 million increasing NCI by EUR 824 million.

SPP - distribúcia, a.s. and its subsidiaries	eustream, a.s.	POZAGAS a.s.	Plzeňská teplárenská, a.s.	Other individually immaterial subsidiaries	Total
<sup>(6)</sup> 51.00%	<sup>(6)</sup> 51.00%	38.02%	<sup>(6)</sup> 65.00%		
Distribution of gas	Transmission of gas	Gas storage and exploration	Production and distribution of heat		
Slovakia	Slovakia	Slovakia	Czech Republic		
823	<sup>(7)</sup> 1,086	31	130	3	2,371
68	210	3	9	10	389
-	-	-	(8)	-	(354)
2,781	4,736	100	252		
2,233	4,335	30	196		
548	401	70	56		
1,168	2,606	19	52		
1,018	1,702	15	24		
150	904	4	28		
1,613	2,129	81	200	-	-
440	830	30	115		
-	-	-	-		
134	412	7	13		
1	1,612	-	-		
135	2,024	7	13	-	-
21	188	3	3		

31 DECEMBER 2018

In millions of EUR

	Pražská teplárenská a.s. and its subsidiaries <sup>(6)</sup>	Stredoslovenská energetika, a.s. and its subsidiaries	NAFTA a.s. and its subsidiaries	SPP Infrastructure, a.s. and its subsidiaries <sup>(3)</sup>
Non-controlling percentage	0.00%	<sup>(7)</sup> 51.00%	31.01%	<sup>(7)</sup> 51.00%
Business activity	Production and distribution of heat	Distribution of electricity	Gas storage and exploration	Distribution of gas
Country <sup>(1)</sup>	Czech Republic	Slovakia	Slovakia, Germany	Slovakia
Carrying amount of NCI at 31 December 2018	-	420	98	(252)
Profit (loss) attributable to non-controlling interest	-	26	21	-
Dividends declared	(1)	(3)	(2)	(448)
Statement of financial position information <sup>(2)</sup>				
Total assets	-	1,120	964	6,268
of which: non-current	-	711	720	<sup>(4)</sup> 6,214
current	-	409	244	54
Total liabilities	-	297	648	1,702
of which: non-current	-	115	336	1,228
current	-	182	312	474
Net assets	-	823	316	4,566
Statement of comprehensive income information <sup>(2)</sup>				
Total revenues	136	1,019	156	1,052
of which: dividends received	-	-	-	<sup>(5)</sup> 1,006
Profit after tax	11	52	69	1,006
Total comprehensive income for the year <sup>(2)</sup>	11	52	69	1,006
Net cash inflows (outflows) <sup>(2)</sup>	-	94	4	8

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 37 – Group entities)

(2) Financial information derived from individual financial statements prepared in accordance with IFRS including fair value adjustments arising from the acquisition by the Group

(3) Excluding NAFTA a.s. and its subsidiaries, SPP Storage, s.r.o. and SPP - distribúcia, a.s. and its subsidiaries, eustream, a.s. and POZAGAS a.s.

(4) Includes financial investments in eustream, a.s., SPP - distribúcia, a.s., NAFTA, a.s. and POZAGAS eliminated in calculation of NCI

(5) Includes dividends from eustream, a.s., SPP - distribúcia, a.s., NAFTA, a.s. and POZAGAS eliminated in calculation of NCI

(6) On 12 October 2018 the Group acquired remaining 2% shares in Pražská teplárenská, a.s. as a part of compulsory sell-out procedure (“squeeze-out”). Statement of comprehensive income information. represent profit or loss from the beginning of the year till the date of “squeeze-out”, the statement of financial position information as of 31 December 2018 is due to completed squeeze-out procedure not presented

(7) Even though the Group holds less than half of the voting rights it assumes its control over the subgroups through shareholders’ agreements that provide the Group with management control. As the shareholder’s agreement provides the Group with right and ability to manage subgroups activities and influence thus their performance and return on the investment.

SPP -distribúcia, a.s. and its subsidiaries	eustream, a.s.	POZAGAS a.s.	Pízeňská teplárenská, a.s.	Other individually immaterial subsidiaries	Total
<sup>(7)</sup> 51.00%	<sup>(7)</sup> 51.00%	38.02%	<sup>(7)</sup> 65.00%		
Distribution of gas	Transmission of gas	Gas storage and exploration	Production and distribution of heat		
Slovakia	Slovakia	Slovakia	Czech Republic		
820	256	28	127	(3)	1,495
81	206	1	5	5	345
-	-	-	-	-	(454)
2,723	2,418	89	237		
2,305	2,237	30	186		
418	181	59	51		
1,116	1,916	14	42		
1,014	1,765	12	22		
102	151	2	20		
1,607	502	75	195	-	-
414	757	27	27		
--	--	-	-		
158	395	2	7		
158	395	2	7	-	-
31	(17)	(43)	-		

## 27. Loans and borrowings

In millions of EUR

	31 December 2019	31 December 2018
Issued debentures	3,700	3,029
Loans payable to credit institutions	1,200	1,778
Bank overdraft	31	12
Liabilities from financial leases	76	-
<b>Total</b>	<b>5,007</b>	<b>4,819</b>
Non-current	4,105	4,022
Current	902	797
<b>Total</b>	<b>5,007</b>	<b>4,819</b>

The weighted average interest rate on loans and borrowings (excl. debentures) for 2019 was 1.37% (2018: 1.80%).

### ISSUED DEBENTURES AT AMORTISED COSTS

Details about debentures issued as at 31 December 2019 are presented in the following table:

In millions of EUR

	Principal	Accrued interest	Unamortised transactions cost/ premium/ discounts	Maturity	Interest rate (%)	Effective interest rate (%)
SPP Infrastructure Financing bond I	750	13	-	18/07/2020	3.750	3.773/3.717
SPP Infrastructure Financing bond II	500	12	(4)	12/02/2025	2.625	2.685
SPPD bond	500	8	(1)	23/06/2021	2.625	2.828
EP Infrastructure 2024 notes	750	8	(4)	26/04/2024	1.659	1.786
EP Infrastructure 2026 notes	600	4	(4)	30/07/2026	1.698	1.795
2027 Private Offering	70	-	(1)	08/04/2027	2.150	2.36
EP Infrastructure 2028 notes	500	2	(3)	09/10/2028	2.045	2.117
<b>Total</b>	<b>3,670</b>	<b>47</b>	<b>(17)</b>	<b>-</b>	<b>-</b>	<b>-</b>

## Loans and borrowings

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

In millions of EUR

	Principal	Accrued interest	Unamortised transactions cost/ premium/ discounts	Maturity	Interest rate (%)	Effective interest rate (%)
SPP Infrastructure Financing bond I	750	13	(1)	18/07/2020	3.750	3.773/3.717
SPP Infrastructure Financing bond II	500	12	(4)	12/02/2025	2.625	2.685
EP Infrastructure 2024 notes	750	8	(5)	26/04/2024	1.659	1.786
SPPD bond	500	7	(3)	23/06/2021	2.625	2.828
EP Energy 2019 notes	499	5	(2)	01/11/2019	5.875	6.301
<b>Total</b>	<b>2,999</b>	<b>45</b>	<b>(15)</b>	<b>-</b>	<b>-</b>	<b>-</b>

### EP INFRASTRUCTURE BONDS (2024 NOTES)

On 26 April 2018, EP Infrastructure successfully placed at par its debut international offering of EUR 750 million. Notes are issued in nominal value of EUR 100,000 each and bear 1.659% fixed rate and are unsecured ("2024 Notes"). The 2024 Notes are listed on Irish Stock Exchange (Euronext Dublin). Unless previously redeemed or cancelled, the 2024 Notes will be redeemed at their principal amount on 26 April 2024.

The Group may prematurely redeem all, but not part, of the 2024 Notes at a redemption price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, plus a "make whole" premium. Further, the Group may redeem all, but not part, of the 2024 Notes at a price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax laws. Upon the occurrence of a certain change of control events, the Group may be required to offer to redeem the 2024 Notes prematurely at the principal amount of 100 % of the prematurely redeemed, plus accrued and unpaid interest and additional amounts, if any.

The 2024 Notes contain a covenant limiting certain types of distributions to issuer's shareholders in certain circumstances. The EPIF Group has to monitor the ratio of total amount of Group's net debt to Group's EBITDA (i.e. net leverage) before certain types of distributions are carried out.

The 2024 Notes are stated net of debt issue costs of EUR 5 million (at inception). These costs are allocated to the profit and loss account over the term of the 2024 Notes through the effective interest rate of 1.786%.

### EP INFRASTRUCTURE BONDS (2026 NOTES)

On 30 July 2019, EP Infrastructure successfully placed at par its offering of EUR 600 million 1.698% fixed rate unsecured notes due in July 2026 in the denomination of EUR 100,000 each ("2026 Notes"). The 2026 Notes are listed on Irish Stock Exchange (Euronext Dublin). Unless previously redeemed or cancelled, the 2026 Notes will be redeemed at their principal amount on 30 July 2026. The Group may prematurely redeem all, but not part, of the 2026 Notes at a redemption price equal to 100%



of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, plus a “make whole” premium. Further, the Group may redeem all, but not part, of the 2026 Notes at a price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax laws. Upon the occurrence of a certain change of control events, the Group may be required to offer to redeem the 2026 Notes prematurely at the principal amount of 100 % of the prematurely redeemed, plus accrued and unpaid interest and additional amounts, if any.

The 2026 Notes contain a covenant limiting certain types of distributions to issuer’s shareholders in certain circumstances. The EPIF Group has to monitor the ratio of total amount of Group’s net debt to Group’s EBITDA (i.e. net leverage) before certain types of distributions are carried out. The 2026 Notes are stated net of debt issue costs of EUR 4 million. These costs are allocated to the profit and loss over the term of the 2026 Notes through the effective interest rate of 1.795%.

#### PRIVATE OFFERING (2027 NOTES)

On 8 April 2019, EP Infrastructure placed EUR 70 million eight-year notes, which were accepted for trading at the Third Market operated by Vienna Stock Exchange. The notes bear interest at 6M EURIBOR +2.15%, are unsecured and due in April 2027 (“Private Offering”). The Group may prematurely redeem all, but not part, of the Private Offering at a redemption price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, plus a “make whole” premium. Further, the Group may redeem all, but not part, of the Private Offering at a price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax laws. Upon the occurrence of a certain change of control events, the Group may be required to offer to redeem the Private Offering prematurely at the principal amount of 100 % of the prematurely redeemed, plus accrued and unpaid interest and additional amounts, if any.

The Private Offering is stated net of debt issue costs of EUR 1 million. These costs are allocated to the profit and loss over the term of the Private Offering through the effective interest rate of 2.36%.

#### EP INFRASTRUCTURE BONDS (2028 NOTES)

On 9 October 2019, EP Infrastructure successfully placed at par its offering of EUR 500 million 2.045% fixed rate unsecured notes due in October 2028 in the denomination of EUR 100,000 each (“2028 Notes”). The 2028 Notes are listed on Irish Stock Exchange (Euronext Dublin). Unless previously redeemed or cancelled, the 2028 Notes will be redeemed at their principal amount on 9 October 2028.

The Group may prematurely redeem all, but not part, of the 2028 Notes at a redemption price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, plus a “make whole” premium. Further, the Group may redeem all, but not part, of the 2028 Notes at a price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax laws. Upon the occurrence of a certain change of control events, the Group may be required to offer to redeem the 2028 Notes prematurely at the principal amount of 100 % of the prematurely redeemed, plus accrued and unpaid interest and additional amounts, if any.

The 2028 Notes contain a covenant limiting certain types of distributions to issuer’s shareholders in certain circumstances. The EPIF Group has to monitor the ratio of total amount of Group’s net debt to Group’s EBITDA (i.e. net leverage) before certain types of distributions are carried out. The 2028 Notes are stated net of debt issue costs of EUR 3 million. These costs are allocated to the profit and loss over the term of the 2028 Notes through the effective interest rate of 2.117%.

#### SPP INFRASTRUCTURE FINANCING BOND (2020 NOTES)

The first tranche of guaranteed notes in the amount of EUR 500 million was issued on 18 July 2013 and the second tranche in the amount of EUR 250 million was issued on 10 September 2013. The notes are due in 2020 (“2020 Notes”) and are listed on the official market of the Irish Stock Exchange. The 2020 Notes bear an interest of 3.75% per annum, payable annually in arrears on 18 July of each year. The 2020 Notes were issued by SPP Infrastructure Financing B.V., and are guaranteed by eustream, a.s.

The terms and conditions pursuant to which the 2020 Notes were issued contain a limited number of restrictive covenants, mainly negative pledges.

The 2020 Notes are stated net of debt issue costs of EUR 5 million (at inception). These costs are allocated to the profit and loss account over the term of the 2020 Notes through the effective interest rates of 3.773% (first tranche) and 3.717% (second tranche).

The proceeds of the 2020 Notes were on-lent to eustream, a.s. via the purchase of 2020 Intra-group notes issued by eustream, a.s. bearing 4.12% p.a. while interest payments are aligned to effectively finance payments by SPP Infrastructure Financing B.V.

#### 2021 SPPD BOND

On 23 June 2014, SPP - distribúcia, a.s. issued bonds in the amount of EUR 500 million with a fixed interest rate of 2.625% p.a. The maturity of bonds is on 23 June 2021. The 2021 SPPD bond is stated net of debt issue costs of EUR 3 million. 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%.

OTHER LOANS AND BORROWINGS

TERMS AND DEBT REPAYMENT SCHEDULE

Terms and conditions of outstanding loans as at 31 December 2019 were as follows:

In millions of EUR

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/19	Due within 1 year	Due in 1–5 years	Due in following years
Unsecured bank loan	EUR	variable*	2023	499	-	499	-
Unsecured bank loan	EUR	variable*	2024	386	-	386	-
Unsecured bank loan	EUR	variable*	2021	75	-	75	-
Unsecured bank loan	EUR	variable*	2027	65	-	-	65
Unsecured bank loan	EUR	variable*	2029	60	-	-	60
Unsecured bank loan	EUR	variable*	2020	55	55	-	-
Unsecured bank loan	EUR	variable*	2026	48	-	-	48
Unsecured bank loan	EUR	fixed	2023	10	3	7	-
Unsecured bank loan	EUR	fixed	2020	2	2	-	-
Overdraft	EUR	variable*	2020	31	31	-	-
Liabilities from financial leases	EUR			76	11	27	38
<b>Total interest-bearing liabilities</b>				<b>1,307</b>	<b>102</b>	<b>994</b>	<b>211</b>

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

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
Unsecured bank loan	EUR	variable*	2023	1,299	7	1,292	-
Unsecured bank loan	EUR	variable*	2024	460	250	130	80
Unsecured bank loan	EUR	fixed	2023	19	6	13	-
Overdraft	EUR	variable*	2020	12	-	12	-
Liabilities from financial leases	EUR			-	-	-	-
<b>Total interest-bearing liabilities</b>				<b>1,790</b>	<b>263</b>	<b>1,447</b>	<b>80</b>

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

EPIF FACILITY AGREEMENT

EP Infrastructure, a.s. is a party to a senior term and revolving facilities agreement dated 19 July 2018 with a group of financing banks (the “EPIF’s Facilities Agreement”), pursuant to which EPIF has been provided with term facility A in the amount of EUR 750 million due 19 July 2022, term facility B in the amount EUR 500 million due 19 July 2023 and a revolving facility C up to the amount of EUR 250 million due 19 July 2023.

The debts of EPIF under the EPIF’s Facilities Agreement are general, senior unsecured debts of the EPIF and rank equally in right of payment with the EPIF’s existing and future indebtedness that is not subordinated in right of payment.

The EPIF’s Facilities Agreement contains restrictive provisions which, among other things, limit the Group’s ability to incur additional financial indebtedness, perform acquisitions, invest in joint ventures, make distributions and certain other payments, dispose of assets, provide loans or guarantees, or create security or the EPIF’s ability to merge with other companies. These restrictions are subject to a number of exceptions and qualifications. For example, EPIF can make distributions and certain other payments and the Group can perform acquisitions if, among other things, the Group net leverage does not exceed a certain limit, and the Group can incur additional financial indebtedness if, among other things, certain net leverage limits set for various Group levels are met. In addition, under the EPIF’s Facilities Agreement, if the rating of the EPIF drops below a certain level, the Group will become subject to a regularly tested net leverage covenant on the Group level. The EPIF’s Facilities Agreement also contains change of control provisions the triggering of which may result in mandatory prepayment.

In 2019, facility A in the amount of EUR 750 million was repaid and the outstanding transaction costs relating to facility A were released to the income statement.

SCHULDSCHEIN LOANS

On 15 April 2019, EPIF entered into two Schuldschein loan agreements. The first loan amounted to EUR 134.5 million due on 24 April 2024, and the second loan amounted to EUR 48 million due on 24 April 2026.

The debts of EPIF under the Schuldschein loan agreements are general unsecured debts of the EPIF and rank equally in right of payment with EPIF’s existing and future indebtedness that is not subordinated in right of payment.

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 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Issued debentures at amortised costs	3,700	3,745	3,029	2,993
Loans payable to credit institutions	1,200	1,208	1,656	1,647
Revolving credit facility	-	-	122	124
Bank overdraft	31	31	12	12
Liabilities from financial leases	76	77	-	-
<b>Total</b>	<b>5,007</b>	<b>5,061</b>	<b>4,819</b>	<b>4,776</b>

Issued debentures are categorised within Level 1 or 2 of the fair value hierarchy. Bank loans are categorised within Level 2 or 3 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 2019	31 December 2018
Financing activities	340	368
<b>Total</b>	<b>340</b>	<b>368</b>

For the year 2019 and 2018 non-cash financing activities include partial set-off of SPPI loan provided to Slovenský plynárenský priemysel, a.s. The total amount of the loan was EUR 340 million (including EUR 30 million provided in 2018) (2018: EUR 368 million), of which the amount EUR 340 million (2018: EUR 368 million) was set-off against dividends declared by SPPI to Slovenský plynárenský priemysel, a.s.

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

In millions of EUR

	<b>Liabilities</b>			
	<b>Loans from credit institutions</b>	<b>Loans from other than credit institutions</b>	<b>Bank overdraft</b>	<b>Issued debentures</b>
<b>Balance at 1 January 2019</b>	<b>1,778</b>	<b>-</b>	<b>12</b>	<b>3,029</b>
<i>Changes from financing cash flows</i>				
Proceeds from loans and borrowings	1,025	-	31	1,170
Repayment of borrowings	(1,600)	-	(12)	(499)
Transaction cost related to loans and borrowings	(5)	-	-	(8)
Payment of finance lease liabilities	-	-	-	-
Dividend paid	-	-	-	-
<b>Total change from financing cash flows</b>	<b>(580)</b>	<b>-</b>	<b>19</b>	<b>663</b>
Changes arising from obtaining or losing of control of subsidiaries	-	-	-	-
Total effect of changes in foreign exchange rates	1	-	-	6
<i>Other changes</i>				
<b>Liability related</b>				
Interest expense	24	-	-	106
Interest paid	(23)	-	-	(104)
Lease liability (impact of IFRS16)	-	-	-	-
Set-off with loans provided	-	-	-	-
Total liability-related other changes	<b>1</b>	<b>-</b>	<b>-</b>	<b>2</b>
Total equity-related other changes	-	-	-	-
<b>Balance at 31 December 2019</b>	<b>1,200</b>	<b>-</b>	<b>31</b>	<b>3,700</b>

Equity					
Finance lease liabilities	Share capital/ premium	Reserves	Retained earnings	Non-controlling interest	Total
-	2,996	(3,931)	674	1,495	6,053
-	-	-	-	-	2,226
-	-	-	-	-	(2,111)
-	-	-	-	-	(13)
(13)	-	-	-	-	(13)
-	-	-	(450)	(44)	(494)
(13)	-	-	(450)	(44)	(405)
-	-	-	-	-	-
-	-	(16)	-	-	(9)
2	-	-	-	-	132
(1)	-	-	-	-	(128)
88	-	-	-	-	88
-	-	-	-	(340)	(340)
89	-	-	-	(340)	(248)
-	-	721	417	1,260	2,398
76	2,996	(3,226)	641	2,371	7,789

In millions of EUR

Liabilities				
	Loans from credit institutions	Loans from other than credit institutions	Bank overdraft	Issued debentures
<b>Balance at 1 January 2018</b>	<b>2,294</b>	<b>-</b>	<b>9</b>	<b>2,873</b>
<i>Changes from financing cash flows</i>				
Proceeds from loans and borrowings	1,693	-	12	750
Repayment of borrowings	(2,258)	-	(9)	(598)
Transaction cost related to loans and borrowings	(4)	-	-	(9)
Payment of finance lease liabilities	-	-	-	-
Dividend paid	-	-	-	-
<b>Total change from financing cash flows</b>	<b>(569)</b>	<b>-</b>	<b>3</b>	<b>143</b>
Changes arising from obtaining or losing of control of subsidiaries	33	-	-	-
Total effect of changes in foreign exchange rates	8	-	-	2
<i>Other changes</i>				
<b>Liability related</b>				
Interest expense	55	-	-	107
Interest paid	(43)	-	-	(96)
Set-off with loans provided	-	-	-	-
Liability from dividends not paid	-	-	-	-
Total liability-related other changes	<b>12</b>	<b>-</b>	<b>-</b>	<b>11</b>
Total equity-related other changes	-	-	-	-
<b>Balance at 31 December 2018</b>	<b>1,778</b>	<b>-</b>	<b>12</b>	<b>3,029</b>

Equity					
Finance lease liabilities	Share capital/premium	Reserves	Retained earnings	Non-controlling interest	Total
<b>5</b>	<b>2,996</b>	<b>(3,892)</b>	<b>587</b>	<b>1,497</b>	<b>6,369</b>
-	-	-	-	-	<b>2,455</b>
-	-	-	-	-	<b>(2,865)</b>
-	-	-	-	-	<b>(13)</b>
(5)	-	-	-	-	<b>(5)</b>
-	-	-	(235)	(56)	<b>(291)</b>
<b>(5)</b>	<b>-</b>	<b>-</b>	<b>(235)</b>	<b>(56)</b>	<b>(719)</b>
-	-	-	-	118	<b>151</b>
-	-	(5)	(1)	(1)	<b>3</b>
-	-	-	-	-	
-	-	-	-	-	<b>162</b>
-	-	-	-	-	<b>(139)</b>
-	-	-	-	(368)	<b>(368)</b>
-	-	-	-	(30)	<b>(30)</b>
-	-	-	-	<b>(398)</b>	<b>(374)</b>
-	-	<b>(34)</b>	<b>323</b>	<b>335</b>	<b>624</b>
-	<b>2,996</b>	<b>(3,931)</b>	<b>674</b>	<b>1,495</b>	<b>6,053</b>



## 28. Provisions

In millions of EUR

	Employee benefits	Provision for emission rights	Provision for restoration and decommissioning	Provision for lawsuits and litigations	Other	Total
<b>Balance at 1 January 2019</b>	<b>36</b>	<b>40</b>	<b>195</b>	<b>1</b>	<b>33</b>	<b>305</b>
Provisions made during the year	4	67	3	-	5	<b>79</b>
Provisions used during the year	(1)	(39)	(3)	-	(1)	<b>(44)</b>
Provisions reversed during the year	-	-	(17)	-	(7)	<b>(24)</b>
Unwinding of discount <sup>(1)</sup>	-	-	3	-	-	<b>3</b>
Effect from PPA correction	-	-	2	-	-	<b>2</b>
Effect of movements in foreign exchange rates	1	-	(1)	-	1	<b>1</b>
<b>Balance at 31 December 2019</b>	<b>40</b>	<b>68</b>	<b>182</b>	<b>1</b>	<b>31</b>	<b>322</b>
<b>Non-current</b>	<b>39</b>	<b>-</b>	<b>177</b>	<b>1</b>	<b>22</b>	<b>239</b>
<b>Current</b>	<b>1</b>	<b>68</b>	<b>5</b>	<b>-</b>	<b>9</b>	<b>83</b>

(1) Unwinding of discount is included in interest expense.

