

Transmission Distribution Storage  
Gas Electricity Heat



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## Consolidated Financial Statements

as at and for the year ended 31 December 2018



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EPIF shows the above-average rate of converting operating profits into free cash flows.

Daniel Křetínský Chairman of the Board of Directors

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Dear shareholders, business partners, colleagues and friends,

In 2018, 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.

The period of economic growth and positive developments in the natural gas and electrical energy market has had a positive impact on all of our segments. EPIF again confirmed its role of major infrastructure player in the Central European region, having completed two long-planned strategic acquisitions.

The EPIF Group subsidiaries operate a transit gas pipeline, one of the biggest corridors for gas supplies to Western, Central and Southern Europe, and act as the major distributors of natural gas and electricity in Slovakia. They also operate the largest gas storage capacities in Central Europe and are significant heat distribution network operators and heat producers in the Czech Republic and Hungary.

The Gas transmission segment has shown steady development, while maintaining its full technical capacity and availability of services for its customers. In 2018, the volume of natural gas transported by Eustream was almost 60 billion cubic metres. Within development projects focusing on the enhancement of energy security and the creation of new business opportunities, we achieved significant progress both by increasing gas transmission capacities from the Czech Republic to Slovakia owing to the construction of a CS05 compressor station, planned to be completed in 2019, and by commencing works on a strategic project of the Slovak-Polish Interconnector, which is on a list of critical EU infrastructural projects and is supported from the EU. In autumn 2018, Eustream also completed a feasibility study relating to the Eastring pipeline, primarily aimed at enhancing energy security and improving the conditions for a free market with natural gas in the EU if the project is approved to be implemented.

2018 was also an extremely successful year for the Gas and power distribution segment, primarily in terms of gas distribution. The annual volume of distributed natural gas exceeded 51 TWh, which is below the volume distributed in 2017, which was an exceptional year in this respect, but still significantly above the long-term average. At the same time, we continued to increase the efficiency of operating activities and overhaul distribution networks to further reduce the number of leaks in the distribution network and ensure a high level of security when operating our facilities. We distributed almost 6.3 TWh of electricity, which is by 2% more than in the previous year. We also kept on renovating and reconstructing our backbone network to ensure the continuity of our traditional distribution services while reflecting modern trends in electricity distribution. Total capital expenditures in this segment were EUR 81 million.

Companies operating within the Heat infrastructure segment supplied more than 23 PJ of heat and 4.2 TWh of electricity, which already includes heat and electricity annual volumes delivered by newly acquired Plzeňská teplárenská. The strategic acquisition of a 35% share in Plzeňská teplárenská, associated with management control, is the result of complicated negotiations that will bring to the EPIF Group, among other things, access to new customers and a number of synergic effects for other operations within the Heat infrastructure segment. We continue to be the key provider of ancillary services both in the Czech Republic and Hungary and significantly contribute to the transmission network's stability. In connection with this, in 2018, we completed a development project in BERT, a Hungarian company, enhancing our competitiveness in the tertiary regulation area.

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. We provide our customers with an overall storage capacity of more than 61 TWh, showing an increase of almost 20 TWh as a result of completing the acquisition of storage capacities in Bavaria where NAFTA acquired three major underground storage facilities, contracted to a major extent until 2027 on a store-or-pay basis. The storage facilities are located in a strategic region of South-Eastern Bavaria, making EPIF responsible for ensuring safe and fluent natural gas supplies within the area. In 2018, we also continued to invest heavily in operational security, storage technology modernisation, automation enhancement and utilisation of collected information to further optimise processes.

Despite slightly unfavourable weather compared with the previous year, 2018 was without a doubt a successful year with respect to the reported results, meeting our expectations and objectives, which proves 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 2018 was EUR 1,466 million, which is a minor increase of this vital indicator compared to 2017. At the same time, free cash flow<sup>2</sup> rose by 1 % to EUR 1 055 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 2018, the EPIF Group was awarded investment ratings by renowned rating agencies Moody's Investors Service, Fitch Ratings and S&P Global Ratings.