In millions of EUR

	Employee benefits	Provision for emission rights	Provision for restoration and decommissioning	Provision for lawsuits and litigations	Other	Total
<b>Balance at 1 January 2018</b>	<b>26</b>	<b>30</b>	<b>120</b>	<b>-</b>	<b>15</b>	<b>191</b>
Provisions made during the year	3	36	12	-	2	<b>53</b>
Provisions used during the year	(1)	(30)	(5)	-	(7)	<b>(43)</b>
Provisions reversed during the year	(1)	-	(7)	-	-	<b>(8)</b>
Acquisition through business combination <sup>(2)</sup>	9	4	72	-	24	<b>109</b>
Unwinding of discount <sup>(1)</sup>	-	-	3	-	-	<b>3</b>
Reclassification	-	-	-	1	(1)	<b>-</b>
<b>Balance at 31 December 2018</b>	<b>36</b>	<b>40</b>	<b>195</b>	<b>1</b>	<b>33</b>	<b>305</b>
<b>Non-current</b>	<b>35</b>	<b>-</b>	<b>186</b>	<b>1</b>	<b>18</b>	<b>240</b>
<b>Current</b>	<b>1</b>	<b>40</b>	<b>9</b>	<b>-</b>	<b>15</b>	<b>65</b>

(1) Unwinding of discount is included in interest expense.

(2) Acquisition of POZAGAS a.s.

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.

## Provisions

### EMPLOYEE BENEFITS

The Group recorded a 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 40 million (2018: EUR 36 million) were recorded mainly by Stredoslovenská energetika, a.s., Stredoslovenská distribučná, a.s., NAFTA a.s., NAFTA Germany GmbH, SPP - distribúcia, a.s. and eustream, a.s.

The most significant provisions in amount of EUR 13 million (2018: EUR 9 million) were recorded by NAFTA Germany and its subsidiaries and in amount of EUR 11 million (2018: EUR 11 million) by Stredoslovenská energetika Holding, a.s. and Stredoslovenská distribučná, a.s. (former Stredoslovenská energetika – Distribúcia, a.s.).

### I. SSE HOLDING GROUP

#### PENSION PLANS

This program has a defined contribution pension plan under which the Group pays fixed contributions to third parties or government. The Group has no legal or constructive obligation to pay further funds, if the amount of plan assets is insufficient to pay all the performance of employees who are eligible for the current and prior periods.

The amount of benefits depends on several factors, such as age, years of service and salary.

#### UNFUNDED PENSION PLAN WITH DEFINED BENEFIT

According to the Corporate Group collective agreement for the period 2017–2019, the Group is obliged to pay its employees upon age pension or disability pension, depending on seniority, the following multiples of the average monthly salary:

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 Holding Group also pays benefits for work and life anniversaries:

- one monthly wage after 25 years of service;
- 40% to 110% of the employee's monthly salary depending on seniority in the Group at the age of 50.

The Group had created expectations on the part of its employees that it will continue to provide the benefits and it is management's judgement that it is not probable that the Group will cease to provide them.

## II. 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 providing for retirement themselves by means of a remuneration conversion, thus additionally securing their standard of living after retirement.

## PROVISION FOR EMISSION RIGHTS

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

## PROVISION FOR RESTORATION AND DECOMMISSIONING

The provision of EUR 182 million (2018: 195 million) was primarily recorded by NAFTA a.s. EUR 90 million (2018: EUR 96 million), NAFTA Germany GmbH EUR 66 million (2018: EUR 69 million), POZAGAS a.s. EUR 12 million (2018: EUR 9 million), eustream, a.s. EUR 6 million (2018: EUR 8 million) and SPP Storage, s.r.o. EUR 4 million (2018: 7 million).

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 (2019: 1.12%; 2018: 2,15%).

NAFTA a.s. currently has 141 production wells in addition to 243 storage wells. Production wells that are currently in production or are being used for other purposes are expected to be abandoned after reserves have been fully produced or when it has been determined that the wells will not be used for any other purposes. Storage wells are expected to be abandoned after the end of their useful lives. NAFTA a.s. has the obligation to dismantle the production and storage wells, decontaminate contaminated soil, restore the area, and restore the site to its original condition to the extent as stipulated by law.

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects the current market assessment of the time value of money – risk free rate (2019: 1.12%; 2018: 1.40%). The provision takes into account the estimated costs for the abandonment of production and storage wells and centres, and the costs of restoring the sites to their original condition. These costs are expected to be incurred between 2019 and 2093.

NAFTA Germany GmbH (through its subsidiaries) currently has 48 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 (2019: 1.29%; 2018:1.56%). The provision takes into account the estimated costs for the abandonment of storage wells and centres, and the costs of restoring the sites to their original condition. These costs are expected to be incurred between 2039 and 2061.

SPP Storage, s.r.o. ("SPP Storage") currently has 41 production wells and storage facility. SPP Storage's provision for decontamination and restoration resulted from a legislative requirement to dismantle an underground storage facility, mainly production wells and storage wells after the operation of the underground storage facility is discontinued.

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects the current market assessment of the time value of money – risk free rate (2019: 1.92%; 2018: 2.20%). The provision takes into account the estimated costs for the abandonment of production and storage wells and the costs of restoring the sites to their original condition on the basis of the actual costs for the abandonment and restoration of similar storage wells in the Czech Republic. These costs are expected to be incurred between 2034 and 2091.

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

	2019	2018
	Profit (loss)	Profit (loss)
Decrease of expected costs of 10%	15	18
Increase of expected costs of 10%	(15)	(18)
Increase of inflation rate of 1%	(39)	(46)
Increase of discount rate of 1%	28	30

## 29. Deferred income

In millions of EUR

	31 December 2019	31 December 2018
Government grants	91	98
Other deferred income	22	24
<b>Total</b>	<b>113</b>	<b>122</b>
Non-current	88	112
Current	25	10
<b>Total</b>	<b>113</b>	<b>122</b>

Balance of government grants in amount of EUR 91 million (2018: EUR 98 million) is mainly represented by Elektrárny Opatovice, a.s. of EUR 21 million (2018: EUR 22 million), Alternative Energy, s.r.o. of EUR 3 million (2018: EUR 4 million), eustream, a.s. of EUR 59 million (2018: EUR 62 million) and United Energy, a.s. of EUR 5 million (2018: EUR 6 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 includes the grants allocated by the European Commission for various business projects.

Balance of other deferred income in amount of EUR 22 million (2018: EUR 24 million) consists mainly of deferred income recognized by EP Cargo a.s. in the amount of EUR 13 million (2018: EUR 14 million), which represents compensation raised from a business partner from an unrealized business case. The compensation covers capitalized additional investment costs and expected losses from a previously concluded rent contract. Because the losses from the rent contract occur over duration of the contract and because the capitalized costs are depreciated over time, the compensation is also recognized in revenues over time.

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

## 30. Financial instruments

### FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

In millions of EUR

	31 December 2019	31 December 2018
<b>Assets carried at amortised cost</b>		
Loans to other than credit institutions	9	7
<i>of which receivables from related parties</i>	8	6
<b>Total</b>	<b>9</b>	<b>7</b>
<b>Assets carried at fair value</b>		
<b>Hedging: of which</b>	63	34
<i>Commodity derivatives cash flow hedge<sup>(1)</sup></i>	63	34
<i>Interest rate swaps cash flow hedge</i>	-	-
<b>Risk management purpose: of which</b>	<b>1</b>	<b>4</b>
<i>Commodity derivatives reported as trading</i>	-	4
<i>Currency derivatives reported as trading</i>	1	-
<b>Equity instruments at fair value through OCI: of which</b>	<b>12</b>	<b>12</b>
<i>Shares and interim certificates at fair value through OCI</i>	12	12
<b>Total</b>	<b>76</b>	<b>50</b>
Non-current	15	18
<i>of which receivables from related parties</i>	8	6
Current	70	39
<b>Total</b>	<b>85</b>	<b>57</b>

(1) Commodity derivatives designated as cash flow hedges primarily relate to forwards for sale/purchase of electricity which EP ENERGY TRADING, a.s. used to hedge the cash flows arising from purchase and from sale of electricity, as part of its activities as supplier of electricity to final customers. The effectiveness of the hedging relationship is typically assessed by comparison of hedged volume to actual volumes sourced or delivered. Additionally, eustream, a.s. is active in hedging cash inflows predominantly from gas-in-kind received from shippers. eustream, a.s. regularly performs estimations of the surplus of natural gas from received gas-in-kind and enters into short and mid-term commodity swaps in order to hedge its natural gas selling prices.

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL LIABILITIES

In millions of EUR

	31 December 2019	31 December 2018
<b>Liabilities carried at fair value</b>		
<b>Hedging: of which</b>	137	125
Interest rate swaps cash flow hedge	100	82
Commodity derivatives cash flow hedge	35	43
Currency forwards cash flow hedge	2	-
<b>Risk management purpose: of which</b>	68	8
Interest rate swaps reported as trading	68	5
Commodity derivatives reported as trading	-	3
Currency forwards reported as trading	-	-
<b>Total</b>	<b>205</b>	<b>133</b>
Non-current	161	80
Current	44	53
<b>Total</b>	<b>205</b>	<b>133</b>

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

In millions of EUR

	31 December 2019	31 December 2019	31 December 2019	31 December 2019
	Nominal amount buy	Nominal amount sell	Positive fair value	Negative fair value
<b>Hedging: of which</b>	1,901	(1,914)	63	(137)
Interest rate swaps cash flow hedge	1,385	(1,385)	-	(100)
Commodity derivatives cash flow hedge	378	(387)	63	(35)
Currency forwards cash flow hedge	138	(142)	-	(2)
<b>Risk management purpose: of which</b>	1,082	(1,080)	1	(68)
Interest rate swaps reported as trading	1,000	(1,000)	-	(68)
Commodity derivatives reported as trading	3	(3)	-	-
Currency forwards reported as trading	79	(77)	1	-
<b>Total</b>	<b>2,983</b>	<b>(2,994)</b>	<b>64</b>	<b>(205)</b>

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
<b>Hedging: of which</b>	2,991	(2,989)	34	(125)
Interest rate swaps cash flow hedge	2,388	(2,388)	-	(82)
Commodity derivatives cash flow hedge	564	(562)	34	(43)
Currency forwards cash flow hedge	39	(39)	-	-
<b>Risk management purpose: of which</b>	605	(606)	4	(8)
Interest rate swaps reported as trading	400	(400)	-	(5)
Commodity derivatives reported as trading	7	(7)	4	(3)
Currency forwards reported as trading	198	(199)	-	-
<b>Total</b>	<b>3,596</b>	<b>(3,595)</b>	<b>38</b>	<b>(133)</b>

Swap derivatives are recognised in respect of interest rate swaps as described in detail in Note 34 – Risk management policies and disclosures.

Commodity derivatives are recognised in respect of contracts for purchase and sale of electricity and gas, which are denominated in CZK and EUR with maturity up to one year and where the contractual condition of derivatives does not meet the “own use exemption” as noted in IAS 39.5.

Sensitivity analysis relating to the fair values of financial instruments is included in the Note 34 – 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: 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

31 December 2019				
	Level 1	Level 2	Level 3	Total
<b>Financial assets carried at fair value:</b>				
<b>Hedging: of which</b>	-	63	-	<b>63</b>
Commodity derivatives cash flow hedge	-	63	-	<b>63</b>
<b>Risk management purpose: of which</b>		1		<b>1</b>
Currency forwards reported as trading		1		<b>1</b>
Commodity derivatives reported as trading	-	-		<b>1</b>
<b>Equity instruments at fair value through OCI:</b>				
of which	-	-	12	<b>12</b>
Shares and interim certificates at fair value through OCI	-	-	12	<b>12</b>
<b>Total</b>	<b>-</b>	<b>64</b>	<b>12</b>	<b>76</b>
<b>Financial liabilities carried at fair value:</b>				
<b>Hedging: of which</b>	-	137	-	<b>137</b>
Interest rate swaps cash flow hedge	-	100	-	<b>100</b>
Commodity derivatives cash flow hedge	-	35	-	<b>35</b>
Currency forwards cash flow hedge	-	2	-	<b>2</b>
<b>Risk management purpose: of which</b>	-	68	-	<b>68</b>
Interest rate swaps reported as trading	-	68	-	<b>68</b>
<b>Total</b>	<b>-</b>	<b>205</b>	<b>-</b>	<b>205</b>

In millions of EUR

31 December 2018				
	Level 1	Level 2	Level 3	Total
<b>Financial assets carried at fair value:</b>				
<b>Hedging: of which</b>	-	34	-	<b>34</b>
Commodity derivatives cash flow hedge	-	34	-	<b>34</b>
Interest rate swaps cash flow hedge	-	-	-	<b>-</b>
<b>Risk management purpose: of which</b>		4		<b>4</b>
Currency forwards reported as trading		-		<b>-</b>
Commodity derivatives reported as trading	-	4		<b>4</b>
<b>Equity instruments at fair value through OCI:</b>				
of which	-	-	12	<b>12</b>
Shares and interim certificates at fair value through OCI	-	-	12	<b>12</b>
<b>Total</b>	<b>-</b>	<b>38</b>	<b>12</b>	<b>50</b>
<b>Financial liabilities carried at fair value:</b>				
<b>Hedging: of which</b>	-	125	-	<b>125</b>
Interest rate swaps cash flow hedge	-	82	-	<b>82</b>
Commodity derivatives cash flow hedge	-	43	-	<b>43</b>
Currency forwards cash flow hedge	-	-	-	<b>-</b>
<b>Risk management purpose: of which</b>	-	8	-	<b>8</b>
Interest rate swaps reported as trading	-	5	-	<b>5</b>
Commodity derivatives reported as trading	-	3	-	<b>3</b>
<b>Total</b>	<b>-</b>	<b>133</b>	<b>-</b>	<b>133</b>

There were no transfers between fair value levels in either 2019 or 2018.

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

In millions of EUR

	Carrying value	Fair value
	31 December 2019	31 December 2019
<b>Financial assets</b>		
Loans to other than credit institutions	9	9
<b>Financial instruments held at amortised costs</b>	<b>9</b>	<b>9</b>
<b>Financial liabilities</b>		
Loans and borrowings	5,007	5,061

In millions of EUR

	Carrying value	Fair value
	31 December 2018	31 December 2018
<b>Financial assets</b>		
Loans to other than credit institutions	7	7
<b>Financial instruments held at amortised costs</b>	<b>7</b>	<b>7</b>
<b>Financial liabilities</b>		
<b>Loans and borrowings</b>	<b>4,819</b>	<b>4,756</b>

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(e) – 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 2019 the Group is contractually obliged to purchase 2,007,822 pieces (2018: 2,175,207 pieces) of emission rights at an average price 24.39 EUR/piece (2018: 16.26 EUR/piece).

## 31. Trade payables and other liabilities

In millions of EUR

	31 December 2019	31 December 2018
Trade payables	181	167
Estimated payables	65	56
Payroll liabilities	44	41
Other tax liabilities	30	32
Advance payments received	2	4
Liabilities to partners and associations	1	31
Other liabilities	57	44
<b>Total</b>	<b>380</b>	<b>375</b>
<i>Non-current</i>	<i>7</i>	<i>12</i>
<i>Current</i>	<i>373</i>	<i>363</i>
<b>Total</b>	<b>380</b>	<b>375</b>

Trade payables and other liabilities have not been secured as at 31 December 2019 and 31 December 2018.

The Group's exposure to currency and liquidity risk related to trade payables and other liabilities is disclosed in Note 34 – Risk management policies and disclosures

## 32. Commitments and contingencies

#### OFF BALANCE SHEET LIABILITIES

In millions of EUR

	31 December 2019	31 December 2018
Granted pledges – securities	-	611
Commitments	431	284
Other granted pledges	-	727
<b>Total</b>	<b>431</b>	<b>1,622</b>

Granted pledges represented securities of individual Group companies used as collateral for external financing which was settled in October 2019.

**COMMITMENTS**

Majority of commitments is represented by contracts to purchase physical energy in following years by SSE Group in amount of EUR 311 million (2018: EUR 236 million), where physical delivery of the energy will be realised in future. Contracts for purchase of non-current assets of EUR 24 million (2018: EUR 19 million) are recognised by SSE Group, EUR 60 million recognised by eustream. Remaining EUR 36 million (2018: EUR 29 million) arise from different type of service contracts.

**OTHER GRANTED PLEDGES**

In millions of EUR

	31 December 2019	31 December 2018
Property, plant and equipment	-	379
Loans granted <sup>(1)</sup>	-	255
Cash and cash equivalents <sup>(2)</sup>	-	64
Trade receivables	-	17
Inventories	-	12
<b>Total</b>	<b>-</b>	<b>727</b>

(1) In 2018 total balance of pledged granted loans included intercompany loans of EUR 249 million, which were eliminated in these consolidated financial statements.

(2) According to the bond documentation cash balances at specific entities were pledged in favour of the bondholders in case EPE defaults on bonds payments. As such, the pledged cash was readily available to the Group and did not represent restricted cash. Bonds were settled in October 2019.

Other granted pledges were used as collateral for external financing which was settled in October 2019.

**OFF BALANCE SHEET ASSETS**

In millions of EUR

	31 December 2019	31 December 2018
Received promises	1,431	918
Other received guarantees and warranties	156	105
<b>Total</b>	<b>1,587</b>	<b>915</b>

**RECEIVED PROMISES**

Received promises mainly comprise the loan commitments received by the various companies within the Group in amount of EUR 984 million (2018: EUR 561 million). Contracts for the future sale of energy in amount of EUR 359 million (2018: EUR 218 million) and regulatory contingent assets related to green energy of EUR 88 million (2018: EUR 139 million) are recognised by SSE Group.

**REGULATORY CONTINGENT ASSETS RELATED TO GREEN ENERGY**

The SSE Group is legally bound to connect producers of green energy, if they comply with requirements set by primary legislation and to purchase the green electricity generated by them, which is used to cover network losses. The purchase tariff for green energy is set by RONI and is covered by the Tariff for system operation ("TPS").

In 2019 SSD recognised a loss of EUR 88 million (2018: EUR 139 million) as the difference between the green energy support costs and revenues from TPS in the period from 1 January 2019 to 31 December 2019. The loss includes revenues adjusted for compensation for past losses, which was recognised as accrued income as at 31 December 2018 (for 2018 revenues as at 31 December 2017).

Based on the Regulatory Framework valid in 2019 the cumulated losses incurred in 2017 and 2018 are compensated in two years' time, i.e. relevant amounts in 2019 and 2020 through an increase of revenues from TPS (2017 and 2018 losses to be recovered in 2019 and 2020). The 2019 loss is reported as a contingent asset in amount of EUR 88 million as of 31 December 2019 and will be recovered in 2021.

Based on the RONI decision dated in December 2019 the resulting contingent asset of EUR 139 million originating in the year 2018 was recognized as accrued income in the consolidated statement of financial position as of 31 December 2019 and will be fully collected in the course of 2020 (31 December 2018: EUR 97 million originating in the year 2017 was recognized as accrued income in the consolidated statement of financial position as of 31 December 2018 and was fully collected in the course of 2019). The loss for 2019 has not yet been recognized as the asset does not yet meet the recognition criteria set by IFRS as adopted by the EU and will be recognised during the course of 2020 once a RONI confirmation on the exact amount shall be received.

In the middle of August 2018, Slovak government approved the legal act relating to SOT (amendment to the Slovak Renewable Energy Sources Act) drafted by Slovak Ministry of economy ("ME"). Parliament approved the change later in 2018 and in November 2018 the final version of legal act relating to SOT was published in the Official Journal.

Primarily, the legal act transfers SOT clearing duty from the distribution companies to a state-owned company, in this case OKTE a.s., from 1 January 2020. Following the current legislation, from the accounting and cash flow perspective, the Group expects the SOT deficit to be fully recognised in statement of financial position in course of 2019 and 2020. Settlement of the receivable is expected to occur during the course of 2020 and 2021 at the latest.

**OTHER RECEIVED GUARANTEES AND WARRANTIES**

Other received guarantees and warranties mainly consist of guarantees received from parent company of the customer to secure trade receivables in the amount of EUR 89 million (2018: EUR 77 million) recognised by eustream, a.s. and SPP - distribúcia, a.s. and guarantees received from banks of EUR 64 million (2018: EUR 26 million) recognised by NAFTA a.s.

## 33. Leases

### A LEASES AS A LESSEE

The Group leases buildings, pipelines, locomotives and wagons and personal cars. The leases have various lease terms and run under various period of time. For some leases, the Group has an option to renew the lease after the end of the lease term.

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

#### RIGHT-OF-USE ASSETS

Right-of-use assets related to leased land and buildings and technical equipment, plant and machinery that do not meet the definition of investment property are presented as property, plant and equipment (refer to Note 16).

In millions of EUR

	Land and building	Technical equipment, plant and machinery	Total
<b>Balance at 1 January 2019</b>	<b>41</b>	<b>43</b>	<b>84</b>
Depreciation charge for the year	(5)	(8)	(13)
Additions to right-of-use assets	1	2	3
Effects of movements in foreign exchange rate	-	(1)	(1)
<b>Balance at 31 December 2019</b>	<b>37</b>	<b>36</b>	<b>73</b>

#### MATURITY ANALYSIS OF LEASE LIABILITIES

In millions of EUR

	31 December 2019
<b>Undiscounted contractual cash flows by maturity</b>	
Up to 3 months	4
3 months to 1 year	10
1–5 years	38
Over 5 years	31
<b>Total undiscounted contractual cash flows</b>	<b>83</b>
<b>Carrying amount</b>	<b>76</b>

Leases

#### AMOUNTS RECOGNIZED IN PROFIT OR LOSS

In millions of EUR

	2019
<b>2019 – Leases under IFRS 16</b>	
Depreciation charge for the year	(13)
Interest on lease liabilities	(2)
Expenses related to short-term leases	(1)
Expenses related to leases of low-value assets, excluding short-term leases of low-value assets	(1)

In millions of EUR

	2018
<b>2018 – Leases under IAS 17</b>	
Lease expenses	20

#### AMOUNTS RECOGNIZED IN STATEMENT OF CASH FLOWS

In millions of EUR

	2019
Total cash outflow for leases	(13)

### B LEASES AS A LESSOR

#### OPERATING LEASE

During the year ended 31 December 2019, no income (2018: EUR 7 million) was recognised as income in profit or loss in respect of operating leases.



## 34. 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 and concentration 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 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 and of Heat Infra segment are required to pay prepayments which further decrease credit risk.

The carrying amount of financial assets (plus guarantees issued) represents the maximum credit exposure if counterparties fail to carry out completely their contractual obligations and any collateral or security proves to be of no value. The maximum credit exposure amounts disclosed below therefore greatly exceed expected losses, which are included in the allowance for impairment.

The Group establishes an allowance for impairment that represents its estimate of expected credit losses. The Group measures loss allowances at an amount equal to lifetime ECLs except for those

financial assets for which credit risk has not increased significantly since initial recognition. For trade receivables and contract assets, the Group has elected to measure loss allowances at an amount equal to lifetime ECLs.

At the reporting date, the maximum exposure to credit risk by the type of counterparty and by geographic region is provided in the following tables.

### CREDIT RISK BY TYPE OF COUNTERPARTY

#### AS AT 31 DECEMBER 2019

In millions of EUR

	Corporate (non- financial institutions)	Banks	State, government	Individuals	Other	Total
<b>Assets</b>						
Cash and cash equivalents	-	674	-	-	-	<b>674</b>
Restricted cash	-	4	-	-	-	<b>4</b>
Contract assets	59	-	-	-	-	<b>59</b>
Trade receivables and other assets	276	2	140	-	49	<b>467</b>
Financial instruments and other financial assets	63	22	-	-	-	<b>85</b>
<b>Total</b>	<b>398</b>	<b>702</b>	<b>140</b>	<b>-</b>	<b>49</b>	<b>1,289</b>

#### AS AT 31 DECEMBER 2018

In millions of EUR

	Corporate (non- financial institutions)	Banks	State, government	Individuals	Other	Total
<b>Assets</b>						
Cash and cash equivalents	-	416	-	-	-	<b>416</b>
Restricted cash	-	5	-	-	-	<b>5</b>
Contract assets	37	-	-	-	-	<b>37</b>
Trade receivables and other assets	250	1	98	1	64	<b>414</b>
Financial instruments and other financial assets	52	5	-	-	-	<b>57</b>
<b>Total</b>	<b>339</b>	<b>427</b>	<b>98</b>	<b>1</b>	<b>64</b>	<b>929</b>

**CREDIT RISK BY LOCATION OF DEBTOR****AS AT 31 DECEMBER 2019**

In millions of EUR

	Czech Republic	Slovakia	Germany	United Kingdom	Netherlands	Hungary	Other	Total
<b>Assets</b>								
Cash and cash equivalents	172	445	30	-	13	14	-	<b>674</b>
Restricted cash	1	-	-	-	-	3	-	<b>4</b>
Contract assets	27	23	-	-	-	-	9	<b>59</b>
Trade receivables and other assets	127	219	12	11	1	20	76	<b>467</b>
Financial instruments and other financial assets	20	5	-	36	-	1	23	<b>85</b>
<b>Total</b>	<b>347</b>	<b>692</b>	<b>42</b>	<b>47</b>	<b>14</b>	<b>38</b>	<b>108</b>	<b>1,289</b>

**AS AT 31 DECEMBER 2018**

In millions of EUR

	Czech Republic	Slovakia	Germany	United Kingdom	Netherlands	Hungary	Other	Total
<b>Assets</b>								
Cash and cash equivalents	115	238	48	-	10	5	-	<b>416</b>
Restricted cash	3	-	-	-	-	2	-	<b>5</b>
Contract assets	27	10	-	-	-	-	-	<b>37</b>
Trade receivables and other assets	99	189	12	3	-	21	90	<b>414</b>
Financial instruments and other financial assets	39	3	-	6	-	-	9	<b>57</b>
<b>Total</b>	<b>283</b>	<b>440</b>	<b>60</b>	<b>9</b>	<b>10</b>	<b>28</b>	<b>99</b>	<b>929</b>

**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 details see note 3(d).

**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
<b>Balance at 1 January 2019</b>	-	(5)	(24)	-	<b>(29)</b>
Impairment losses recognised during the year	-	(1)	(4)	-	<b>(5)</b>
Reversal of impairment losses during the year	-	-	1	-	<b>1</b>
Write-offs	-	-	7	-	<b>7</b>
<b>Balance at 31 December 2019</b>	-	<b>(6)</b>	<b>(20)</b>	-	<b>(26)</b>

The most significant changes which contributed to change in the loss allowance during the period was write-off of the financial assets and change 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 2019 were as follows:

In millions of EUR

	Loans to other than credit institutions	Contract assets	Trade receivables and other assets	Total
<b>Balance at 1 January 2019</b>	<b>(4)</b>	-	<b>(25)</b>	<b>(29)</b>
Impairment losses recognised during the year	(3)	-	(2)	<b>(5)</b>
Reversals of impairment losses recognised during the year	1	-	-	<b>1</b>
Write-offs	-	-	7	<b>7</b>
<b>Balance at 31 December 2019</b>	<b>(6)</b>	-	<b>(20)</b>	<b>(26)</b>

The ageing of financial assets, excluding cash and cash equivalents and derivatives, at the reporting date was:

#### CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

#### AS AT 31 DECEMBER 2019

In millions of EUR

	Contract assets	Loans to other than credit institutions	Trade receivables and other assets	Total
Before maturity (net)	59	8	453	<b>520</b>
After maturity (net)	-	-	14	<b>14</b>
<b>Total</b>	<b>59</b>	<b>8</b>	<b>467</b>	<b>534</b>
A – Assets (gross)				
– before maturity	59	14	457	530
– after maturity <30 days	-	-	11	<b>11</b>
– after maturity 31–180 days	-	-	2	<b>2</b>
– after maturity 181–365 days	-	-	2	<b>2</b>
– after maturity >365 days	-	-	15	<b>15</b>
<b>Total assets (gross)</b>	<b>59</b>	<b>14</b>	<b>487</b>	<b>560</b>
B – Loss allowance for assets				
– before maturity	-	(6)	(4)	<b>(10)</b>
– after maturity 31–180 days	-	-	(1)	<b>(1)</b>
– after maturity 181–365 days	-	-	(1)	<b>(1)</b>
– after maturity >365 days	-	-	(14)	<b>(14)</b>
<b>Total loss allowance</b>	<b>-</b>	<b>(6)</b>	<b>(20)</b>	<b>(26)</b>
<b>Total assets (NET)</b>	<b>59</b>	<b>8</b>	<b>467</b>	<b>534</b>

In millions of EUR

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total
<b>Balance at 31 December 2017 – IAS39</b>	-	-	<b>(24)</b>	-	<b>(24)</b>
Impact of adopting IFRS 9	(1)	(2)	(1)	-	<b>(4)</b>
<b>Restated balance at 1 January 2018</b>	<b>(1)</b>	<b>(2)</b>	<b>(25)</b>	-	<b>(28)</b>
Impairment losses recognised during the year	-	(3)	-	-	<b>(3)</b>
Reversal of impairment losses during the year	1	-	-	-	<b>1</b>
Write-offs	-	-	1	-	<b>1</b>
<b>Balance at 31 December 2018</b>	-	<b>(5)</b>	<b>(24)</b>	-	<b>(29)</b>

In millions of EUR

	Loans to other than credit institutions	Contract assets	Trade receivables and other assets	Total
<b>Balance at 31 December 2017 – IAS39</b>	<b>(3)</b>	-	<b>(21)</b>	<b>(24)</b>
Impact of adopting IFRS 9	(1)	-	(3)	<b>(4)</b>
<b>Restated balance at 1 January 2018</b>	<b>(4)</b>	-	<b>(24)</b>	<b>(28)</b>
Impairment losses recognised during the year	-	-	(3)	<b>(3)</b>
Reversals of impairment losses recognised during the year	-	-	1	<b>1</b>
Write-offs	-	-	1	<b>1</b>
<b>Balance at 31 December 2018</b>	<b>(4)</b>	-	<b>(25)</b>	<b>(29)</b>

**AS AT 31 DECEMBER 2018**

In millions of EUR

	Contract assets	Loans to other than credit institutions	Trade receivables and other assets	Total
Before maturity (net)	37	7	404	<b>448</b>
After maturity (net)	-	-	10	<b>10</b>
<b>Total</b>	<b>37</b>	<b>7</b>	<b>414</b>	<b>458</b>
A – Assets (gross)				
– before maturity	37	11	406	454
– after maturity <30 days	-	-	7	<b>7</b>
– after maturity 31–180 days	-	-	3	<b>3</b>
– after maturity 181–365 days	-	-	2	<b>2</b>
– after maturity >365 days	-	-	21	<b>21</b>
<b>Total assets (gross)</b>	<b>37</b>	<b>11</b>	<b>439</b>	<b>487</b>
B – Loss allowance for assets				
– before maturity	-	(4)	(2)	<b>(6)</b>
– after maturity 31–180 days	-	-	(1)	<b>(1)</b>
– after maturity 181–365 days	-	-	(2)	<b>(2)</b>
– after maturity >365 days	-	-	(20)	<b>(20)</b>
<b>Total loss allowance</b>	<b>-</b>	<b>(4)</b>	<b>(25)</b>	<b>(29)</b>
<b>Total assets (NET)</b>	<b>37</b>	<b>7</b>	<b>414</b>	<b>458</b>

Impairment losses on financial assets at amortized cost are calculated based on a 3-stage model. Impairment losses from credit impaired financial assets relate either to trade receivables due from several customers which have already been impaired at the date of the application of a 3-stage model or to receivables where events that have a detrimental impact on the estimated future cash flows of the asset have occurred. Remaining amount of impairment losses represents loss allowances at an amount equal to expected credit losses.

Group calculates a collective loss allowance for trade receivables on the basis of a simplified approach based on historical provision matrix. Probability of default is taken from a historical provision matrix (set up separately by each component) with element of forward-looking information (the group incorporates the following forward-looking information: GDP growth, unemployment rate, interest rates, change in stock market index). The resulting collective loss allowance was not significant as at 31 December 2019.

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

The Group assessed the need to create a credit loss allowance for receivables due from banks (included in the item cash and cash equivalents) and concluded that the resulting provision would be negligible

**B LIQUIDITY RISK**

Liquidity risk is the risk that the Group will encounter difficulties in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Various methods of managing liquidity risk are used by individual companies in the Group.

The Group's management focuses on methods used by financial institutions, i.e. diversification of sources of funds. This diversification makes the Group flexible and limits its dependency on one financing source. Liquidity risk is evaluated in particular by monitoring changes in the structure of financing and comparing these changes with the Group's liquidity risk management strategy. The Group also holds, as a part of its liquidity risk management strategy, a portion of its assets in highly liquid funds.

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

The table below provides an analysis of financial liabilities by relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Therefore, in the case of liabilities, the earliest required repayment date is shown while for assets the latest possible repayment date is disclosed. Those liabilities that do not have a contractual maturity date are grouped together in the "undefined maturity" category.

**MATURITIES OF FINANCIAL LIABILITIES****AS AT 31 DECEMBER 2019**

In millions of EUR

	Carrying amount	Contractual cash flows <sup>(1)</sup>	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
<i>Liabilities</i>							
Loans and borrowings	<sup>(2)</sup> <b>5,007</b>	5,400	35	944	2,474	1,947	-
Trade payables and other liabilities	<sup>(3)</sup> <b>378</b>	378	305	64	7	-	2
Financial instruments and financial liabilities	<b>205</b>	227	17	43	126	41	-
<i>out of which Derivatives – inflow<sup>(4)</sup></i>	<b>-</b>	<i>2,627</i>	<i>54</i>	<i>233</i>	<i>929</i>	<i>1,411</i>	<i>-</i>
<i>outflow<sup>(4)</sup></i>	<b>(205)</b>	<i>(2,695)</i>	<i>(71)</i>	<i>(274)</i>	<i>(938)</i>	<i>(1,412)</i>	<i>-</i>
<b>Total</b>	<b>5,592</b>	<b>5,983</b>	<b>357</b>	<b>1,032</b>	<b>2,538</b>	<b>2,054</b>	<b>2</b>

(1) Contractual cash flows disregard discounting to net present value and include potential future interest.

(2) The Group has available committed undrawn term facilities and revolving facilities in amount of EUR 394 million.

(3) Advances received in amount of EUR 2 million are excluded from the carrying amount as these items will cause no future cash outflow.

(4) Inflow/outflow of derivatives represents nominal values of derivatives.

(5) Contract liabilities in amount of EUR 167 million are not shown in the table above as these items are not expected to cause any future cash outflow.



MATURITIES OF FINANCIAL LIABILITIES

AS AT 31 DECEMBER 2018

In millions of EUR

	Carrying amount	Contractual cash flows <sup>(1)</sup>	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
<i>Liabilities</i>							
Loans and borrowings	<sup>(2)</sup> 4,819	5,141	102	764	2,911	1,364	-
Trade payables and other liabilities	<sup>(3)</sup> 371	371	333	26	12	-	-
Financial instruments and financial liabilities	133	133	3	48	27	55	-
<i>out of which Derivatives – inflow<sup>(4)</sup></i>	-	3,249	130	752	264	2,103	-
<i>outflow<sup>(4)</sup></i>	(133)	(3,272)	(132)	(773)	(264)	(2,103)	-
<b>Total</b>	<b>5,323</b>	<b>5,645</b>	<b>438</b>	<b>838</b>	<b>2,950</b>	<b>1,419</b>	<b>-</b>

- (1) Contractual cash flows disregard discounting to net present value and include potential future interest.  
(2) The Group has available committed undrawn term facilities and revolving facilities in amount of EUR 571 million.  
(3) Advances received in amount of EUR 4 million are excluded from the carrying amount as these items will cause no future cash outflow.  
(4) Inflow/outflow of derivatives represents nominal values of derivatives.  
(5) 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.

It is not expected that the cash flows included in the maturity analysis would 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 mature or re-price at different times or in differing amounts. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Group’s interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped together in the “maturity undefined” category.

Various types of derivatives are used to reduce the amount of debt exposed to interest rate fluctuations and to reduce borrowing costs and include mainly interest rate swaps.

These contracts are normally agreed with a notional amount lower than or equal to that of the underlying financial liability and expiry date, so that any change in the fair value and/or expected future cash flows of these contracts is offset by a corresponding change in the fair value and/or the expected future cash flows from the underlying position.

Financial information relating to interest bearing and non-interest bearing assets and liabilities and their contractual maturity or re-pricing dates as at 31 December 2019 is as follows:

In millions of EUR

	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
<b>Assets</b>					
Cash and cash equivalents	674	-	-	-	674
Restricted cash	3	-	-	1	4
Trade receivables and other assets	-	-	-	467	467
Financial instruments and other financial assets <sup>(1)</sup>	1	8	-	76	85
<b>Total</b>	<b>678</b>	<b>8</b>	<b>-</b>	<b>544</b>	<b>1,230</b>
<b>Liabilities</b>					
Loans and borrowings <sup>(2)</sup>	2,075	1,266	1,596	70	5,007
Trade payables and other liabilities	3	-	-	377	380
Financial instruments and financial liabilities <sup>(1)</sup>	168	-	-	37	205
<b>Total</b>	<b>2,246</b>	<b>1,266</b>	<b>1,596</b>	<b>484</b>	<b>5,592</b>
<b>Net interest rate risk position</b>	<b>(1,568)</b>	<b>(1,258)</b>	<b>(1,596)</b>	<b>60</b>	<b>(4,362)</b>
Effect of interest rate swaps	2,330	(580)	(1,750)	-	-
<b>Net interest rate risk position (incl. IRS)</b>	<b>762</b>	<b>(1,838)</b>	<b>(3,346)</b>	<b>60</b>	<b>(4,362)</b>

- (1) The Group contractually agreed to swap float interest rate for a fixed rate (at some of its bank loans).  
(2) Disregarding agreed interest rate swaps.

Notional amounts of financial instruments are included in Note 30 – Financial instruments.

Interest rate risk exposure as at 31 December 2018 was 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
<b>Assets</b>					
Cash and cash equivalents	396	-	-	20	<b>416</b>
Restricted cash	4	-	-	1	<b>5</b>
Trade receivables and other assets	-	-	-	414	<b>414</b>
Financial instruments and other financial assets <sup>(1)</sup>	3	7	-	47	<b>57</b>
<b>Total</b>	<b>403</b>	<b>7</b>	<b>-</b>	<b>482</b>	<b>892</b>
<b>Liabilities</b>					
Loans and borrowings <sup>(2)</sup>	2,310	1,260	1,249	-	<b>4,819</b>
Trade payables and other liabilities	-	-	-	375	<b>375</b>
Financial instruments and financial liabilities <sup>(1)</sup>	86	-	-	47	<b>133</b>
<b>Total</b>	<b>2,396</b>	<b>1,260</b>	<b>1,249</b>	<b>422</b>	<b>5,327</b>
<b>Net interest rate risk position</b>	<b>(1,993)</b>	<b>(1,253)</b>	<b>(1,249)</b>	<b>60</b>	<b>(4,435)</b>
Effect of interest rate swaps	2,312	(209)	(2,103)	-	0
<b>Net interest rate risk position (incl. IRS)</b>	<b>319</b>	<b>(1,462)</b>	<b>(3,352)</b>	<b>60</b>	<b>(4,435)</b>

(1) The Group contractually agreed to swap float interest rate for a fixed rate (at some of its bank loans).

(2) Disregarding agreed interest rate swaps.

Notional amounts of financial instruments are included in Note 30 – Financial instruments.

## SENSITIVITY ANALYSIS

The Group performs stress testing using a standardised interest rate shock, for financial assets and liabilities to be repriced in 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 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

	2019	2018
	Profit (loss)	Profit (loss)
Decrease in interest rates by 1%	(8)	(3)
Increase in interest rates by 1%	7	1

The analysis stated above does not reflect the impact of changes in interest rates on the fair value of derivatives.

## D FOREIGN EXCHANGE RISK

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group is exposed to a currency risk on sales, purchases and borrowings that are denominated in currency other than the respective functional currencies of Group entities, primarily EUR 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 functional currency against the foreign 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 single Companies level.

As of 31 December 2019 the Group is exposed to foreign exchange risk when financial assets and liabilities are denominated in a currency other than the functional currency in which they are measured. Assets and liabilities denominated in a currency different from the functional currency in which they are measured are presented in the table below:

In millions of EUR

	CZK	EUR	HUF	PLN
<b>Assets</b>				
Cash and cash equivalents	3	6	-	-
Trade receivables and other assets	-	2,053	-	-
Financial instruments and other financial assets	-	505	-	-
	<b>3</b>	<b>2,564</b>	<b>-</b>	<b>-</b>
<b>Off balance sheet assets</b>				
Receivables from derivative operations	-	133	9	-
	<b>-</b>	<b>133</b>	<b>9</b>	<b>-</b>
<b>Liabilities</b>				
Loans and borrowings	2	3,507	-	-
Trade payables and other liabilities	-	-	-	-
Financial instruments and financial liabilities	-	-	-	-
	<b>2</b>	<b>3,507</b>	<b>-</b>	<b>-</b>
<b>Off balance sheet liabilities</b>				
Payables related to derivative operations	-	166	-	-
	<b>-</b>	<b>166</b>	<b>-</b>	<b>-</b>
<b>Net FX risk position</b>	<b>1</b>	<b>(943)</b>	<b>-</b>	<b>-</b>
Effect of forward exchange contracts	-	(33)	9	-
Effect of cash flow hedge of FX risk <sup>(1)</sup>	-	945	-	-
<b>Net FX risk position (incl. forward exchange contracts and CF hedges on FX risk)</b>	<b>1</b>	<b>(31)</b>	<b>9</b>	<b>-</b>

(1) The amount relates to a cash flow hedge recognized by the Group's entities in its stand-alone financial statements.

Foreign currency denominated intercompany receivables and payables are included in sensitivity analysis for foreign exchange risk. These balances are eliminated in consolidated balance sheet but their effect on profit or loss of their currency revaluation is not fully eliminated. Therefore, the total amounts of exposure to foreign exchange risk do not equal to respective items reported on consolidated balance sheet.