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



1 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 (2018: EUR -20 million; 2017: EUR 0 million), when a majority related to impairment charged at Plzeňská energetika a.s. ("PE") as a result of commercial negotiations between the Group and the City of Pilsen in relation to a merger of PE and Plzeňská teplárenská, a.s. ("PLTEP"). The merger was completed on 31 October 2018 and EPIF holds 35% and a management control in PLTEP as the successor entity (effect of EUR -10 million) and (b) excluding one-off gain from sale of unused non-operational land and assets (2018: EUR 20 million; 2017: EUR 7 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 (2018: EUR -41 million; 2017: 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
2018									
Profit from operations	579	308	78	123	1,088	17	(6)	-	1,099
Depreciation and amortisation	84	153	70	21	328	3	-	-	331
Negative goodwill	-	-	-	(5)	(5)	-	-	-	(5)
EBITDA	663	461	148	139	1,411	20	(6)	-	1,425
Non-cash non-recurring impairments of assets	2	-	10	8	20	-	-	-	20
One off gain from sale of unused non-operational land and assets	-	-	(5)	-	(5)	(15)	-	-	(20)
System Operation Tariff (surplus) / deficit	-	41	-	-	41	-	-	-	41
Adjusted EBITDA	665	502	153	147	1,467	5	(6)	-	1,466
2017									
Profit from operations	576	388	85	125	1,174	2	(12)	-	1,164
Depreciation and amortisation	88	163	72	19	342	3	-	-	345
Negative goodwill	-	-	-	-	-	-	-	-	-
EBITDA	664	551	157	144	1,516	5	(12)	-	1,509
Non-cash non-recurring impairments of assets	-	-	-	-	-	-	-	-	-
One off gain from sale of unused non-operational land and assets	-	-	(7)	-	(7)	-	-	-	(7)
System Operation Tariff (surplus) / deficit	-	(41)	-	-	(41)	-	-	-	(41)
Adjusted EBITDA	664	510	150	144	1,468	5	(12)	-	1,461

2 Free cash flow represents Cash generated from operations, disregarding Change in restricted cash, less Income tax paid and Acquisition of property, plant and equipment and intangible assets as presented in the consolidated statement of cash flows of the Group.





” EPIF’s primary business objective is to ensure safe, reliable and profitable operation of energy infrastructure at prices favourable for its customers.

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

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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 (all 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 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its 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

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>Revenues and profits reported from electricity, heat, gas, coal, and from related services are partially based on estimates.</b>	In this area, our audit procedures included especially the following:  We tested the implementation, set up, and effectiveness of manual and automatic controls in the process of revenue recognition. We tested the relevant controls for the determination of 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. This included the verification of the logic and mathematical accuracy of this recalculation.  Furthermore, we performed tests of the details of the balance equation as at the reporting date and verified the accuracy of the data used by the Group. We took a very close look at the estimated average prices and distribution network losses.  Based on a comparison with the plan and previous periods, we carried out analytical procedures related to revenues and various categories of income.  In addition, for a sample, we compared invoices issued after the reporting date with the estimated revenues as at 31 December 2018.
<b>Revenues from sales of electricity, heat, and gas to retail customers are recognised at the time the electricity, heat or gas is supplied. This recognition is based on periodic meter readings and includes an estimate of the value of electricity and consumption after the date of the last meter reading of the year, determined based on estimates of daily consumption, adjusted to take into account weather conditions and other factors.</b>	
<b>In our opinion, the estimate of these revenues is a key audit matter since there is a risk of inappropriately recognised sales due to having improperly set the estimate determination process.</b>	