As of 31 December 2018 the Group is exposed to foreign exchange risk when financial assets and liabilities are denominated in a currency other than the functional currency in which they are measured. Assets and liabilities denominated in a currency different from the functional currency in which they are measured are presented in the table below:

In millions of EUR

	CZK	EUR	HUF	PLN
<b>Assets</b>				
Cash and cash equivalents	2	52	-	1
Trade receivables and other assets	1	2,061	1	-
Financial instruments and other financial assets	1	47	-	1
	<b>4</b>	<b>2,160</b>	<b>1</b>	<b>2</b>
<b>Off balance sheet assets</b>				
Receivables from derivative operations	-	46	-	-
	<b>-</b>	<b>46</b>	<b>-</b>	<b>-</b>
<b>Liabilities</b>				
Loans and borrowings	-	3,221	-	1
Trade payables and other liabilities	-	-	-	-
Financial instruments and financial liabilities	-	-	-	-
	<b>-</b>	<b>3,221</b>	<b>-</b>	<b>1</b>
<b>Off balance sheet liabilities</b>				
Payables related to derivative operations	-	51	-	-
	<b>-</b>	<b>51</b>	<b>-</b>	<b>-</b>
<b>Net FX risk position</b>	<b>4</b>	<b>(1,061)</b>	<b>1</b>	<b>1</b>
Effect of forward exchange contracts	-	(5)	-	-
Effect of cash flow hedge of FX risk	-	980	-	-
<b>Net FX risk position (incl. forward exchange contracts and CF hedges on FX risk)</b>	<b>4</b>	<b>(86)</b>	<b>1</b>	<b>1</b>

Foreign currency denominated intercompany receivables and payables are included in sensitivity analysis for foreign exchange risk. These balances are eliminated in consolidated balance sheet but their effect on profit or loss of their currency revaluation is not fully eliminated. Therefore, the total amounts of exposure to foreign exchange risk do not equal to respective items reported on consolidated balance sheet.

Off-balance sheet assets and liabilities include payables and receivables from forward exchange contracts (refer to Note 30 – Financial instruments for more details).

The following significant exchange rates applied during the period:

CZK

	31 December 2019		31 December 2018	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
EUR 1	25.672	25.410	25.643	25.725

SENSITIVITY ANALYSIS

A strengthening (weakening) of the Czech crown, as indicated below, against the EUR and HUF at the reporting date would have increased (decreased) net assets by the amounts shown in the following table. 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

	2019	2018
	Profit (loss)	Profit (loss)
EUR (5% strengthening)	47	53
HUF (5% strengthening)	-	(1)

Effect in millions of EUR

	2019	2018
	Other comprehensive income	Other comprehensive income
EUR (5% strengthening)	-	-

A weakening of the Czech crown against the above currencies at the reporting date would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

E COMMODITY RISK

The Group’s exposure to commodity risk principally consists of exposure to fluctuations in the prices of commodities, especially energy, gas and emission allowances, both on the supply and the demand side. The Group’s primary exposure to commodity price risks arises from the nature of its physical assets, namely power plants and to a lesser extent from proprietary trading activities.

In case of favourable power prices, the Group manages the natural commodity risk connected with its electricity generation by selling the power it expects to produce in the cogeneration power plants and in ancillary services on an up to two-year forward basis. In case of low power prices, instead of entering into such forward contracts, the Group uses the flexibility of its own power generating capacities to react to current power prices with the aim to achieve better average selling price.

In addition, the Group purchases emission allowances on a forward basis.

The Group aims to reduce exposure to fluctuations in commodity prices through the use of swaps and various other types of derivatives.

The Group manages the commodity price risks associated with its proprietary trading activities by generally trading on a back-to-back basis, i.e., purchasing from the market where it has a customer in place to purchase the commodity.

Commodity derivatives primarily represents forwards on purchase or sale of electricity and swaps relating to gas which is typically used to hedge the commodity price for eustream’s operations, specifically locking the sales prices for surplus of gas-in-kind received from shippers (for more details refer to Note 31 – Financial instruments).

SENSITIVITY ANALYSIS

A 5% change in the market of the natural gas would have impact on the fair value of cash flow hedging derivatives of EUR 7 million (2018: negative EUR 17 million).

A 5% change in the market of the electricity would have impact on the fair value of cash flow hedging derivatives of negative EUR 6 million (2018: EUR 5 million)

A 5% change in the market of the electricity would have impact on the fair value of trading derivatives of EUR 0 million (2018: EUR 0 million).

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 is 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 recognized 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 recognized 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 manages its capital based on the proportionate net leverage. Defined as proportionate Net Debt / proportionate EBITDA.

In millions of EUR

	31 December 2019	31 December 2018
Proportionate Gross Debt*	3,839	3,700
Less: Proportionate cash and cash equivalents*	358	253
<b>Proportionate net debt</b>	<b>3,481</b>	<b>3,447</b>
Proportionate EBITDA*	887	802
<b>Proportionate net debt to proportionate EBITDA*</b>	<b>3.93</b>	<b>4.30</b>

\* The terms Proportionate Gross Debt, Proportionate cash and cash equivalents, Proportionate EBITDA and Proportionate net debt to proportionate EBITDA do not represent any such terms as might be included in any financing documentation of the EPIF Group. Proportionate values are calculated as values reported by individual companies (incl. eliminations and consolidation adjustments) multiplied by effective shareholding of the Company in them. In 2018 proportionate EBITDA neglects pro-forma EBITDA impacts from recent acquisitions of Plzeňská teplárenská, a.s. and NAFTA Germany GmbH and their subsidiaries.

The Group also monitors its debt to adjusted capital ratio. At the end of the reporting period the ratio was as follows:

In millions of EUR

	31 December 2019	31 December 2018
Total liabilities	7,777	6,910
Less: cash and cash equivalents	674	416
<b>Net debt</b>	<b>7,103</b>	<b>6,494</b>
Total equity attributable to the equity holders	411	(261)
Less: Other capital reserves related to common control transactions	(4,526)	(4,526)
Less: amounts accumulated in equity relating to cash flow hedges	(100)	(47)
<b>Adjusted capital</b>	<b>5,037</b>	<b>4,312</b>
<b>Debt to adjusted capital</b>	<b>1.41</b>	<b>1.51</b>

## I HEDGE ACCOUNTING

The balance as at 31 December 2019 represents primarily derivative agreements to hedge an interest rate, an 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 EPIF Group level.

The effective portion of fair value changes in financial derivatives designated as cash flow hedges are recognised in equity.

During the period the Group reclassified EUR 36 million (positive impact on profit or loss) including non-controlling interest from hedging reserves to profit or loss (2018: EUR 25 million (negative impact on profit or loss)).

The following table provides a reconciliation of amounts recorded in equity attributable to owners of the Company by category of hedging instrument:

In millions of EUR

	Commodity derivatives – cash flow hedge <sup>(1)</sup>	Interest rate swaps – cash flow hedge	Total
<b>Balance at 1 January 2019</b>	<b>(7)</b>	<b>(40)</b>	<b>(47)</b>
Cash flow hedges reclassified to profit or loss	(11)	6	(5)
Deferred tax – cash flow hedges reclassified to profit or loss	1	(1)	-
Revaluation of cash flow hedges	19	(78)	(59)
Deferred tax – cash flow hedges revaluation	(4)	15	11
<b>Balance at 31 December 2019</b>	<b>(2)</b>	<b>(98)</b>	<b>(100)</b>

(1) Including also hedge for foreign currency risk.

In millions of EUR

	Commodity derivatives – cash flow hedge <sup>(1)</sup>	Interest rate swaps – cash flow hedge	Total
<b>Balance at 1 January 2018</b>	<b>(8)</b>	<b>(5)</b>	<b>(13)</b>
Cash flow hedges reclassified to profit or loss	-	-	-
Deferred tax – cash flow hedges reclassified to profit or loss	-	-	-
Revaluation of cash flow hedges	(3)	(44)	(47)
Deferred tax – cash flow hedges revaluation	4	9	13
<b>Balance at 31 December 2018</b>	<b>(7)</b>	<b>(40)</b>	<b>(47)</b>

(1) Including also hedge for foreign currency risk.

#### CASH FLOW HEDGES – HEDGE OF FOREIGN CURRENCY RISK AND COMMODITY PRICE RISK OF REVENUES OF POWER PRODUCTION WITH FINANCIAL DERIVATIVES

The Group applies hedge accounting for hedging instruments designed to hedge the commodity price risk and the foreign currency risk of cash-flows from Group's power production sold to or commodities purchased from the third parties. This includes commodity derivatives with net settlement for commodity risk. As a result of the hedge relationship on the Group level, the Group recorded a change in a foreign currency cash flow hedge reserve of negative EUR 14 million (2018: positive EUR 11 million). For risk management policies, refer to Note 34 (d) and (e) – Risk management policies and disclosures.

#### CASH FLOW HEDGES – HEDGE OF COMMODITY PRICE RISK OF GAS

The Group applies hedge accounting for commodity hedging instruments designed to hedge cash flow from sales of gas. The hedging instruments are commodity swaps to hedge selling price for entities surplus of gas in-kind. A decline in the prices could result in a decrease in net income and cash flows. As a result of the hedge relationship on the Group level, the Group recorded a change in a cash flow hedge reserve of EUR 19 million (2018: negative EUR 10 million). For risk management policies, refer to Note 34 (e) – Risk management policies and disclosures.

The following tables provides details of cash flow hedge commodity derivatives gas and power for commodity price risk recorded by the Group as at 31 December 2019 and 2018:

In millions of EUR

	31 December 2019	31 December 2019	31 December 2019	31 December 2019
	Positive fair value	Negative fair value	Nominal amount hedged (buy)	Nominal amount hedged (sell)
Up to 3 months	18	16	88	88
3 months to 1 year	39	18	255	263
1–5 years	6	-	23	23
Over 5 years	-	1	12	13
<b>Total</b>	<b>63</b>	<b>35</b>	<b>378</b>	<b>387</b>

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
<b>Total</b>	<b>34</b>	<b>43</b>	<b>564</b>	<b>562</b>

The following tables provides details of cash flow hedge currency derivatives recorded by the Group as at 31 December 2019 and 2018:

In millions of EUR

	31 December 2019	31 December 2019	31 December 2019	31 December 2019
	Positive fair value	Negative fair value	Nominal amount hedged (buy)	Nominal amount hedged (sell)
Up to 3 months	-	1	53	54
3 months to 1 year	-	1	55	56
1–5 years	-	-	30	32
Over 5 years	-	-	-	-
<b>Total</b>	<b>-</b>	<b>2</b>	<b>138</b>	<b>142</b>

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	-	-	-	-
<b>Total</b>	-	-	<b>39</b>	<b>39</b>

## CASH FLOW HEDGES – HEDGE OF INTEREST RATE RISK

The Group applies hedge accounting for hedging instruments designed to hedge interest rate risk of its debt financing. The hedging instruments are interest rate swaps used in order to hedge risk related to repricing of interest rates on its financing. As a result of the hedge relationship on the Group level, the Group recorded a change in interest rate cash flow hedge reserve of negative EUR 59 million (2018: negative EUR 35 million). For risk management policies, refer to Note 34 (c) – Risk management policies and disclosures.

The following tables provides details of cash flow hedge interest rate swaps recorded by the Group as at 31 December 2019 and 2018:

In millions of EUR

	31 December 2019	31 December 2019	31 December 2019	31 December 2019
	Positive fair value	Negative fair value	Nominal amount hedged (buy)	Nominal amount hedged (sell)
Up to 3 months	-	-	8	8
3 months to 1 year	-	5	38	38
1–5 years	-	90	169	169
Over 5 years	-	5	1,170	1,170
<b>Total</b>	-	<b>100</b>	<b>1,385</b>	<b>1,38</b>

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
<b>Total</b>	-	<b>82</b>	<b>2,388</b>	<b>2,388</b>

## 35. Related parties

The Group has a related party relationship with its shareholders and other parties, as identified in the following table:

**A THE SUMMARY OF OUTSTANDING BALANCES WITH RELATED PARTIES AS AT 31 DECEMBER 2019 AND 31 DECEMBER 2018 WAS AS FOLLOWS:**

In millions of EUR

	Accounts receivable and other financial assets	Accounts payable and other financial liabilities	Accounts receivable and other financial assets	Accounts payable and other financial liabilities
	2019	2019	2018	2018
Ultimate shareholder <sup>(1)</sup>	-	-	-	-
Companies controlled by ultimate shareholders	26	36	32	47
Companies under significant influence by ultimate shareholders	2	11	4	10
Associates	8	-	6	-
Other related parties	-	-	-	-
<b>Total</b>	<b>36</b>	<b>47</b>	<b>42</b>	<b>57</b>

(1) Daniel Křetínský represents the ultimate shareholder.

**B THE SUMMARY OF TRANSACTIONS WITH RELATED PARTIES DURING THE PERIOD ENDED 31 DECEMBER 2019 AND 31 DECEMBER 2018 WAS AS FOLLOWS:**

In millions of EUR

	Revenues	Expenses	Revenues	Expenses
	2019	2019	2018	2018
Ultimate shareholder <sup>(1)</sup>	-	-	-	-
Companies controlled by ultimate shareholders	71	91	138	141
Companies under significant influence by ultimate shareholders	23	87	35	85
Associates	-	-	-	-
Other related parties	-	-	-	-
<b>Total</b>	<b>94</b>	<b>178</b>	<b>173</b>	<b>226</b>

(1) Daniel Křetínský represents the ultimate shareholder.

## TRANSACTIONS WITH THE KEY MANAGEMENT PERSONNEL

For the financial years ended 31 December 2019 and 2018 the EPIF Group's key management personnel is represented by members of the Board of Directors of the following major entities: EP Infrastructure, a.s., EP Energy, a.s., Stredoslovenská energetika Holding, a.s. and its major subsidiaries, SPP Infrastructure, a.s., eustream, a.s., SPP - distribúcia, a.s., NAFTA a.s., NAFTA Germany GmbH, POZAGAS a.s., Elektrárny Opatovice, a.s., Pražská teplárenská a.s., United Energy, a.s., Plzeňská teplárenská a.s., SPP Storage, s.r.o. and EP ENERGY TRADING, a.s.

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

In millions of EUR

	2019	2018
Nr. of personnel	65	63
Compensation, fees and rewards	4	4
Compulsory social security contributions	1	1
<b>Total</b>	<b>5</b>	<b>5</b>

Other remuneration of Group management (management of all components within the Group) is included in Note 9 – Personnel expenses. All transactions were performed under the arm's length principle.

## 36. Group entities

The list of the Group entities as at 31 December 2019 and 31 December 2018 is set out below:

		31 December 2019		31 December 2018		2019	2018
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso- lidation method	Conso- lidation method
EP Infrastructure, a.s. (CE Energy, a.s.)*	Czech Republic	-	-	-	-	-	-
EP Energy, a.s.*	Czech Republic	100	Direct	100	Direct	Full	Full
AISE, s.r.o.	Czech Republic	80	Direct	80	Direct	Full	Full
Pražská teplárenská a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Koncept, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
TERMONTA PRAHA a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
ENERGOPROJEKTA plan s.r.o.	Czech Republic	50.50	Direct	-	-	Equity	-
PT Transit, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Distribuční, s.r.o. (Devátá energetická, s.r.o.)	Czech Republic	85	Direct	-	-	Equity	-
PT měření, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Holding Investment B.V.*	Netherlands	100	Direct	100	Direct	Full	Full
Pražská teplárenská Holding a.s.*	Czech Republic	100	Direct	100	Direct	Full	Full
NPTH, a.s.*	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EVO – Komořany, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Severočeská teplárenská, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy Moldova, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy Invest, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
GABIT spol. s r.o.	Czech Republic	100	Direct	100	Direct	At cost	At cost
EP Sourcing, a.s. (former EP Coal Trading, 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	-	-	-	-	-	-
VTE Moldava II, a.s.*	Czech Republic	100	Direct	100	Direct	Full	Full
MR TRUST s.r.o.*	Czech Republic	100	Direct	100	Direct	Full	Full
Arisun, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Greeninvest Energy, a.s.	Czech Republic	41.70	Direct	41.70	Direct	Equity	IFRS 5
POWERSUN a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Triskata, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
VTE Pchery, s.r.o.	Czech Republic	64	Direct	64	Direct	Full	Full
CHIFFON ENTERPRISES LIMITED*	Cyprus	100	Direct	100	Direct	Full	Full
Claymore Equity, s.r.o.*	Slovakia	100	Direct	80	Direct	Full	Full
Alternative Energy, s.r.o.	Slovakia	90	Direct	90	Direct	Full	Full
Elektrárny Opatovice, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
V A H O s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full



		31 December 2019		31 December 2018		2019	2018
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso-lidation method	Conso-lidation method
Stredoslovenská energetika Holding, a.s. (Stredoslovenská energetika a.s.) <sup>(1)</sup>	Slovakia	49	Direct	49	Direct	Full	Full
Stredoslovenská distribučná, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
Elektroenergetické montáže, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
SSE – Metrológia s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Stredoslovenská energetika – Projekt Development, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SSE–Solar, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SPX, s.r.o.	Slovakia	33.33	Direct	33.33	Direct	Equity	Equity
Energotel, a.s.	Slovakia	20	Direct	20	Direct	Equity	Equity
SSE CZ, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
SPV100 s.r.o.	Slovakia	100	Direct	100	Direct	At cost	At cost
SSE – MVE, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Stredoslovenská energetika, a.s. (Stredoslovenská energetika Obchod, a.s.) <sup>(2)</sup>	Slovakia	100	Direct	100	Direct	Full	Full
EP ENERGY HR d.o.o.	Croatia	100	Direct	100	Direct	Full	Full
EP Cargo a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Budapesti Erőmű Zrt.	Hungary	95.62	Direct	95.62	Direct	Full	Full
KÖBÁNYAHŐ Kft.	Hungary	25	Direct	25	Direct	At cost	At cost
ENERGZET SERVIS a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Plzeňská teplárenská, a.s.	Czech Republic	35	Direct	35	Direct	Full	Full
Plzeňská teplárenská, AUTODOPRAVA s.r.o.	Czech Republic	-	-	100	Direct	-	At cost
Plzeňská teplárenská SERVIS IN a.s.	Czech Republic	100	Direct	100	Direct	At cost	At cost
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.	Slovakia	-	-	100	Direct	-	Full
Karotáz a cementace, s.r.o.	Slovakia	51	Direct	51	Direct	At cost	At cost
POZAGAS a.s.	Slovakia	65	Direct	65	Direct	Full	Full
NAFTA Services, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Ukraine B.V. (EP Sophievska B.V.)	Netherlands	10	Direct	-	-	At cost	-
NAFTA International B.V.*	Netherlands	100	Direct	100	Direct	Full	Full
NAFTA Germany GmbH	Germany	100	Direct	100	Direct	Full	Full
NAFTA Bavaria GmbH	Germany	100	Direct	100	Direct	Full	Full
NAFTA Speicher Management GmbH (DEA Speicher Management GmbH) <sup>(3)</sup>	Germany	100	Direct	100	Direct	Full	Full
NAFTA Speicher GmbH & Co. KG (DEA Speicher Holding GmbH & Co. KG) <sup>(4)</sup>	Germany	100	Direct	100	Direct	Full	Full
NAFTA Speicher Inzenham GmbH (DEA Speicher GmbH) <sup>(5)</sup>	Germany	100	Direct	100	Direct	Full	Full
NAFTA RV	Ukraine	100	Direct	100	Direct	Full	Full
CNG Holdings Netherlands B.V.*	Netherlands	50	Direct	50	Direct	Equity	Equity
CNG LLC	Ukraine	100	Direct	100	Direct	Equity	Equity
EPH Gas Holding B.V.*	Netherlands	100	Direct	100	Direct	Full	Full
Seattle Holding B.V.*	Netherlands	100	Direct	100	Direct	Full	Full
Slovak Gas Holding B.V.	Netherlands	100	Direct	100	Direct	Full	Full

		31 December 2019		31 December 2018		2019	2018
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso-lidation method	Conso-lidation method
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	At cost	At cost
Plynárenská metrológia, s.r.o.	Slovakia	100	Direct	100	Direct	At cost	At cost
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.	Slovakia	-	-	100	Direct	-	Full
Karotáz a cementace, s.r.o.	Czech Republic	51	Direct	51	Direct	At cost	At cost
POZAGAS a.s.	Slovakia	65	Direct	65	Direct	Full	Full
NAFTA Services, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
EP Ukraine B.V. (EP Sophievska B.V.)	Netherlands	10	Direct	-	-	At cost	-
NAFTA International B.V.*	Netherlands	100	Direct	100	Direct	Full	Full
NAFTA Germany GmbH	Germany	100	Direct	100	Direct	Full	Full
NAFTA Bavaria GmbH	Germany	100	Direct	100	Direct	Full	Full
NAFTA Speicher Management GmbH (DEA Speicher Management GmbH) <sup>(3)</sup>	Germany	100	Direct	100	Direct	Full	Full
NAFTA Speicher GmbH & Co. KG (DEA Speicher Holding GmbH & Co. KG) <sup>(4)</sup>	Germany	100	Direct	100	Direct	Full	Full
NAFTA Speicher Inzenham GmbH (DEA Speicher GmbH) <sup>(5)</sup>	Germany	100	Direct	100	Direct	Full	Full
NAFTA RV	Ukraine	100	Direct	100	Direct	Full	Full
CNG Holdings Netherlands B.V.*	Netherlands	50	Direct	50	Direct	Equity	Equity
CNG LLC	Ukraine	100	Direct	100	Direct	Equity	Equity
GEOTERM KOŠICE, a.s.	Slovakia	95.82	Direct	95.82	Direct	Full	Full
SPP Storage, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
POZAGAS a.s.	Slovakia	35	Direct	35	Direct	Full	Full
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	0.50	Direct	0.50	Direct	At cost	At cost
GALANTATERM spol. s r.o.	Slovakia	17.50	Direct	17.50	Direct	At cost	At cost
SPP Infrastructure Financing B.V.	Netherlands	100	Direct	100	Direct	Full	Full

\* Holding entity

- (1) In January 2019 Stredoslovenská energetika a.s. was renamed to Stredoslovenská energetika Holding, a.s.  
(2) In January 2019 Stredoslovenská energetika Obchod, a.s. was renamed to Stredoslovenská energetika, a.s.  
(3) On 31 January 2019 DEA Speicher Holding GmbH & Co. KG was renamed to NAFTA Speicher GmbH & Co. KG  
(4) On 14 February 2019 DEA Speicher GmbH was renamed to NAFTA Speicher Inzenham GmbH  
(5) On 19 February 2019 DEA Speicher Management GmbH was renamed to NAFTA Speicher Management GmbH

The structure above is listed by ownership of companies at the different levels within the Group.

## 37. 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.

### PLZEŇSKÁ TEPLÁRENSKÁ, A.S. (“PLTEP”)

In August 2012, Škoda Investment a.s. (SI) filed a claim for unjust enrichment against Plzeňská energetika a.s. (“PE”; merged with Plzeňská teplárenská, a.s. effectively on 31 October 2018, until then Plzeňská energetika, a.s. is used in the paragraph) for approximately EUR 2 million. This unjust enrichment claim allegedly arises from the fact that Plzeňská energetika a.s. owns and operates utility distribution systems (e.g., for gas, water and heat), which lie on the property of Škoda Investment a.s., thereby illegally restricting the ownership of Škoda Investment a.s. In February 2016 both parties, i.e. PE as well as SI, received an official request from the court to settle the dispute by mediation. Following this request the hearing has been adjourned until further notice. In June 2016 SI has filed an additional claim for unjust enrichment against PE for approximately EUR 1 million. Additional claim covers period 2013–2014. The claim was further extended in 2018 to the total of ca EUR 4 million. In January 2018, another court hearing was held and the Court ruled in favor of Plzeňská energetika, a.s. SI appealed and as a result of the appeal, the legal case was returned back to the District court, the hearing will take place in Q2 2020. Since the legal case is still open and after considering all the circumstances Plzeňská teplárenská, a.s. reported as of 31 December 2019 an adequate provision representing its best estimate of the outcome.

### WASTE INCINERATION PLANT PROJECT AND RELATED BANK GUARANTEE

PLTEP relationships with ČKD PRAHA DIZ, a.s., the former general supplier of the project ZEVO Plzeň (waste incineration plant, “ZEVO”), are primarily burdened by the year 2016 when PLTEP terminated a contract for work before the work itself was completed. In line with contractual documentation, PLTEP exercised a bank guarantee on completion of the work. ČKD PRAHA DIZ, a.s. has challenged this decision. ČKD PRAHA DIZ, a.s. is now in insolvency proceeding and is currently represented by an insolvency administrator. The bankruptcy was declared in May 2019. Based on an internal analysis, PLTEP recorded an accrual as at 31 December 2018 to account for the risk of return of the guarantee. In 2019 PLTEP almost fully used this accrual against realized payment. PLTEP currently considers the obligation to ČKD PRAHA DIZ a.s. as substantially settled.

### STREDOSLOVENSKÁ ENERGETIKA, A.S. GROUP (“SSE GROUP”)

The SSE Group is a party to various legal proceedings. As at 31 December 2019 no legal provisions were recorded. The Group management has decided not to disclose details in respect of material legal claims as they are currently ongoing, and disclosure may prejudice the SSE Group.

### REGULATORY PROCEEDINGS BY ERO AGAINST PRAŽSKÁ TEPLÁRENSKÁ (“PT”)

PT is involved in regulatory proceedings commenced in October 2015 by ERO claiming that prices charged to customers of PT’s local small-scale heating infrastructures in 2011 were in breach of the Czech Act on Prices. In March 2016, ERO issued a decision ordering PT to pay EUR 9 million (CZK 240 million) consisting of a penalty in the amount of EUR 4.5 million (CZK 120 million) and restitution to affected customers in the amount of EUR 4.5 million (CZK 120 million). PT appealed the decision on 24 March 2016 with supplemental information provided on 14 April 2016. On 7 July 2016 PT received a resolution from ERO by which the Chairman of ERO returned the case again to the first instance for a new hearing. In November 2016 PT received new decision which confirmed the result of the court of the first instance. PT appealed again and on 23 December 2016 ERO issued a decision changing the amount to be paid to EUR 8 million (CZK 222 million) consisting of a penalty in the amount of EUR 4 million (CZK 111 million) and restitution to affected customers in the amount of EUR 4 million (CZK 111 million). On 26 January 2017 PT filed an appeal on the decision and applied for suspensive effect. At the same time PT submitted a fine of EUR 4 million to the ERO’s account. On 23 February 2017 the regional court satisfied the request for a suspensive effect in full and on 28 April 2017 the ERU returned the fine back to PT and PT again conservatively recorded a provision of EUR 4 million. On 7 March 2019 the regional court cancelled the ERO decision and returned the matter back to ERO for a new proceeding. On 24 April 2019 ERO filed a cassation complaint to the Supreme Administrative Court. In June 2019 PT filed a request to ERO to terminate the proceedings due to the limitation period. The case is now at the Supreme Administrative Court and according to company’s internal and external lawyers the decision will not take place before April 2020. As the probability of a positive resolution is still in questions, the management assessed that the provision in original amount is still appropriate, following the prudent approach.

In August 2018, Pražská teplárenská a.s. (“PT”) received a notice on the commencement of an investigation procedure concerning a possible breach under provisions of the Act on Prices, which PT, as the seller in the price location “Prague – local gas sources”, is alleged to have committed in 2014 by demanding from customers heat energy prices which amount did not comply with the conditions of price regulation. In September 2019, ERO issued a decision ordering PT to pay EUR 3,3 million (CZK 85,2 million) consisting of a penalty in the amount of EUR 1,65 million (CZK 42,6 million) and restitution to affected customers in the amount of EUR 1,65 million (CZK 42,6 million). PT filed an appeal against this decision, on the basis of which the ERO Council in December 2019 annulled the decision and returned the case to the first instance for a new hearing. At the time being the proceeding continues with possible outcome still unclear, PT has decided not to create any provisions as at 31 December 2019.

## 38. Subsequent events

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

On 5 March 2020 the Company declared and paid a dividend of EUR 200 million to its shareholders.

### PANDEMIC OF CORONAVIRUS

Outbreak of new human-to-human airborne virus ("COVID-19") was described by World Health Organization as pandemic on 11 March 2020. Followed by state of emergency declared by Czech Government and Slovak Government on 12 March 2020 and 15 March 2020 respectively. Government authorities of both countries introduced various restrictions including restriction on cross-border movement of people, on free movement of people and their gathering, closing of retailers except those necessary to serve basic needs (as food, pharmacy, cleaning agents and similar), closing of restaurants, museums, cinemas, theatres, sport facilities, etc. Except the restrictions introduced by Government authorities, economies of both countries will be influenced also by voluntary temporary shutdown of some factories (mainly automotive) or voluntary limitation of business operations.

Within few days, the spread of COVID-19 has caused a serious situation across the whole society and global economy. The Group's management has been critically monitoring and evaluating the impacts with having implemented relevant measures. Main focus of the Group is guaranteeing health and safety of its employees, which remains the Group's top priority, and safeguarding the continuity of the essential energy services in the countries where EPIF operates.

The Group has performed analysis of a range of possible risks in connection with COVID-19 and has been implementing appropriate measures to mitigate the impact on employees and on the Group's operations. The risks are monitored regularly and taken measures are adjusted accordingly, as the situation remains unclear and volatile. Main measures implemented by management notably include:

- Implementation of extensive home office program, where employees that do not necessarily have to work from office are asked to work from home;
- Special regime for employees working in critical infrastructure – mainly dispatchers. Separation of these critical employees from others and restriction of access of other personnel to dispatching premises;
- Employees in production department have been trained to adhere to very strict precautionary standards including social distancing and increased disinfection.

Based on information available currently, despite potential short-term results' volatility caused by the pandemic, the Group's performance is not expected to be significantly impaired in the medium- to long-term as the majority of its operated assets remains regulated and/or long-term contracted with high quality counterparties. Furthermore, the Group's high cash conversion ability coupled with controls over counterparty credit risk and supplemented with committed liquidity lines arranged with banks should give the Group the ability to operate without significant financial difficulties.

### Subsequent events

The management cannot however preclude the possibility that extended lock down periods, an escalation in the severity of measures imposed by Government authorities, or a consequential adverse impact of such measures on the economic environment where the EPIF Group operates will not have an adverse effect on the Group, and its financial position and operating results, in the medium and longer term. The EPIF Group continues to monitor the situation closely and will respond to mitigate the impact of such events and circumstances as they occur.

Except for the matters described above and elsewhere in the Notes, the Company's management is not aware of any other material subsequent events that could have an effect on the consolidated financial statements as at 31 December 2019.

### APPENDICES\*:

#### Appendix 1 – Business combinations

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

Date:	Signature of the authorised representative	
8 April 2020		
	Daniel Křetínský	Gary Wheatley Mazzotti
	Chairman of the Board of Directors of EP Infrastructure, a.s.	Vice-Chairman of the Board of Directors of EP Infrastructure, a.s.

# 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 Plzeňská teplárenská, a.s. are provided in the following table..

In millions of EUR

	Carrying amount <sup>(1)</sup>	Fair value adjustment	2018 Total
Property, plant, equipment, land, buildings	199	(63)	136
Intangible assets	3	1	4
Deferred tax assets	-	6	6
Inventories	2	-	2
Trade receivables and other assets	9	-	9
Financial instruments – assets	2	2	4
Cash and cash equivalents	32	-	32
Provisions	(14)	(16)	(30)
Deferred tax liabilities	(10)	10	-
Loans and borrowings	(33)	-	(33)
Trade payables and other liabilities	(8)	-	(8)
<b>Net identifiable assets and liabilities</b>	<b>182</b>	<b>(60)</b>	<b>122</b>
Non-controlling interest			(79)
Goodwill on acquisitions of a subsidiary			-
<b>Cost of acquisition</b>			<b>43</b>
Consideration paid, satisfied in cash (A)			-
Consideration other			43
<b>Total consideration transferred</b>			<b>43</b>
Less: Cash acquired (B)			32
<b>Net cash inflow (outflow) (C) = (B - A)</b>			<b>32</b>

(1) Represents values at 100% share.

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 and its subsidiaries are provided in the following table.

In millions of EUR

	Carrying amount <sup>(1)</sup>	Fair value adjustment	2018 Total
Property, plant, equipment, land, buildings	104	76	180
Deferred tax assets	6	-	6
Inventories	1	-	1
Trade receivables and other assets	4	-	4
Cash and cash equivalents	43	-	43
Provisions	(73)	(6)	(79)
Deferred tax liabilities	-	(20)	(20)
Trade payables and other liabilities	(17)	-	(17)
<b>Net identifiable assets and liabilities</b>	<b>68</b>	<b>50</b>	<b>118</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(5)
<b>Cost of acquisition</b>			<b>113</b>
Consideration paid, satisfied in cash (A)			118
Consideration other			(5)
<b>Total consideration transferred</b>			<b>113</b>
Less: Cash acquired (B)			43
<b>Net cash inflow (outflow) (C) = (B - A)</b>			<b>(75)</b>

(1) Represents values at 100% share.



The purchase price allocation process was completed in 2019 and no significant differences between final figures and provisional figures, initially recorded for the year ended 31 December 2018, were noted.

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.



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**Independent Auditor's Report to the Statutory Financial Statements**

Statutory Financial Statements and Notes to the Statutory Financial Statements

” In 2019, adjusted Free Cash Flow rose by 8% to EUR 1,107 million, demonstrating EPIF's above-average rate of converting operating profits into free cash flows.





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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 EP Infrastructure, a.s.

### Report on the Audit of the Separate Financial Statements

#### Opinion

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

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2019, and of its unconsolidated financial performance and its unconsolidated 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, Regulation (EU) No. 537/2014 of the European Parliament and of the Council and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Separate Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the separate financial statements of the current period. These matters were addressed in the context of our audit of the separate financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

#### Valuation of investments in subsidiaries and associates

Refer to Note 2 (Significant accounting policies for preparation of the separate financial statements) and 6 (Investments in subsidiaries and associates).

Key audit matter	How the key audit matter was addressed
<b>The Company acts as a holding company and its main assets are investments in (unquoted) subsidiaries and associates.</b>	In this area, among other things, we conducted the following audit procedures:  Inquiring with the Company, we ascertained why the Company uses concrete assumptions and estimates affecting the valuation models used for the investments.
<b>These investments are measured at cost. At each balance sheet date, the Company tests whether the investments have been impaired.</b>	Our internal valuation specialist in the area of enterprise valuation evaluated the methodology used in the valuation, compared it with the methods used on the market, evaluated the main assumptions and estimates, including the used discount factors, and compared them with market standards in the industry. We critically evaluated the assumptions and estimates used for the compilation of the financial plans of the significant subsidiaries and associates in the context of our knowledge of those entities.
<b>The valuation of these unquoted investments depends on assumptions and estimates of their future development determined by the Company and especially on estimates on the investments' and discount factors' future financial performance. Hence, the valuation is connected with a significant level of uncertainty.</b>	We evaluated the historical reliability of the estimates related to future development by comparing the estimated financial plans for 2019 used in the valuation models prepared in 2018 to the actual results for 2019. We also compared the cash-flow plans included in the 2019 valuation models to the cash-flow plans included in the 2018 valuation models. We critically evaluated the Company's explanation of any significant deviations.
<b>As a result, the valuation of the investments constitutes a significant audit area.</b>	We evaluated whether the events occurring after the balance sheet date up to the issuance of the audit report had a significant negative impact on the assumptions and estimates used in the valuation models.  Additionally, we evaluated whether the



information presented in the notes to the separate financial statements was adequate and in compliance with Czech accounting legislation.

#### **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 1 to the separate financial statements, EP Infrastructure, a.s. will not issue a separate annual report as all information about the Company required to be disclosed in a separate annual report will be included in the consolidated annual report. Consequently, the auditor's report does not include our statement on the other information.

#### **Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Separate Financial Statements**

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

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

The Supervisory Board, in collaboration with the Audit Committee, is responsible for overseeing the Company's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the separate financial statements, whether due to fraud or error, design and perform audit procedures

responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the separate financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Report on Other Legal and Regulatory Requirements**

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and of the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:





#### *Appointment of Auditor and Period of Engagement*

We were appointed as the auditors of the Company by the General Meeting of Shareholders on 10 May 2019 and our uninterrupted engagement has lasted for 6 years.

#### *Consistency with Additional Report to Audit Committee*

We confirm that our audit opinion on the separate financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 21 February 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council.

#### *Provision of Non-audit Services*

We declare that no prohibited services referred to in Article 5 of Regulation (EU) No. 537/2014 of the European Parliament and of the Council were provided.

In addition to the statutory audit, the following services were provided by us to the Company and its controlled undertakings that have not been disclosed in notes to the separate financial statements or annual report:

Name	Description of services provided
Corporate income tax	Corporate income tax compliance – preparation of the corporate income tax return, VAT compliance.
IT services	Assistance with implementation of the Cyber Security Act requirements.
Comfort letter	Issuance of comfort letter regarding the bond issue.
Tax advisory	Support during tax inspection.
Management consulting advisory	Review of information system for customer care selection.
Corporate income tax	Limited tax review and assistance with preparation of corporate income tax return.
IT services	Provision of general workshops on Cyber security act regulation.
Agreed-upon-procedures	Issuance of an agreed upon procedures report relating a statement of the TPS deficit for 2018.
Sustainability report	Providing assurance report ISAE 3000 on Sustainability Report.
Transfer pricing	Review of the range of arm's length interest rate and guarantee fees between EPIF and subsidiaries.
Tax advisory	Advisory linked to calculation of the tax liability related to a previous acquisition.
Financial review	Review of the financial situation and tax position.



#### **Statutory Auditor Responsible for the Engagement**

Karel Charvát is the statutory auditor responsible for the audit of the separate financial statements of EP Infrastructure, a.s. as at 31 December 2019, based on which this independent auditor's report has been prepared.

Prague  
25 February 2020

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

*Karel Charvát*  
Karel Charvát  
Partner  
Registration number 2032

## Statutory Financial Statements and Notes to the Statutory Financial Statements



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In 2019, the volume of natural gas transported by Eustream was more than 69 billion cubic metres, which is 16% more than in the previous year.

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## Individual Financial Statements

as of and for the year ended 31 December 2019

Prepared in accordance  
with International Financial Reporting Standards  
as adopted by the European Union  
(translation from the Czech original)



# Statement of comprehensive income

For the year ended 31 December 2019  
In thousands of CZK

	Note	2019	2018
Sales: Other		11,892	16,673
<b>Total sales</b>		<b>11,892</b>	<b>16,673</b>
Cost of sales: Other		(564)	(330)
<b>Total cost of sales</b>		<b>(564)</b>	<b>(330)</b>
<b>Subtotal</b>		<b>11,328</b>	<b>16,343</b>
Personnel expenses	13	(65,573)	(54,108)
Depreciation and amortisation		(17)	(17)
Taxes and charges		(3)	(8)
Other operating income	18	434	45
Other operating expenses	18	(46,720)	(43,784)
<b>Profit (loss) from operations</b>		<b>(100,551)</b>	<b>(81,529)</b>
Interest income under the effective interest method	14	1,262,467	1,697,744
Interest expense	14	(1,087,573)	(1,555,662)
Other finance expense	14	(60,123)	(96,016)
Foreign currency differences	14	107,931	84 086
Profit (loss) from derivative instruments	14	93,169	(23,364)
Dividend income	14	12,866,323	1,079,830
Change in allowance to financial instruments	14	(53,170)	44,686
<b>Net finance income</b>		<b>13,129,024</b>	<b>1,231,303</b>
<b>Profit (loss) before income tax</b>		<b>13,028,473</b>	<b>1,149,774</b>
Income tax expenses	15	(67,229)	22,854
<b>Profit (loss) from continuing operations</b>		<b>12,961,244</b>	<b>1,172,628</b>
<b>Profit (loss) for the year</b>		<b>12,961,244</b>	<b>1,172,628</b>
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Effective portion of changes in fair value of cash-flow hedges, net of tax	15	(1,278,203)	(817,540)
<b>Other comprehensive income for the year</b>		<b>(1,278,203)</b>	<b>(817,540)</b>
<b>Total comprehensive income for the year</b>		<b>11,683,041</b>	<b>355,088</b>
<b>Basic and diluted earnings per share in CZK</b>	10	<b>40.13</b>	<b>3.63</b>

The notes presented on pages 206 to 255 form an integral part of these financial statements.

# Statement of financial position

As of 31 December 2019  
In thousands of CZK

	Note	31/12/2019	31/12/2018
<b>Assets</b>			
Equity investments	6	135,751,879	135,639,913
Property, plant and equipment		12	29
Intangible assets		1,231	1,231
Financial instruments and other financial assets	7	38,015,196	44,734,020
Deferred tax assets	16	328,351	95,754
<b>Total non-current assets</b>		<b>174,096,669</b>	<b>180,470,947</b>
Inventories		2,882	5,153
Trade receivables and other assets	8	11,179,427	109,466
Financial instruments and other financial assets	7	10,291,439	87,097
Tax receivables	8	556	7,848
Cash and cash equivalents	5	117,185	122,377
<b>Total current assets</b>		<b>21,591,489</b>	<b>331,941</b>
<b>Total assets</b>		<b>195,688,158</b>	<b>180,802,888</b>
<b>Equity</b>			
Share capital	9	80,750,000	80,750,000
Share premium		222,826	222,826
Other reserves		19,157,975	19,157,975
Retained earnings		28,040,050	26,643,391
Effective portion of changes in fair value of cash flow hedges, net of tax		(1,439,831)	(161,628)
<b>Total equity attributable to equity holders</b>		<b>126,731,020</b>	<b>126,612,564</b>
<b>Liabilities</b>			
Loans and borrowings	11	65,775,673	52,401,177
Financial instruments and financial liabilities	11	2,730,551	1,250,311
Deferred tax liabilities	16	-	-
<b>Total non-current liabilities</b>		<b>68,506,224</b>	<b>53,651,488</b>
Trade payables and other liabilities	12	27,062	21,068
Loans and borrowings	11	422,263	390,591
Financial instruments and financial liabilities	11	-	109,930
Provisions	12	1,589	17,247
<b>Total current liabilities</b>		<b>450,914</b>	<b>538,836</b>
<b>Total liabilities</b>		<b>68,957,138</b>	<b>54,190,324</b>
<b>Total equity and liabilities</b>		<b>195,688,158</b>	<b>180,802,888</b>

The notes presented on pages 206 to 255 form an integral part of these financial statements.



# Statement of changes in equity

In thousands of CZK

	Share capital	Other capital contribu-tions	Share premium	Effective portion of changes in fair value of cash flow hedges	Retained earnings	Total equity
Balance at 1 January 2018	80,750,000	19,157,975	222,826	655,912	31 486 738	132,273,451
Comprehensive income for the period						
Profit for the period	-	-	-	-	1,172,628	1,172,628
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(817,540)	-	(817,540)
Total comprehensive income for the period	-	-	-	(817,540)	1,172,628	355,088
Contributions by and distributions to Owners						
Dividends to equity holders	-	-	-	-	(6,015,975)	(6,015,975)
Balance at 31 December 2018	80,750,000	19,157,975	222,826	(161,628)	26,643,391	126,612,564
Comprehensive income for the period						
Profit for the period	-	-	-	-	12,961,244	12,961,244
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	(1,278,203)	-	(1,278,203)
Total comprehensive income for the period	-	-	-	(1,278,203)	12,961,244	11,683,041
Contributions by and distributions to Owners						
Dividends to equity holders	-	-	-	-	(11,564,585)	(11,564,585)
Balance as at 31 December 2019	80,750,000	19,157,975	222,826	(1,439,831)	28,040,050	126,731,020

The notes presented on pages 206 to 255 form an integral part of these financial statements.

# Cash flow statement

At 31 December 2019

In thousands of CZK

	Note	2019	2018
OPERATING ACTIVITIES			
Profit (loss) for the year		12,961,244	1,172,628
Adjustments for:			
Income tax	15	67,229	(22,854)
Depreciation and amortisation		17	17
Change in provisions		15,658	(110,864)
Change in adjustments	14	53,170	(44,686)
Interest income and expense	14	(174,894)	(142,082)
Other net finance income	14	60,123	-
Dividend income	14	(12,866,323)	(1,079,830)
Loss on financial instruments	14	(93,169)	23,364
Unrealised foreign exchange (gains) losses, net		(82,889)	18,320
Operating profit before changes in working capital		(91,150)	(185,987)
Change in trade receivables and other assets		(12,428)	(3,975)
Change in trade payables and other liabilities		5,994	(18,664)
Change in inventories		2,271	(5,153)
Cash generated from (used in) operations		(95,323)	(213,779)
Interest paid	5	(932,765)	(896,515)
Income taxes paid		7,292	23
Cash flows generated from (used in) operating activities		(1,020,796)	(1,110,271)
INVESTING ACTIVITIES			
Dividends received		1,657,362	1,074,850
Proceeds (outflows) from sale (settlement) of financial instruments		(176,185)	(3,496)
Acquisition of property, plant and equipment and intangible assets		-	(72)
Acquisition of subsidiaries, joint-ventures and associates, net of cash acquired	6	-	1,662,568
Advances to related parties		(12,972,105)	(6,368,750)
Interest received		749,759	1,221,915
Borrowings from related parties		9,279,268	8,081,698
Cash flows from (used in) investing activities		(1,461,901)	2,343,577
FINANCING ACTIVITIES			
Proceeds from loans received	5	16,657,358	49,063,946
Repayment of borrowings	5	(32,531,140)	(63,169,963)
Proceeds from debentures issued	5	30,096,950	19,106,250
Finance fees, charges paid		(180,502)	(539,566)
Dividends paid	5	(11,564,585)	(6,025,675)
Cash flows from (used in) financing activities		2,478,081	(1,565,008)
Net increase (decrease) in cash and cash equivalents		(4,616)	(331,702)
Cash and cash equivalents at beginning of the year		122,377	401,889
Effect of exchange rate fluctuations on cash held		(576)	52,190
Cash and cash equivalents at end of the year		117,185	122,377

The notes presented on pages 206 to 255 form an integral part of these financial statements.