*Testing of fixed assets impairment, including goodwill*

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
<p><b>The Group recognises significant balances of long-term assets. The return on certain long-term assets including those producing electricity, heat (included in property, plant, and equipment) as well as goodwill depends on individual operations achieving adequate profitability in the future.</b></p> <p>Since these assets are related mainly to electricity and heat production and infrastructure facilities, any assessment of their future profitability depends on many factors, including operating efficiency, operating costs, and expected energy and distribution prices. All factors are influenced by political and economic aspects both globally and in the receiving country.</p> <p>Assets are tested for impairment either individually or as part of a cash-generating unit (CGU), using the calculation of value-in-use or fair value less costs of disposal. The result of this impairment testing may differ when using different assumptions and estimates (e.g. discount rate and growth rate).</p> <p>Owing to the above, we consider the impairment testing of tangible and intangible long-term assets to be significant for our audit.</p>	<p>In this area, our audit procedures included especially the following:</p> <p>We critically assessed the calculation of the value-in-use. This included an evaluation of the projected cash flow included in the calculation of impairment testing for individual assets, cash-generating units or discount rates used by the Group.</p> <p>We evaluated the historical reliability of the future development estimates by comparing the estimates of the financial plans for 2018 included in the value-in-use calculation prepared in 2017 to actuals for 2018. We also compared financial plans of the cash-flows included in the value-in-use calculation prepared for 2018 to the financial plans for 2017. We critically evaluated any significant variances.</p> <p>With the help of our internal business valuation specialists, we assessed whether the methodology of value-in-use calculation used by the Group is in line with market standards. Furthermore, the valuation specialists assessed whether the discount rates used in the value-in-use were in line with external information and our expectations based on our knowledge of the individual sectors in which the Group operates.</p> <p>We also assessed whether the growth rate of the terminal value was adequate and consistent with industry standards.</p> <p>Finally and importantly, we considered the adequacy of information disclosed from this area in the financial statements.</p>

**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 the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

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

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

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

**Responsibilities of the 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 and Audit Committee are responsible for the oversight of the Group's financial reporting process.



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

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

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

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

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

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 29 March 2018 and our uninterrupted engagement has lasted for 5 years.

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

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 5 April 2019 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 financial statements or 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 2018, based on which this independent auditor's report has been prepared.

Prague  
11 April 2019

*KPMG Česká republika Audit*

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

*Karel Charvát*

Karel Charvát  
Partner  
Registration number 2032





EPIF saves energy, avoids network losses and improves the security of Europe's internal energy supply.

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

In 2019, 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.

The EPIF Group will continue to place its emphasis on maintaining strong financial results coupled with a continued cash conversion profile in line with historical trends. As the majority of the EPIF Group is regulated and/or long-term contracted, profitability is expected to remain stable, minor deviations might occur depending on development of weather and market conditions during the following years.

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

On 5 March 2019 the Group declared a dividend of EUR 143 million to its shareholders. The dividends were paid on 6 March 2019.

### 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 2018, 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 2018, the EPIF Group did not acquire any of its own shares or ownership interests within the Group, except for completing a squeeze-out procedure at Pražská teplárenská a.s. and PT měření, a.s. as a result of which the Group increased its shareholding in the two companies to 100%.

### 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 2018, 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 does not employ an environmental policy at the Group level, the respective subsidiaries implement 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 2018, the Group invested considerable amounts into the restructuring of several plants.

In 2018, United Energy, a.s. continued to focus on its development plans aimed to enhance production efficiency and the production of main commodities (heat and electricity) and preparations for new legislation related to greenhouse gas emissions. At the same time, completion work was carried out on a modernisation project centred on cooling technology and the removal of bottom ash of the K8 boilers, the modernisation of a steam high-pressure part of the TG4 condensing turbine and the renovation of the combustion gas dust-off at the K6 and K7 boilers. Another step in optimising the operation of boilers was the installation of an air ventilator control at the K7 boiler using a high-voltage converter.

In 2018, during a supervisory audit, Elektrárny Opatovice, a.s. passed the inspection of the environmental management system under the ISO 14001 international standard aimed to minimise impact of its activities on the environment. The ISO 14001 certificate holders are Pražská teplárenská a.s., SPP-distribúcia, a.s. or NAFTA a.s.

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

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

Plzeňská teplárenská, a.s. is concerned about using fly ash and slag from the combustion of lignite and biomass as secondary energy products used for the reclamation and adjustment of terrains or for construction purposes. The company therefore made sure that the above secondary energy products were certified and continues to explore other options for their use. In 2018, regular audits were carried out over the management system and production and other certification was started for the products to be used in a new location and for another construction purposes.

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

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

In exploration conducted in eastern Slovakia, NAFTA managed to acquire the new 770 square kilometres Beša exploration area. To maintain the potential for reserves, NAFTA carried out three geological repairs of wells in western Slovakia and opened a horizon for another well in eastern Slovakia without using workovers. In the area

of technical underground well repairs, the company used its experience both to develop own activities, repairing 26 production and storage wells, and to carry out another 26 repairs for external parties in Slovakia and abroad.

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

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

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

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

In 2018 eustream a.s. completed projects focused on the transmission system development with total investment costs of more than € 50 million, including commencing the Polish-Slovakian Gas Interconnection (expected to be commissioned in 2021) and expansion of the splitting junction at Lakšárska Nová Ves with an installation of natural gas transmission compressor station which is expected to be completed in 2019.

The companies of the EPIF Group have a municipal waste collection system established. Recycling, reuse of material, composting are preferred over landfilling, which greatly contributes to reducing the production

of waste. For example, United Energy, a.s. is entitled to use the label of Ecological firm for its responsible approach to the environment, used product take-back and waste sorting. Plzeňská teplárenská, a.s. operates a waste-to-energy facility ZEVO Plzeň, ecological source that can use a wide range of waste and convert it into energy. Heat energy occurring during the combustion process is subsequently used to supply heat to the territory of Pilsen city and for the production of electrical energy.

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.