# Notes to the financial statements

## (non-consolidated)

### EP INFRASTRUCTURE, A.S.

for period ended 31 December 2019  
(in thousands CZK)

## 1. Background

EP Infrastructure, a.s. (the “Company” or “EPIF”) was registered on 6 December 2013 by subscription of share capital in form of a monetary contribution of CZK 2 000 thousand.

The Company’s principal activity is the management of its own assets. The basic mission of the Company is the strategic management and development of companies directly or indirectly controlled by the Company, coordination of their activities, and management, acquisition and disposing of the Company’s ownership interests and other assets.

The financial year is identical with the calendar year. The financial statements were prepared for the period from 1 January 2019 to 31 December 2019 (“2019”). The comparable period (“2018”) is the financial year from 1 January 2018 to 31 December 2018.

### REGISTERED OFFICE

Pařížská 130/26  
Josefov  
110 00 Praha 1  
Czech Republic

Notes to the financial statements (non-consolidated)  
EP Infrastructure, a.s.  
for period ended 31 December 2019  
(in thousands CZK)

### THE SHAREHOLDERS OF THE COMPANY AS AT 31 DECEMBER 2019 WERE:

	Interest in share capital		Voting rights
	In thousands CZK	%	%
EPIF Investments a.s.	55,717,500	69%	69%
CEI INVESTMENTS S.à r.l.	25,032,500	31%	31%
<b>Total</b>	<b>80,750,000</b>	<b>100%</b>	<b>100%</b>

### THE SHAREHOLDERS OF ENERGETICKÝ A PRŮMYSLOVÝ HOLDING, A.S., THE 100% OWNER OF EPIF INVESTMENTS A.S. AS AT 31 DECEMBER 2019 WERE:

	Interest in share capital		Voting rights
		%	%
EP Investment S.à r.l.		53%	53%
EP Investment II S.à r.l.		47%	47%
<b>Total</b>		<b>100%</b>	<b>100%</b>

The consolidated financial statements of the widest group of entities for 2019 will be prepared by EP Investment S.à r.l. with its registered office at Avenue John F. Kennedy 39, L-1855 Luxembourg.

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

The Company prepares its consolidated financial statements in accordance with the International Financial Reporting Standards adopted by the European Union (“EU”). The Czech translation of the consolidated financial statements, along with the consolidated annual report, will be published in the Commercial Register. The Company does not prepare an individual annual report as at the date of these individual financial statements, as all information will be included in the consolidated annual report.

### MEMBERS OF THE BOARD OF DIRECTORS AND SUPERVISORY BOARD AS AT 31 DECEMBER 2019 WERE:

#### MEMBERS OF THE BOARD OF DIRECTORS

Daniel Křetínský (chairman)  
Jiří Zrůst (vice-chairman)  
Gary Wheatley Mazzotti (vice-chairman)  
Marek Spurný (member)  
Pavel Horský (member)  
Milan Jalový (member)  
Stéphane Louis Brimont (member)

#### MEMBERS OF THE SUPERVISORY BOARD

Jan Špringl (chairman)  
William David George Price (vice-chairman)  
Petr Sekanina (member)  
Jiří Feist (member)  
Jan Stříteský (member)  
Rosa Maria Villalobos Rodriguez (member)

## 2. Basis of preparation

### A STATEMENT OF COMPLIANCE

The 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 EU.

The financial statements were approved by the Board of Directors of the Company on 25 February 2020.

These financial statements are non-consolidated.

### B CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The 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.

The Company has consistently applied the following accounting policies to all periods presented in these financial statements.

### C FUNCTIONAL AND PRESENTATION CURRENCY

The Company's functional and presentation currency is Czech crown ("CZK").

### 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, by definition, will not always be equal the related actual values.

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 the current period as well as 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:

- Note 7 – Financial instruments
- Note 11 – Financial instruments and financial liabilities

#### DETERMINATION OF FAIR VALUES

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

The Group, of which the Company is a component, 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 on market 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 Company 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 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 Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

### E SEGMENT REPORTING

The Company reports income from sale of products and services in the Czech Republic. Most income is financial income and is described in detail in note 14 to these financial statements.

## F RECENTLY ISSUED ACCOUNTING STANDARDS

### I. NEWLY ADOPTED STANDARDS

The following paragraphs provide a summary of the key requirements of IFRS that are effective for annual periods beginning on or after 1 January 2018 and that have thus been applied by the Company for the first time.

#### 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.

According to the Company's analysis, IFRS 16 has no material impact on the Company's financial statements.

#### 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 Company has assessed the impact of the adoption of IFRIC 23 on its financial statements. Based on the result of the assessment the Company concluded that the new Standard does not have a material impact on the financial statements of the Company.

#### AMENDMENT TO IAS 28 LONG-TERM INVESTMENTS IN ASSOCIATES AND JOINT VENTURE (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)

The Amendment clarifies that entities shall account for investments in associates or joint ventures, for which equity method is not applied, in accordance with provisions of IFRS 9.

The amendment has no impact on the Company's financial statements.

#### AMENDMENT TO IAS 19 PLAN AMENDMENT, CURTAILMENT OR SETTLEMENT (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)

The Amendment clarifies that if an amendment, curtailment or settlement of a defined-benefit plan takes place, updated actuarial assumptions shall be used to determine current service cost and net interest for the period, and that the effect of the asset ceiling shall not be considered when calculating a gain or loss on settlement, as this amount shall be recognised in profit or loss.

The amendment has no impact on the Company'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 has no impact on the Company's financial statements.

#### IMPROVEMENTS TO IFRS 2015-2017 CYCLE (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)

The Improvements concern the following standards: IFRS 3 and IFRS 11 (clarifies that an entity shall remeasure its previously held interest in a joint operation when it obtains control of the business; the entity shall not remeasure its previously held interest in a joint operation when it obtains joint control of the joint operation); IAS 12 (clarifies income tax consequences of dividend payments) and IAS 23 (clarifies that if any specific borrowing is outstanding once the related asset is prepared for its intended use or sale, the borrowing shall become a part of funds borrowed generally by the entity, by applying the capitalisation rate).

The amendment has no impact on the Company's financial statements.

### II. STANDARDS NOT YET EFFECTIVE

#### AMENDMENTS TO REFERENCES TO THE CONCEPTUAL FRAMEWORK IN IFRS STANDARDS (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020 (NOT YET ENDORSED BY THE EU))

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.

**AMENDMENT TO IFRS 3 DEFINITION OF A BUSINESS  
(EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020  
(NOT YET ENDORSED BY THE EU))**

The amendment aims to clarify difficulties in the entities determining whether they have acquired a business or a group of assets. The amended definition emphasises the outputs of a business, which the provision goods and services to customers, while the previous definition emphasised a return in the form of dividends, lower costs or other economic benefits for investors and others. The amendment also adds guidance to help entities make the assessment, and an optional concentration test.

The amendment will have no impact on the Company's financial statements.

**AMENDMENTS TO IAS 1 AND IAS 8: DEFINITION OF MATERIAL  
(EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020  
(NOT YET ENDORSED BY THE EU))**

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 based on those financial statements, which provide financial information about a specific reporting entity.

The amendments will probably not have any material impact on the Company's financial statements.

**IFRS 17 INSURANCE CONTRACTS  
(EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2021  
(NOT YET ENDORSED BY THE EU))**

Insurance contracts combine the features of a financial instrument and of a contract for services. Furthermore, most insurance contracts generate cash flows of significant variability over a long time. To provide useful information about these features, IFRS 17 combines the currently used methods of future cash flows' valuation with profit recognition over the term of the services' provision under the contract, records insurance services separately from financial profit or loss from insurance, and requires entities to choose, whether to present the full amount of financial profit or loss from insurance in profit or loss or whether to present a part of it in other comprehensive income.

Considering the nature of the Company's main activities, the Company expects that the amendment will not have any impact on the Company's financial statements.

**AMENDMENTS TO IFRS 9, IAS 39 AND IFRS 7 – INTEREST RATE BENCHMARK REFORM  
(EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2021  
(NOT YET ENDORSED BY THE EU))**

The amendment regulates some specific requirements for hedge accounting and provides relief from the possible accounting impacts of the uncertainty caused by the interest rate benchmark reform (concerning "IBOR" – inter-bank offered rates). The amendment also requires the disclosure of specific information on how the entity's hedging relationships are affected by changes to IBOR.

The amendment will not have any impact on the Company's financial statements.

The Company 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 Company elects to apply the Standards prospectively from the date of transition.

The Company expects that other issued accounting standards not yet effective for disclosure in these financial statements will have no impact on the Company's financial statements as at the date of their adoption.

## 3. Significant accounting policies

The Company has consistently applied the following accounting policies to all periods presented in these financial statements.

### A CASH AND CASH EQUIVALENTS

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

### B EQUITY INVESTMENTS

As required by IAS 27, the Company has applied measurement at cost for investments in subsidiaries, associates, and jointly controlled entities. Equity investments are tested for impairment yearly (see Note 3 (d)).

## C NON-DERIVATIVE FINANCIAL ASSETS

### I. CLASSIFICATION

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

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

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

Principal is the fair value of the financial asset at initial recognition. Interest consists of consideration for the time value of money, for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs, as well as a profit margin. Loans and receivables which meet SPPI test and business model test are normally classified by the Company 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 Company may make an irrevocable election at initial recognition for particular investments in *equity instruments* (except equity investments as described in Note 3 (b)) 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.

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 Company 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 Company 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 Company are derivatives.

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

### II. RECOGNITION

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

### III. MEASUREMENT

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

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 fair value through other comprehensive income (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 fair value through other comprehensive income (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 Company is recognised as a separate asset or liability.

## V. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

## D IMPAIRMENT

### I. NON-FINANCIAL ASSETS

The carrying amounts of the Company's assets and deferred tax assets (refer to Note 3 (j) – Income taxes) are reviewed at each reporting date to determine any objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. For intangible assets that have an indefinite useful life or that are not yet available for use, the recoverable amount is estimated at least once every 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 from the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU").

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 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.

### II. FINANCIAL ASSETS (INCLUDING TRADE AND OTHER RECEIVABLES AND CONTRACT ASSETS)

The Company 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 Company 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 Company 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 Company 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 for the financial asset has been credit-impaired.

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

- 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 but 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
- the Company negotiates with the debtor about debt's restructuring (at the request of the debtor or the Company); or
- the probability of default (PD) of the debtor increases by 20%; or
- other material events have occurred which require individual assessment (e.g., development of external ratings of sovereign credit risk).

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

- a financial asset or its significant part is overdue for more than 90 days; or
- 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
- insolvency proceedings or similar proceedings under 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 such proceedings 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
- the probability of default of the borrower increases by 100% compared to the previous rating (which is not a relevant condition in the ECL model for intra-group loans and receivables); or
- other material events have occurred which require individual assessment (e.g. development of external ratings of sovereign credit risk).

For the purposes of ECL calculation, the Company uses components needed for the calculation, namely probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). 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 Company 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 recognized in income statement. For debt securities at FVOCI, the loss allowance is recognised in OCI.

### E NON-DERIVATIVE FINANCIAL LIABILITIES

The Company has the following non-derivative financial liabilities:

- loans and borrowings, debt security issues, 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 or loss. Attributable transaction costs relating to financial assets measured at fair value through profit or loss 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 value*.

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

### F DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

The Company holds derivative financial instruments to hedge its foreign currency and interest rate 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 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 (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.

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 IAS 39 (the Company has not yet applied hedging accounting principles in accordance with IFRS 9). These derivatives are designated for trading, and related profit and loss from changes in fair value is recognised in profit and loss.

Hedging instruments consisting 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 Company maintains formal documentation of the hedging relationship and the Company's risk management objective and strategy for undertaking the hedge. The Company 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 intended transaction is no longer expected to occur, then the balance in equity is reclassified to profit or loss. In case the future intended transaction is still expected to occur then the balance remains in equity and is transferred 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.



## G PROVISION

A provision is recognised in the statement of financial position when the Company has a present legal or constructive obligation as a result of a past event, when (i) it is probable that an outflow of economic benefits will be required to settle the obligation and when (ii) 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).

## H REVENUE

### REVENUE FROM SERVICES

The Company applies IFRS 15 to recognise revenues from contracts with customers.

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, and the amount of revenue can be measured reliably.

Revenue from services 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.

## I 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.

## 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.

## J 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 consists of estimated income tax (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 affects neither accounting nor taxable profit or loss, and
- temporary differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future.

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 unused tax losses or temporary differences will be realised.

## K DIVIDENDS

Dividends are recognised within other comprehensive income as of the date when the Company's right to receive the relevant income was established. Received shares on profit are recognised in current profit or loss, i.e. in the period when the payment of the profit share was declared.

## 4. Determination of fair values

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

### A NON-DERIVATIVE FINANCIAL ASSETS

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets 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 of the Company, using pricing models or discounted cash flows techniques.

Where discounted cash flow techniques are used, estimated future cash flows are based on the best estimates of the management of the Company 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 held at amortized cost is determined for disclosure purposes only.

### B 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.

### C DERIVATIVES

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 (currency) is estimated by discounting the difference between the forward values and the current values till 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 Company and the credit risk of the counterparty when appropriate.

## 5. Cash and cash equivalents

In thousands of CZK

	31 December 2019	31 December 2018
Cash on hand	-	12
Current accounts with banks	117,185	122,365
<b>Total cash and cash equivalents</b>	<b>117,185</b>	<b>122,377</b>

Reconciliation of movement of liabilities to cash flows arising from financing activities:

	Loans from credit institutions	Loans from other than credit institutions	Issued debentures	Retained earnings	Total liabilities and retained earnings
<b>Balance as at 1 January 2019</b>	<b>33,403,902</b>	<b>-</b>	<b>19,387,866</b>	<b>26,643,391</b>	<b>79,435,159</b>
<i>Changes from financing cash flows</i>					
Received loans and borrowings	16,657,358	-	30,096,950	-	46,754,308
Repayment of borrowings	(32,531,140)	-	-	-	(32,531,140)
Dividend paid	-	-	-	(11,564,585)	(11,564,585)
<b>Total change from financing cash flows</b>	<b>(15,873,782)</b>	<b>-</b>	<b>30,096,950</b>	<b>(11,564,585)</b>	<b>2,658,583</b>
<b>Total effect of changes in foreign exchange rates</b>	<b>(148,714)</b>	<b>-</b>	<b>(604,457)</b>	<b>-</b>	<b>(753,171)</b>
<i>Other liability changes</i>					
Transaction costs related to loans and borrowings (net)	(18,033)	-	(200,604)	-	(218,637)
Interest expense	538,693	-	548,880	-	1,087,573
Interest paid	(595,301)	-	(337,464)	-	(932,765)
<b>Total liability-related other changes</b>	<b>(74,641)</b>	<b>-</b>	<b>10,812</b>	<b>-</b>	<b>(63,829)</b>
<b>Profit for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,961,244</b>	<b>12,945,183</b>
<b>Balance at 31 December 2019</b>	<b>17,306,765</b>	<b>-</b>	<b>48,891,171</b>	<b>28,040,050</b>	<b>94,237,986</b>

	Loans from credit institutions	Loans from other than credit institutions	Issued debentures	Retained earnings	Total liabilities and retained earnings
Balance as at 1 January 2018	46,936,899	-	-	31,486,738	78,423,637
Changes from financing cash flows					
Received loans and borrowings	47,933,646	1,130,300	19,106,250	-	68,170,196
Repayment of borrowings	(62,037,660)	(1,132,303)	-	-	(63,169,963)
Dividend paid	-	-	-	(6,025,675)	(6,025,675)
Total change from financing cash flows	(14,104,014)	(2,003)	19,106,250	(6,025,675)	(1,025,442)
Total effect of changes in foreign exchange rates	294,440	2,007	188,264	9,700	494,411
Other liability changes					
Transaction costs related to loans and borrowings (net)	(148,407)	-	(140,815)	-	(289,222)
Interest expense	1,318,372	3,123	234,167	-	1,555,662
Interest paid	(893,388)	(3,127)	-	-	(896,515)
Total liability-related other changes	276,577	(4)	93,352	-	369,925
Profit/(loss)	-	-	-	1,172,628	1,172,628
Balance at 31 December 2018	33,403,902	-	19,387,866	26,643,391	79,435,159

## 6. Equity investments

Company name	Total profit (+) loss (-) for the period 01/01/2019 – 31/12/2019*	Equity at 31/12/2019*	Value of equity investment in foreign currency at 31/12/2019	Net value of equity investment at 31/12/2019	Net value of equity invest- ment at 31/12/2018
	(in TCZK/TEUR)	(in TCZK/TEUR)	(in TEUR)	(in TCZK)	(in TCZK)
EP Energy, a.s. („EPE“)	2,973,963 (CZK)	19,429,303 (CZK)	1,262,158	34,731,570	34,619,604
Czech Gas Holding Investment B.V. („CGHI“)	27,052 (EUR)	115,876 (EUR)	355,700	9,623,464	9,623,464
EPH Gas holding B. V. („EPHGH“)	328,688 (EUR)	333,758 (EUR)	3,235,000	89,734,277	89,734,277
Plzeňská teplárenská, a.s. („PT“)	398,270 (CZK)	5,081,618 (CZK)	-	1 662,568	1,662,568
Total equity investments				135,751,879	135,639,913

\* Information based on unaudited financial statements at 31 December 2019.

All equity investments are fully owned by the Company, with the exception of Plzeňská teplárenská, a.s. (35%, with managerial control).

As at 31 December 2019, the registered offices of the companies were as follows:

EP Energy, a.s.	Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
Czech Gas Holding Investment B.V.	Schiphol Boulevard 477 Tower C4, 1118 BK Schiphol, Netherlands
EPH Gas holding B. V.	Schiphol Boulevard 477 Tower C4, 1118 BK Schiphol, Netherlands
Plzeňská teplárenská, a.s.	Doubravecká 2760/1, Východní Předměstí, 301 00 Plzeň, Czech Republic

## 7. Financial instruments

### FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

In thousands of CZK

	31 December 2019	31 December 2019
Financial assets measured at amortised costs		
Loans to other than credit institutions:		
EPH Gas Holding B. V. („EPHGH“)	8,366,112	15,350,848
Slovak Gas Holding B.V. („SGH“)	23,262,887	22,997,691
EP Energy, a.s. („EPE“)	16,677,636	6,472,578
Total	48,306,635	44,821,117
Non-current	38,015,196	44,734,020
Current	10,291,439	87,097
Total	48,306,635	44,821,117

## FAIR VALUE INFORMATION

Fair values and the respective loans carried at amortised costs are disclosed in the following table:

In thousands of CZK

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Loan EPHGH	8,366,112	8,366,112	15,350,848	15,376,626
Loan SGH	23,262,887	23,339,110	22,997,691	23,281,594
Loan EPE	16,677,636	16,781,380	6,472,578	6,475,806
<b>Total</b>	<b>48,306,635</b>	<b>48,486,602</b>	<b>44,821,117</b>	<b>45,134,026</b>

The fair value hierarchy of loans provided to non-financial institutions is based on Level 3 inputs (for detail of valuation methods refer to Note 2 (d) i – *Assumption and estimation uncertainties*).

## 8. Trade receivables and other assets

In thousands of CZK

	31 December 2019	31 December 2018
Trade receivables	16,126	6,360
Estimated receivables	294	3,987
Advance payments	6,670	861
Tax receivables	556	7,848
Dividends declared	11,156,337	-
Other receivables and assets	-	98,258
<b>Total</b>	<b>11,179,983</b>	<b>117,314</b>
<i>Current</i>	11,179,983	117,314
<b>Total</b>	<b>11,179,983</b>	<b>117,314</b>

At 31 December 2019 and at 31 December 2018 no trade receivables and other assets were past due.

The Company's exposure to credit and currency risks and risk of impairment losses related to trade receivables and other assets is disclosed in Note 19 – *Risk management policies and disclosures*.

## 9. Equity

### SHARE CAPITAL AND SHARE PREMIUM

The authorised, issued and fully paid share capital of the Company as at 31 December 2019 and 31 December 2018 consisted of 222,870,000 ordinary shares with a par value of CZK 250 each ("Shares A") and 100,130,000 shares, to which special rights are connected as specified in the Articles of Incorporation, with a par value of CZK 250 each ("Shares B").

Each shareholder is entitled to receive dividends and to cast 1 vote per 1 share of nominal value CZK 250 at meetings of the Company's shareholders.

### 31 DECEMBER 2019 AND 2018

In thousands of shares

	Number of shares		Ownership interest	Voting rights
	CZK 250		%	%
	Shares A	Shares B		
EPIF Investments a.s.	222,870	-	69.00	69.00
CEI INVESTMENTS S.à r.l.	-	100,130	31.00	31.00
<b>Total</b>	<b>222,870</b>	<b>100,130</b>	<b>100.00</b>	<b>100.00</b>

## 10. Earnings per share

### BASIC EARNINGS PER SHARE

Basic earnings per share in CZK per 1 share of CZK 250 (2018: in CZK per 1 share of CZK 250) nominal were equal to 40.13 CZK per 1 share (2018: 3.63 CZK per 1 share).

The calculation of basic earnings per share as at 31 December 2019 and as at 31 December 2018 was based on profit attributable to ordinary shareholders of CZK 12,961,244 thousand (2018: CZK 1,172,628 thousand), and a weighted average number of ordinary shares outstanding of 323,000,000 (2018: 323,000,000).



WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2019 AND 2018

In pieces

	Nominal	Weighted
Issued shares	323,000,000	323,000,000
<i>of which as at 16 February 2017 classified as:</i>		
<i>Shares A (1 share/CZK 250)</i>	<i>222,870,000</i>	<i>222,870,000</i>
<i>Shares B (1 share/CZK 250)</i>	<i>100,130,000</i>	<i>100,130,000</i>
<b>Total</b>	<b>323,000,000</b>	<b>323,000,000</b>

DILUTED EARNINGS PER SHARE

As the Company issued no convertible debentures or other financial instruments with dilutive potential effects on ordinary share, diluted earnings per share are equal to the basic earnings per share.

11. Financial instruments and financial liabilities

FINANCIAL LIABILITIES CARRIED AT AMORTISED COST

In thousands of CZK

	31 December 2019	31 December 2018
Loans payable to credit institutions	17,306,765	33,403,902
Issued debentures	48,891,171	19,387,866
<b>Other liabilities</b>	<b>66,197,936</b>	<b>52,791,768</b>
Non-current	65,775,673	52,401,177
Current	422,263	390,591
<b>Total</b>	<b>66,197,936</b>	<b>52,791,768</b>

The weighted average interest rate on loans for 2019 was 1.775% (2018: 1.753%).

FINANCIAL LIABILITIES CARRIED AT FAIR VALUE

In thousands of CZK

	31 December 2019	31 December 2018
<b>Hedging: of which</b>	1,291,652	1,250,311
<i>Interest rate swaps related to cash flow hedge</i>	<i>1,291,652</i>	<i>1,250,311</i>
<b>Risk management purpose: of which</b>	1,438,899	109,930
<i>Interest rate swaps reported as trading</i>	<i>1,438,899</i>	<i>109,930</i>
<b>Total</b>	<b>2,730,551</b>	<b>1,360,241</b>
Non-current	2,730,551	1,250,311
Current	-	109,930
<b>Total</b>	<b>2,730,551</b>	<b>1,360,241</b>

Derivative financial instruments held at fair value were categorised within Level 2 of the fair value hierarchy (for details on the valuation methods refer to Note 2 (d) i – *Assumption and estimation uncertainties*).

ISSUED DEBENTURES AT AMORTISED COST

Details about debentures issued as at 31 December 2019 are presented in the following table:

In thousands of CZK

	Principal	Accrued interest	Unamortised transaction costs	Maturity	Interest rate (%)	Effective interest rate (%)
EPIF 2024 Notes	19,057,500	215,684	(100,534)	26/04/2024	1.659	1.786
EPIF 2026 Notes	15,246,000	108,516	(91,312)	30/07/2026	1.698	1.795
2027 Private Offering	1,778,700	11,109	(25,267)	08/04/2027	2.150	2.36
EPIF 2028 Notes	12,705,000	59,299	(73,524)	09/10/2028	2.045	2.117
<b>Total</b>	<b>48,787,200</b>	<b>394,608</b>	<b>(290,637)</b>	-	-	-

2024 NOTES

On 26 April 2018, the Company successfully placed at par its debut international offering of EUR 750 million. Notes are issued in nominal value of EUR 100,000 each and bear 1.659% fixed rate and are unsecured (“2024 Notes”). The 2024 Notes are listed on Irish Stock Exchange (Euronext Dublin).

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

The Company may prematurely redeem all, but not part, of the 2024 Notes at a redemption price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional

amounts, if any, plus a “make whole” premium. Further, the Company may redeem all, but not part, of the 2024 Notes at a price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax laws. Upon the occurrence of a certain change of control events, the Company may be required to offer to redeem the 2024 Notes prematurely at the principal amount of 100 % of the prematurely redeemed, plus accrued and unpaid interest and additional amounts, if any.

The 2024 Notes contain a covenant limiting certain types of distributions to issuer’s shareholders in certain circumstances. The Company has to monitor the ratio of total amount of Group’s net debt to Group’s EBITDA (i.e. net leverage) before certain types of distributions are carried out.

The 2024 Notes are stated net of debt issue costs of CZK 140,815 thousand. These costs are allocated to the income statement over the term of the 2024 Notes through the effective interest rate of 1.786%.

#### 2026 NOTES

On 30 July 2019, the Company successfully placed at par its offering of EUR 600 million 1.698% fixed rate unsecured notes due in July 2026 in the denomination of EUR 100,000 each (“2026 Notes”). The 2026 Notes are listed on Irish Stock Exchange (Euronext Dublin).

Unless previously redeemed or cancelled, the 2026 Notes will be redeemed at their principal amount on 30 July 2026.

The Company may prematurely redeem all, but not part, of the 2026 Notes at a redemption price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, plus a “make whole” premium. Further, the Company may redeem all, but not part, of the 2026 Notes at a price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax laws. Upon the occurrence of a certain change of control events, the Company may be required to offer to redeem the 2026 Notes prematurely at the principal amount of 100 % of the prematurely redeemed, plus accrued and unpaid interest and additional amounts, if any.

The 2026 Notes contain a covenant limiting certain types of distributions to issuer’s shareholders in certain circumstances. The EPIF Group has to monitor the ratio of total amount of Group’s net debt to Group’s EBITDA (i.e. net leverage) before certain types of distributions are carried out.

The 2026 Notes are stated net of debt issue costs of CZK 97,723 thousand. These costs are allocated to the income statement over the term of the 2026 Notes through the effective interest rate of 1.795%.

#### PRIVATE OFFERING

On 8 April 2019, the Company placed EUR 70 million eight-year notes, which were accepted for trading at the Third Market operated by Vienna Stock Exchange. The notes bear interest at 6M EURIBOR +2.15%, are unsecured and due in April 2027 (“Private Offering”).

The Company may prematurely redeem all, but not part, of the Private Offering at a redemption price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, plus a “make whole” premium. Further, the Company may redeem all, but not part, of the Private Offering at a price equal to 100% of the aggregate principal amounts thereof

plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax laws. Upon the occurrence of a certain change of control events, the Company may be required to offer to redeem the Private Offering prematurely at the principal amount of 100 % of the prematurely redeemed, plus accrued and unpaid interest and additional amounts, if any.

The Private Offering is stated net of debt issue costs of CZK 27,621 thousand. These costs are allocated to the income statement over the term of the Private Offering through the effective interest rate of 2.36%.

#### 2028 NOTES

On 9 October 2019, the Company successfully placed at par its offering of EUR 500 million 2.045% fixed rate unsecured notes due in October 2028 in the denomination of EUR 100,000 each (“2028 Notes”). The 2028 Notes are listed on Irish Stock Exchange (Euronext Dublin).

Unless previously redeemed or cancelled, the 2028 Notes will be redeemed at their principal amount on 9 October 2028.

The Company may prematurely redeem all, but not part, of the 2028 Notes at a redemption price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, plus a “make whole” premium. Further, the Company may redeem all, but not part, of the 2028 Notes at a price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax laws. Upon the occurrence of a certain change of control events, the Company may be required to offer to redeem the 2028 Notes prematurely at the principal amount of 100 % of the prematurely redeemed, plus accrued and unpaid interest and additional amounts, if any.

The 2028 Notes contain a covenant limiting certain types of distributions to issuer’s shareholders in certain circumstances. The Company has to monitor the ratio of total amount of Group’s net debt to Group’s EBITDA (i.e. net leverage) before certain types of distributions are carried out.

The 2028 Notes are stated net of debt issue costs of CZK 75,261 thousand. These costs are allocated to the income statement over the term of the 2028 Notes through the effective interest rate of 2.117%.

#### LOANS AT AMORTISED COST

Details about the loans as at 31 December 2019 are presented in the following overview:

In thousands of CZK

	Principal	Accrued interest	Unamortised transaction costs	Maturity	Interest rate (%)
Bank loan	12,705,000			19/07/2023	Variable*
Schuldschein loan I	1,219,680			24/04/2026	Variable*
Schuldschein loan II	3,417,645			24/04/2024	Variable*
<b>Total</b>	<b>17,342,325</b>	<b>27,655</b>	<b>(63,215)</b>	<b>-</b>	<b>-</b>

\* Variable interest rate is derived from EURIBOR plus margin. All rates are set at arm’s length.

#### FACILITIES AGREEMENT CONCLUDED BY THE COMPANY

The Company is a party to a senior term and revolving facilities agreement dated 19 July 2018 with a group of financing banks (the “Company’s Facilities Agreement”), pursuant to which the Company has been provided with term facility A in the amount of EUR 750 million due 19 July 2022, term facility B in the amount EUR 500 million due 19 July 2023 and a revolving facility C up to the amount of EUR 250 million due 19 July 2023.

The debts of the Company under the Company’s Facilities Agreement are general, senior unsecured debts of the Company and rank equally in right of payment with the Company’s existing and future indebtedness that is not subordinated in right of payment.

The Company’s Facilities Agreement contains restrictive provisions which, among other things, limit the Group’s ability to incur additional financial indebtedness, perform acquisitions, invest in joint ventures, make distributions and certain other payments, dispose of assets, provide loans or guarantees, or create security or the Company’s ability to merge with other companies. These restrictions are subject to a number of exceptions and qualifications. For example, the Company can make distributions and certain other payments and the Group can perform acquisitions if, among other things, the Group net leverage does not exceed a certain limit, and the Group can incur additional financial indebtedness if, among other things, certain net leverage limits set for various Group levels are met. In addition, under the Company’s Facilities Agreement, if the rating of the Company drops below a certain level, the Group will become subject to a regularly tested net leverage covenant on the Group level. The Company’s Facilities Agreement also contains change of control provisions the triggering of which may result in mandatory prepayment.

In 2019, facility A in the amount of EUR 750 million was repaid and the outstanding transaction costs relating to facility A were released to the income statement.

#### SCHULDSCHEIN LOANS

On 15 April 2019, the Company entered into two Schuldschein loan agreements. The first loan amounted to EUR 134.5 million due on 24 April 2024, and the second loan amounted to EUR 48 million due on 24 April 2026.

The debts of the Company under the Schuldschein loan agreements are general unsecured debts of the Company and rank equally in right of payment with EPIF’s existing and future indebtedness that is not subordinated in right of payment.

#### CASH FLOW HEDGES – HEDGE OF FOREIGN CURRENCY RISK WITH NON-DERIVATIVE FINANCIAL LIABILITY

The Company applies hedge accounting for hedging instruments designed to hedge the foreign currency risk of revenues denominated in foreign currency (EUR). The hedging instruments are the relevant portions of the nominal values of drawn credit facilities in EUR in the total amount of EUR 440 million (at 31 December 2018: EUR 440 million) of the total volume of drawn loan of EUR 500 million. The hedged cash inflows in EUR which the Company considers highly probable and which follow from dividends paid by subsidiaries are expected to occur and impact profit or loss in the period from 2020 to 2032. As a result of the hedging relationship, the Company

reported CZK 836,250 thousand in equity as at 31 December 2019 (at 31 December 2018: CZK 774,651 thousand), including the related deferred tax of CZK (158,887) thousand (at 31 December 2018: CZK (147,185) thousand). In 2019, as a result of realised hedged cash flows from the amount recognised in equity in relation to the application of the hedge accounting, CZK 77,000 thousand was transferred to income accounts (2018: CZK 59,674 thousand).

	Cash flow hedges (currency risk)	Cash flow hedges (currency risk) – deferred tax	Interest rate swap (hedging)	Interest rate swap (hedging) – deferred tax	Effect from hedge accounting
<b>Balance at 31/12/2017</b>	<b>915,725</b>	<b>(173,988)</b>	<b>(105,957)</b>	<b>20,132</b>	<b>655,912</b>
Utilisation of cash flow hedges	(59,674)	-	-	-	(59,674)
Revaluation of cash flow hedges	(81,400)	-	-	-	(81,400)
Deferred tax – cash flow hedges	-	26,803	-	-	26,804
Change in fair value of interest rate swaps	-	-	(868,233)	-	(868,234)
Deferred tax – interest rate swaps	-	-	-	164,964	164,964
<b>Balance at 31/12/2018</b>	<b>774,651</b>	<b>(147,185)</b>	<b>(974,190)</b>	<b>185,096</b>	<b>(161,628)</b>
Utilisation of cash flow hedges	(77,000)	-	-	-	(77,000)
Revaluation of cash flow hedges	138,599	-	-	-	138,599
Deferred tax – cash flow hedges	-	(11,702)	-	-	(11,702)
Reclassified to profit for the period	-	-	162,242	-	162,242
Change in fair value of interest rate swaps	-	-	(1,801,872)	-	(1,801,872)
Deferred tax – interest rate swaps	-	-	-	311,530	311,530
<b>Balance at 31/12/2019</b>	<b>836,250</b>	<b>(158,887)</b>	<b>(2,613,820)</b>	<b>496,626</b>	<b>(1,439,831)</b>

#### FAIR VALUE INFORMATION

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

In thousands of CZK

	31 December 2019		31 December 2018	
	Carrying amount	Fair values	Carrying amount	Fair values
Bank loan	17,306,765	17,372,178	33,403,902	33,033,408
Issued debentures	48,891,171	48,857,916	19,387,866	17,692,369
<b>Total</b>	<b>66,197,936</b>	<b>66,230,094</b>	<b>52,791,768</b>	<b>50,725,777</b>

Issued debentures are categorised within Level 1 of the fair value hierarchy. Bank loans are categorised within Level 3 of the fair value hierarchy (for detail of valuation methods refer to Note 2 (d) i – *Assumption and estimation uncertainties*).

## 12. Trade payables and other liabilities

In thousands of CZK

	31 December 2019	31 December 2018
Trade payables	21,170	16,463
Estimated payables	987	759
Payroll liabilities	2,308	1,780
Other tax liabilities	2,078	1,542
Provisions	1,589	17,247
Declared dividends	-	-
Other liabilities	519	524
<b>Total</b>	<b>28,651</b>	<b>38,315</b>
<i>Current</i>	<i>28,651</i>	<i>38,315</i>
<b>Total</b>	<b>28,651</b>	<b>38,315</b>

The estimate of liabilities is based on contractual conditions or on invoices received after the balance sheet date, but before the issuance of the financial statements.

Trade payables and other liabilities have not been secured as at 31 December 2019 and 31 December 2018.

As at 31 December 2019 and 31 December 2018, no liabilities to tax authorities were overdue.

## 13. Personnel expenses

In thousands of CZK

	2019	2018
Wages and salaries	38,484	30,682
Compulsory social security contributions	10,478	8,973
Board members' remuneration	16,600	14,445
Other social expenses	11	8
<b>Total</b>	<b>65,573</b>	<b>54,108</b>

The average adjusted number of employees during 2019 was 21 (2018: 17), of which 7 (2018: 7) were executives.

## 14. Finance income and expense, profit (loss) from financial instruments

### RECOGNISED IN PROFIT OR LOSS

In thousands of CZK

	2019	2018
Interest income (under the effective interest method)	1,262,467	1,697,744
Net foreign exchange gain	107,931	84,085
Dividend income	12,866,323	1,079,830
Gain from release of allowances to loans	-	44,686
<b>Finance income</b>	<b>14,236,721</b>	<b>2,906,345</b>
Interest expense (under the effective interest method)	(1,087,573)	(1,555,662)
Fees and commissions expense for other financing services	(60,123)	(96,016)
Loss from allowances to loans	(53,170)	-
<b>Finance costs</b>	<b>(1,200,866)</b>	<b>(1,651,678)</b>
Profit (loss) from hedging derivatives	(162,242)	(3,652)
Profit (loss) from interest rate derivatives held for trading	255,411	(19,712)
<b>Profit (loss) from financial instruments</b>	<b>93,169</b>	<b>(23,364)</b>
<b>Net finance income (expense) recognised in profit or loss</b>	<b>13,129,024</b>	<b>1,231,303</b>



## 15. Income tax expenses

### INCOME TAX RECOGNISED IN PROFIT OR LOSS

In thousands of CZK

	2019	2018
<i>Current taxes:</i>		
Current year	-	-
Adjustment for prior periods	-	-
<b>Total current taxes</b>	<b>-</b>	<b>-</b>
<i>Deferred taxes:</i>		
Origination and reversal of temporary differences <sup>(1)</sup>	(67,229)	22,854
<b>Total deferred taxes</b>	<b>(67,229)</b>	<b>22,854</b>
<b>Total income taxes (expense) benefit recognised in profit or loss for continuing operations</b>	<b>(67,229)</b>	<b>22,854</b>

(1) For details refer to Note 16 – Deferred tax assets and liabilities.

Deferred tax was calculated using currently enacted tax rate expected to apply when the asset is realised, or the liability settled. According to Czech legislation the corporate income tax rates was 19% for fiscal year 2019 (19% for 2018).

### INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

In thousands of CZK

	2019		
	Gross	Income tax	Net of income tax
Effective portion of changes in fair value of hedging instruments (currency risk)	61,599	(11,702)	49,897
Effective portion of changes in fair value of hedging instruments (interest rate risk)	(1,639,630)	311,530	(1,328,100)
<b>Total</b>	<b>(1,578,031)</b>	<b>299,828</b>	<b>(1,278,203)</b>

In thousands of CZK

	2018		
	Gross	Income tax	Net of income tax
Effective portion of changes in fair value of hedging instruments (currency risk)	(141,074)	26,803	(114,271)
Effective portion of changes in fair value of hedging instruments (interest rate risk)	(868,233)	164,964	(703,269)
<b>Total</b>	<b>(1,009,307)</b>	<b>191,767</b>	<b>(817,540)</b>

### RECONCILIATION OF EFFECTIVE TAX RATE

In thousands of CZK

		2019		2018
	%		%	
Profit from continuing operations before tax		13,028,473		1,149,774
Income tax using the Czech domestic rate (19 %)	19.0%	(2,475,410)	19.0%	(218,457)
Non-taxable income – dividends	(18.8%)	2,444,601	(17.9%)	205,168
Other non-taxable income	-	-	(0.2%)	2,492
Non-deductible expenses – interest	0.8%	(97,842)	8.0%	(91,459)
Non-deductible expenses – other financial expenses	0.2%	(31,607)	4.6%	(52,523)
Non-deductible expenses – provisions	0.0%	(114)	-	-
Non-deductible expenses – other	0.1%	(13,060)	1.4%	(15,793)
Other differences	-	-	0.5%	(6,257)
Change in unrecognised deferred tax asset	0.1%	(10,102)	(0.8%)	8,490
Other differences in financial instruments held at amortised costs	(0.9%)	116,305	(16.6%)	191,193
<b>Income taxes recognised in comprehensive income statement</b>	<b>0.5%</b>	<b>(67,229)</b>	<b>(2.0%)</b>	<b>22,854</b>

## 16. Deferred tax assets and liabilities

### THE FOLLOWING DEFERRED TAX ASSETS AND LIABILITIES HAVE BEEN RECOGNISED

In thousands of CZK

	31 December 2019	31 December 2019	31 December 2018	31 December 2018
Temporary difference related to:	Assets	Liabilities	Assets	Liabilities
Financial instruments and financial liabilities	-	(67,232)	-	(49,001)
Loans and borrowings	49,577	-	65,113	-
Derivatives	496,626	-	185,096	-
Cash flow hedges	-	(158,887)	-	(147,184)
Tax losses	8,267	-	41,730	-
<b>Total</b>	<b>554,470</b>	<b>(226,119)</b>	<b>291,939</b>	<b>(196,185)</b>
<b>Total (net)</b>	<b>328,351</b>	<b>-</b>	<b>95,754</b>	<b>-</b>

The Company had not recognised a deferred tax asset of CZK 36,615 thousand (31 December 2018: CZK 26,512 thousand).

Movements in deferred tax during the year:

In thousands of CZK

Balance related to:	Balance at 1 January 2019	Recognised in profit or loss	Recognised in other comprehensive income	Balance at 31 December 2019
Financial instruments and financial liabilities	(49,001)	(18,231)	-	(67,232)
Loans and borrowings	65,113	(15,535)	-	49,577
Derivatives	185,096	-	311,530	496,626
Cash flow hedges	(147,184)	-	(11,702)	(158,887)
Tax losses	41,730	(33,463)	-	8,267
<b>Total</b>	<b>95,754</b>	<b>(67,229)</b>	<b>299,826</b>	<b>328,351</b>

Movements in deferred tax during the prior period:

In thousands of CZK

Deferred tax assets (liabilities) related to:	Balance at 1 January 2018	Recognised in profit or loss	Recognised in equity	Balance at 31 December 2018
Financial instruments and financial liabilities	(94,877)	45,876	-	(49,001)
Loans and borrowings	57,294	7,819	-	65,113
Derivatives	20,132	-	164,966	185,096
Cash flow hedges	(173,987)	-	26,803	(147,184)
Tax losses	72,571	(30,841)	-	41,730
<b>Total</b>	<b>(118 867)</b>	<b>22 854</b>	<b>191 769</b>	<b>95 754</b>

## 17. Financial commitments and contingencies

The Company recognized receivables in the amount of CZK 38,115,000 thousand in its off-balance sheet accounts (31 December 2018: CZK 48,877,500 thousand) and payables in the amount of CZK 38,115,000 thousand (31 December 2018: CZK 48,877,500 thousand), which represented the notional value of the concluded derivatives.

The Company also recognised an undrawn revolving facility in the amount of CZK 6,352,500 thousand (31 December 2018: CZK 5,222,175).

## 18. Operating expenses and income

### SALES

Sales of the Company comprise provided support and consulting services.

### OTHER OPERATING EXPENSES

In thousands of CZK

	2019	2018
Audit, accounting, consolidation	30,668	25,705
Tax advisory	569	499
Legal advisory	696	509
Other advisory	2,884	5,392
Rent expenses	4,589	3,703
Travel expenses	2,823	4,188
Change in provisions	-	(4,575)
Other	4,491	8,363
<b>Total for continuing operations</b>	<b>46,720</b>	<b>43,784</b>

Information on remuneration to statutory auditors will be provided in the notes to the financial statements of the parent company of which the Company is part.

No significant research and development expenses were recognised in profit and loss for the year ended 31 December 2019 and 31 December 2018

## 19. Risk management policies and disclosures

This section provides details of the Company's exposure to financial and operational risks and the way it manages such risk. The most important types of financial risks to which the Company is exposed are credit risk, liquidity risk, interest rate risk and foreign exchange risk.