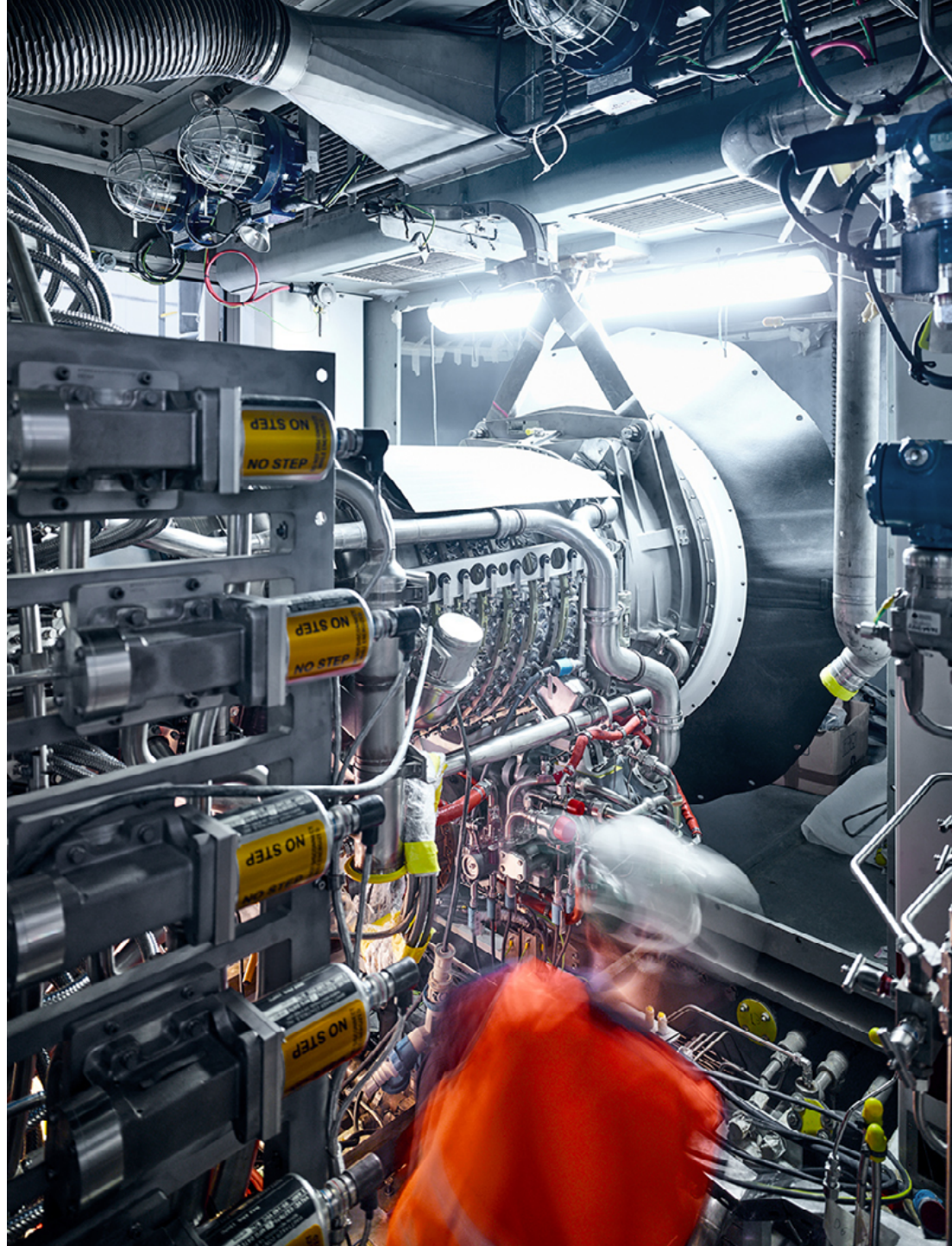
#### **ENVIRONMENTAL, SOCIAL AND GOVERNANCE RATING**

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 for the first time, the EPIF Group obtained an ESG rating "Average Performer" from the renowned ESG rating agency Sustainalytics. EPIF is committed to further improve its awareness of the ESG areas, incl. implementation of new ESG policies and disclosures which should lead to an ESG rating upgrade as well.

#### **SUSTAINABILITY REPORT**

EPIF plans to issue its debut Sustainability report for 2018 during summer 2019. The Sustainability report is expected to cover a wide spectrum of economic, environmental, social and governance related topics and will enable report users to obtain a comprehensive understanding of the EPIF Group's business and the links between EPIF's strategy and commitment to a sustainable global economy.





In 2018, EPIF confirmed its role of prominent infrastructure player in the Central European region, proving the quality of assets it operates.

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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 2018 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

The companies controlled by the same controlling entities are disclosed in Notes to the controlling entity’s consolidated financial statements.

## 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

On 9 May 2018, a Share purchase agreement was concluded between EP Infrastructure, a.s., as the purchaser and EP Energy, a.s. as the seller. On the basis of the agreement a 100% share in the registered capital and voting rights in the company Plzeňská energetika a.s. was transferred to the purchaser.

In 2018, 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 2018, 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 19 January 2018, a loan agreement was signed by and between EP Energy, a.s. as the creditor and EP Infrastructure, a.s. as the debtor.

On 30 January 2018, a loan agreement was signed by and between EP Infrastructure, a.s. as the creditor and EP Slovakia B.V. 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.

**V.1.3. IN 2018, THE FOLLOWING AGREEMENTS ON THE SET-OFF OF RECEIVABLES AND PAYABLES WERE CONCLUDED:**

On 30 January 2018, an agreement on the set-off of receivables was signed by and between EP Infrastructure, a.s. and EP Slovakia B.V.

**V.1.4. IN 2018, 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 controlling and analytical advisory services signed by and between Elektrárny Opatovice, a.s. and EP Infrastructure, a.s. on 30 March 2017.

An agreement on providing professional assistance signed by and between Elektrárny Opatovice, a.s. and EP Infrastructure, a.s. as on 3 April 2017.

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

An agreement on providing professional assistance signed by and between Elektrárny Opatovice, a.s. and EP Infrastructure, a.s. as on 1 October 2018. The agreement fully replaced the preceding three agreements.

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, as 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 controlling and analytical advisory services signed by and between EP Cargo a.s. and EP Infrastructure, a.s. on 30 March 2017.

An agreement on providing professional assistance signed by and between EP Cargo a.s. and EP Infrastructure, a.s. 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. The agreement fully replaced the preceding two agreements.

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 controlling and analytical advisory services signed by and between EP ENERGY TRADING, a.s. and EP