As part of its operations, the Company is exposed to different market risks, notably the risk of changes in interest rates and exchange rates. To minimise this exposure, the Company 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

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations and arises principally from loans and advances.

#### ADDITIONAL ASPECTS MITIGATING CREDIT RISK

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures.

At the reporting date, the maximum exposure to credit risk by the type of counterparty and by geographic region is provided in the following tables.

#### CREDIT RISK BY TYPE OF COUNTERPARTY

AS AT 31 DECEMBER 2019

In thousands of CZK

	Corporate (non-financial institutions)	State, government	Banks	Total
<b>Assets</b>				
Cash and cash equivalents	-	-	117,185	<b>117,185</b>
Trade receivables and other assets and tax receivables	11,179,427	556	-	<b>11,179,983</b>
Financial instruments and other financial assets	48,306,635	-	-	<b>48,306,635</b>
<b>Total</b>	<b>59,486,062</b>	<b>556</b>	<b>117,185</b>	<b>59,603,803</b>

AS AT 31 DECEMBER 2018

In thousands of CZK

	Corporate (non-financial institutions)	State, government	Banks	Total
<b>Assets</b>				
Cash and cash equivalents	-	-	122,377	<b>122,377</b>
Trade receivables and other assets and tax receivables	109,466	7,848	-	<b>117,314</b>
Financial instruments and other financial assets	44,821,117	-	-	<b>44,821,117</b>
<b>Total</b>	<b>44,930,583</b>	<b>7,848</b>	<b>122,377</b>	<b>45,060,808</b>

#### CREDIT RISK BY LOCATION OF DEBTOR

AS AT 31 DECEMBER 2019

In thousands of CZK

	Czech Republic	Netherlands	Other	Total
<b>Assets</b>				
Cash and cash equivalents	117,185	-	-	<b>117,185</b>
Trade receivables and other assets and tax receivables	18,710	11,156,338	4,935	<b>11,179,983</b>
Financial instruments and other financial assets	16,677,636	31,628,999	-	<b>48,306,635</b>
<b>Total</b>	<b>16,813,531</b>	<b>42,785,337</b>	<b>4,935</b>	<b>59,603,803</b>

AS AT 31 DECEMBER 2018

In thousands of CZK

	Czech Republic	Netherlands	Other	Total
<b>Assets</b>				
Cash and cash equivalents	122,377	-	-	<b>122,377</b>
Trade receivables and other assets and tax receivables	41,508	75,774	32	<b>117,314</b>
Financial instruments and other financial assets	6,472,578	38,348,539	-	<b>44,821,117</b>
<b>Total</b>	<b>6,636,463</b>	<b>38,424,313</b>	<b>32</b>	<b>45,060,808</b>

## I. IMPAIRMENT LOSSES

All financial assets of the Company were classified at Stage 1.

The ageing of financial assets, excluding cash and cash equivalents and derivatives, at the reporting date was as follows:

### CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

AS AT 31 DECEMBER 2019

In thousands of CZK

	Trade receivables and other assets	Loans to other than credit institutions	Total
Before maturity (net)	11,179,983	48,306,635	59,486,618
After maturity (net)	-	-	-
<b>Total</b>	<b>11,179,983</b>	<b>48,306,635</b>	<b>59,486,618</b>
A – Assets for which an allowance has been created			
– gross	-	48,499,344	48,499,344
– specific loss allowance	-	(192,709)	(192,709)
– collective loss allowance	-	-	-
<b>Net</b>			
B – Assets for which an allowance has not been created (overdue but not impaired)			
– after maturity <30 days	-	-	-
– after maturity 31–180 days	-	-	-
<b>Net</b>			
<b>Total</b>	<b>11,179,983</b>	<b>48,306,635</b>	<b>59,486,618</b>

The movements in the allowance for impairment in respect of financial assets during the year ended 31 December 2019 were as follows:

In thousands of CZK

	Loans to other than credit institutions	Total
<b>Balance at 1 January 2019</b>	139,539	139,539
Impairment losses recognised during the year	53,170	53,170
Reversals of impairment losses recognised during the year	-	-
<b>Balance at 31 December 2019</b>	<b>192,709</b>	<b>192,709</b>

## CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

AS AT 31 DECEMBER 2018

In thousands of CZK

	Trade receivables and other assets	Loans to other than credit institutions	Total
Before maturity (net)	117,314	44,821,117	44,938,431
After maturity (net)	-	-	-
<b>Total</b>	<b>117,314</b>	<b>44,821,117</b>	<b>44,938,431</b>
A – Assets for which a provision has been created			
– gross	-	44,960,656	44,960,656
– specific loss allowance	-	(139,539)	(139,539)
– collective loss allowance	-	-	-
<b>Net</b>			
B – Assets for which a provision has not been created (overdue but not impaired)			
– after maturity <30 days	-	-	-
– after maturity 31–180 days	-	-	-
<b>Net</b>			
<b>Total</b>	<b>117,314</b>	<b>44,821,117</b>	<b>44,938,431</b>

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

In thousands of CZK

	Loans to other than credit institutions	Total
<b>Balance at 1 January 2018</b>	<b>184,225</b>	<b>184,225</b>
Impairment losses recognised during the year	-	-
Reversals of impairment losses recognised during the year	(44,686)	(44,686)
<b>Balance at 31 December 2018</b>	<b>139,539</b>	<b>139,539</b>



**B LIQUIDITY RISK**

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

The Company's management focuses on methods used by financial institutions, i.e. diversification of sources of funds. This diversification makes the Company flexible and limits its dependency on one financing source. Liquidity risk is evaluated by monitoring changes in the structure of financing and comparing these changes with the Company's liquidity risk management strategy.

Typically, the Company 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 overview below provides an analysis of the Company's 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 disclosed. Those liabilities that do not have a contractual maturity date are grouped together in the "undefined maturity" category. The table below provides an analysis of the Company's financial assets and 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 while for assets the latest possible repayment date is disclosed. Those assets and liabilities that do not have a contractual maturity date are grouped together in the "undefined maturity" category.

**MATURITIES OF FINANCIAL LIABILITIES**

AS AT 31 DECEMBER 2019

In thousands of CZK

	Carrying amount	Contractual cash flows <sup>(1)</sup>	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
<b>Liabilities</b>							
Loans and borrowings	66,197,936	72,519,725	459,211	872,537	38,799,934	32,388,043	-
Financial instruments and financial liabilities	2,730,551	3,263,524	-	396,632	1,991,045	875,847	-
Trade payables and other liabilities	28,651	28,651	27,062	-	-	-	1,589
<b>Total</b>	<b>68,957,138</b>	<b>75,811,900</b>	<b>486,273</b>	<b>1,269,169</b>	<b>40,790,979</b>	<b>33,263,890</b>	<b>1,589</b>

(1) Contractual cash flows disregard discounting to net present value and include potential future interest.

AS AT 31 DECEMBER 2018

In thousands of CZK

	Carrying amount	Contractual cash flows <sup>(1)</sup>	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
<b>Liabilities</b>							
Loans and borrowings	52,791,768	56,776,151	5,532	989,838	36,293,251	19,487,530	-
Financial instruments and financial liabilities	1,360,241	1,360,241	-	109,930	122,185	1,128,126	-
Trade payables and other liabilities	38,315	38,315	21,068	-	-	-	17,247
<b>Total</b>	<b>54,190,324</b>	<b>58,174,707</b>	<b>26,600</b>	<b>1,099,768</b>	<b>36,415,436</b>	<b>20,615,656</b>	<b>17,247</b>

(1) Contractual cash flows disregard discounting to net present value and include potential future interest.

It is not expected that the cash flows included in the maturity analysis would occur significantly earlier or in significantly different amounts.

**C INTEREST RATE RISK**

The Company's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets and interest-bearing liabilities 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 Company's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped together in the "maturity undefined" category.

Various types of derivatives are used to reduce the amount of debt exposed to interest rate fluctuations and to reduce borrowing costs and include mainly interest rate swaps.

These contracts are normally agreed with a notional amount lower than or equal to that of the underlying financial liability and expiry date, so that any change in the fair value and/or expected future cash flows of these contracts is offset by a corresponding change in the fair value and/or the expected future cash flows from the underlying position.

Financial information relating to interest bearing and non-interest bearing assets and liabilities and their contractual maturity or re-pricing dates as at 31 December 2019 is as follows:

In thousands of CZK

	Up to 1 year	1–5 years	Over 5 years	Undefined maturity	Total
<b>Assets</b>					
Cash and cash equivalents	117,185	-	-	-	<b>117,185</b>
Trade receivables and other assets and tax receivables	-	-	-	11,179,983	<b>11,179,983</b>
Financial instruments and other financial assets	14,873,450	33,433,185	-	-	<b>48,306,635</b>
<b>Total</b>	<b>14,990,635</b>	<b>33,433,185</b>	<b>-</b>	<b>11,179,983</b>	<b>59,603,803</b>
<b>Liabilities</b>					
Loans and borrowings <sup>(1)</sup>	19,032,543	18,956,966	27,786,164	422,263	<b>66,197,936</b>
Financial instruments and financial liabilities	2,730,551	-	-	-	<b>2,730,551</b>
<i>out of which Derivatives – inflow (receivables)</i>	<i>38,115,000</i>	-	-	-	<i>38,115,000</i>
<i>– outflow (payables)</i>	<i>-</i>	<i>(4,065,600)</i>	<i>(34,049,400)</i>	-	<i>(38,115,000)</i>
Trade payables and other liabilities	-	-	-	28,651	<b>28,651</b>
<b>Total</b>	<b>21,763,094</b>	<b>18,956,966</b>	<b>27,786,164</b>	<b>450,914</b>	<b>68,957,138</b>
<b>Net interest rate risk position</b>	<b>(6,772,459)</b>	<b>14,476,219</b>	<b>(27,786,164)</b>	<b>10,729,069</b>	<b>(9,353,335)</b>
<b>Net interest rate risk position (incl. IRS)</b>	<b>31,342,541</b>	<b>10,410,619</b>	<b>(61,835,564)</b>	<b>10,729,069</b>	<b>(9,353,335)</b>

(1) Disregarding agreed interest rate swaps.

Interest rate risk exposure as at 31 December 2018 was as follows:

In thousands of CZK

	Up to 1 year	1–5 years	Over 5 years	Undefined maturity	Total
<b>Assets</b>					
Cash and cash equivalents	122,377	-	-	-	<b>122,377</b>
Trade receivables and other assets and tax receivables	-	-	-	117,314	<b>117,314</b>
Financial instruments and other financial assets	6,385,481	38,348,539	-	87,097	<b>44,821,117</b>
<b>Total</b>	<b>6,507,858</b>	<b>38,348,539</b>	<b>-</b>	<b>204,411</b>	<b>45,060,808</b>
<b>Liabilities</b>					
Loans and borrowings <sup>(1)</sup>	33,231,669	-	19,169,508	390,591	<b>52,791,768</b>
Financial instruments and financial liabilities	1,360,241	-	-	-	<b>1,360,241</b>
<i>out of which Derivatives – inflow (receivables)</i>	<i>48,877,500</i>	-	-	-	<i>48,877,500</i>
<i>– outflow (payables)</i>	<i>(10,290,000)</i>	<i>(3,770,914)</i>	<i>(34,816,586)</i>	-	<i>(48,877,500)</i>
Trade payables and other liabilities	-	-	-	38,315	<b>38,315</b>
<b>Total</b>	<b>34,591,910</b>	<b>-</b>	<b>19,169,508</b>	<b>428,906</b>	<b>54,190,324</b>
<b>Net interest rate risk position</b>	<b>(28,084,052)</b>	<b>38,348,539</b>	<b>(19,169,508)</b>	<b>(224,495)</b>	<b>(9,129,516)</b>
<b>Net interest rate risk position (incl. IRS)</b>	<b>10,503,448</b>	<b>34,577,625</b>	<b>(53,986,094)</b>	<b>(224,495)</b>	<b>(9,129,516)</b>

(1) Disregarding agreed interest rate swaps.

**SENSITIVITY ANALYSIS**

The Company performs stress testing using a standardised interest rate shock, 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 interest rates would have increased or decreased Company’s profit by the amounts shown in the table below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

In thousands of CZK

	31/12/2019	31/12/2018
	Profit (loss)	Profit (loss)
Decrease in interest rates by 1%	(313,425)	(105,034)
Increase in interest rates by 1%	313,425	105,034

## D FOREIGN EXCHANGE RISK

The Company takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Company is exposed to a currency risk on sales, purchases and borrowings that are denominated in currency other than the Company's functional currency, primarily EUR.

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 functional currency against the foreign 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 Company ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot FX rates when necessary to address short-term imbalances on the single Companies level.

As of 31 December 2019, Company's financial assets and liabilities based on denomination were as follows:

In thousands of CZK

	CZK	EUR	Other	Total
<b>Assets</b>				
Cash and cash equivalents	70,704	46,481	-	117,185
Trade receivables and other assets and tax receivables	18,742	11,161,241	-	11,179,983
Financial instruments and other financial assets	-	48,306,635	-	48,306,635
	<b>89,446</b>	<b>59,514,357</b>	<b>-</b>	<b>59,603,803</b>
<b>Off-balance sheet assets</b>				
Receivables from derivative operations	-	38,115,000	-	38,115,000
	<b>-</b>	<b>38,115,000</b>	<b>-</b>	<b>38,115,000</b>
<b>Liabilities</b>				
Loans and borrowings	-	66,197,936	-	66,197,936
Financial instruments and financial liabilities	2,730,551	-	-	2,730,551
Trade payables and other liabilities	25,981	283	2,387	28,651
	<b>2,756,532</b>	<b>66,198,219</b>	<b>2,387</b>	<b>68,957,138</b>
<b>Off-balance sheet liabilities</b>				
Payables related to derivative operations	-	38,115,000	-	38,115,000
Commitments received	-	6,352,500	-	6,352,500
	<b>-</b>	<b>44,467,500</b>	<b>-</b>	<b>44,467,500</b>
<b>Net FX risk position</b>	<b>(2,667,086)</b>	<b>(6,683,862)</b>	<b>(2,387)</b>	<b>(9,353,335)</b>
Effect of currency hedging	-	11,180,400	-	11,180,400
<b>Net FX risk position after hedging</b>	<b>(2,667,086)</b>	<b>4,496,538</b>	<b>(2,387)</b>	<b>1,827,065</b>

Off-balance sheet assets are described in more detail in Note 17 – *Commitments and contingencies*.

The Company's foreign exchange risk exposure as at 31 December 2018 was as follows:

In thousands of CZK

	CZK	EUR	Other	Total
<b>Assets</b>				
Cash and cash equivalents	2,097	120,280	-	122,377
Trade receivables and other assets and tax receivables	13,826	103,488	-	117,314
Financial instruments and other financial assets	-	44,821,117	-	44,821,117
	15,923	45,044,885	-	45,060,808
<b>Off-balance sheet assets</b>				
Receivables from derivative operations	-	48,877,500	-	48,877,500
	-	48,877,500	-	48,877,500
<b>Liabilities</b>				
Loans and borrowings	-	52,791,768	-	52,791,768
Financial instruments and financial liabilities	1,360,241	-	-	1,360,241
Trade payables and other liabilities	19,685	16,558	2,072	38,315
	1,379,926	52,808,326	2,072	54,190,324
<b>Off-balance sheet liabilities</b>				
Payables related to derivative operations	-	48,877,500	-	48,877,500
Commitments received		5,222,175		5,222,175
	-	54,099,675	-	54,099,675
<b>Net FX risk position</b>	(1,364,003)	(7,763,441)	(2,072)	(9,129,516)
Effect of currency hedging	-	11,319,000	-	11,319,000
<b>Net FX risk position after hedging</b>	(1,364,003)	3,555,559	(2,072)	(2,189,484)

Off-balance sheet assets are described in more detail in Note 17 – *Commitments and contingencies*.

The following significant exchange rates applied during the period:

In thousands of CZK

	2019		2018	
	Average rate	Reporting date rate	Average rate	Reporting date rate
CZK				
EUR	25.672	25.41	25.643	25.725

## SENSITIVITY ANALYSIS

A strengthening (weakening) of the Czech crown, as indicated below, against the EUR at the reporting date would have an impact on profit or loss and other comprehensive income for the accounting period due to a positive (negative) revaluation of net assets by the amounts shown in the following table. This analysis is based on foreign currency exchange rate variances that the Company 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 thousands of CZK

	31/12/2019	31/12/2018
	Profit (loss)	Profit (loss)
EUR (5% strengthening of CZK)	(224,827)	(178,606)

Effect in thousands of CZK

	31/12/2019	31/12/2018
	Other comprehensive income	Other comprehensive income
EUR (5% strengthening of CZK)	559,020	565,950

A weakening of the Czech crown against the above currency at the reporting date would have had the equal but opposite effect, on the basis that all other variables remain constant.

## E OPERATIONAL RISK

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency or system failure. It arises from all activities and is faced by all business organisations. Operational risk includes legal risk.

The primary responsibility for the implementation of controls to address operational risk is assigned to the Company's management. General standards applied cover the following areas:

- requirements for the reconciliation and monitoring of transactions
- identification of operational risk within the control system,
- this overview of the operational risk events allows the Company to specify the direction of the steps and process to take in order to limit these risks, as well as to make decisions regarding:
  - accepting the individual risks that are faced;
  - initiating processes leading to limitation of possible impacts; or
  - decreasing the scope of the relevant activity or discontinuing it entirely.



## F CAPITAL MANAGEMENT

The Company's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of its business.

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

The Company is not subject to externally imposed capital requirements.

The Company also monitors its debt to adjusted capital ratio. At the end of the reporting period, the ratio was as follows:

In millions of CZK

	31 December 2019	31 December 2018
Total liabilities bearing interest	66,198	52,792
Less: cash and cash equivalents	117	122
<b>Net debt</b>	<b>66,081</b>	<b>52,670</b>
Total equity attributable to the equity holders	126,731	126,613
Less: amounts accumulated in equity relating to cash flow hedges	(1,440)	(162)
<b>Adjusted capital</b>	<b>128,171</b>	<b>126,775</b>
<b>Debt to adjusted capital</b>	<b>0.52</b>	<b>0.42</b>

## G HEDGE ACCOUNTING

### CASH FLOW HEDGES – HEDGE OF FOREIGN CURRENCY RISK WITH NON-DERIVATIVE FINANCIAL LIABILITY

The Company applies hedge accounting for financial instruments designed to hedge foreign currency risk of cash-flows denominated in foreign currency (EUR). The hedging instruments were loans drawn in EUR in total amount of EUR 440 million. The hedged cash inflows in EUR arising from EUR denominated transactions were expected to occur and impact profit or loss in periods of 2020 to 2032.

### CASH FLOW HEDGES – HEDGE OF INTEREST RATE RISK

The Company applies hedge accounting for hedging instruments designed to hedge the interest rate risk of its debt financing. The hedging instruments were interest rate swaps used to hedge the risk related to the repricing of interest rates on debt financing. As a result of the hedge relationship, the Company recorded a negative interest rate cash flow hedge reserve of CZK (2,613,820) thousand (2018: negative CZK (974,190) thousand).

The Company has interest rate swaps in the nominal value of EUR 750 000 thousand with maturity in 2023–2026 and fixed interest rates of 0.988%–1.16%.

The following table shows details of cash flow hedges involving interest rate swaps recognised as at 31 December 2019:

In millions of CZK

	31 December 2019	31 December 2019
	Hedged nominal amount (purchase)	Hedged nominal amount (sale)
Less than 3 months	-	-
3 months to 1 year	-	-
1–5 years	4,066	4,066
More than 5 years	14,992	14,992
<b>Total</b>	<b>19,058</b>	<b>19,058</b>

## 20. Related parties

### IDENTITY OF RELATED PARTIES

The Company has a related party relationship with its shareholders and other parties, as identified in the following table.

### A THE SUMMARY OF OUTSTANDING BALANCES WITH RELATED PARTIES AS AT 31 DECEMBER 2019 AND 31 DECEMBER 2018:

The Company had transactions with related parties, its parent company, and other related parties, as follows:

In thousands of CZK

	Accounts receivable and other financial assets	Accounts payable and other financial liabilities	Accounts receivable and other financial assets	Accounts payable and other financial liabilities
	31/12/2019	31/12/2019	31/12/2018	31/12/2018
Ultimate shareholder*	-	-	-	-
Companies controlled by ultimate shareholder	59,676,800	19,301	45,069,372	14,953
<b>Total</b>	<b>59,676,800</b>	<b>19,301</b>	<b>45,069,372</b>	<b>14,953</b>

\* Daniel Křetínský is the ultimate shareholder.

**B THE SUMMARY OF TRANSACTIONS WITH RELATED PARTIES DURING THE YEAR ENDED  
31 DECEMBER 2019 AND 31 DECEMBER 2018 WAS AS FOLLOWS:**

In thousands of CZK

	Revenues	Expenses	Revenues	Expenses
	2019	2019	2018	2018
Ultimate shareholder*	-	-	-	-
Companies controlled by ultimate shareholder	14,140,269	31,544	2,794,141	89,136
<b>Total</b>	<b>14,140,269</b>	<b>31,544</b>	<b>2,794,141</b>	<b>89,136</b>

\* Daniel Křetínský is the ultimate shareholder.

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

**TRANSACTIONS WITH THE KEY MANAGEMENT PERSONNEL**

Except as summarised below, the members of the board of directors and the supervisory board of the Company did not receive any other significant monetary or non-monetary performance for 2019 and 2018. At the same time, members nominated by EPIF Investment a.s. (shareholder of EPIF) were also employed by other companies of the EPH Group.

The remuneration to the members of the board of directors and the supervisory board of the Company for exercising their offices was CZK 16,600 thousand (2018: CZK 14,445 thousand). For details, please refer to Note 13 – *Personnel expenses*.

Social security and health insurance liabilities were not overdue.

**21. Subsequent events**

On 14 January 2020, the Company signed a new bank financing agreement for the total amount of EUR 800 million. The funds comprise a term loan of EUR 400 million and a revolving credit facility of the same amount; both are unsecured and have five years term.

The Company used the funds obtained under the new agreement to refinance the existing bank debt in full (EUR 500 million).

Date:	Signature of the authorised representative:	
		
25 February 2020	Daniel Křetínský	Gary Wheatley Mazzotti
	Chairman of the Board of Directors of EP Infrastructure, a.s.	Vice Chairman of the Board of Directors of EP Infrastructure, a.s.

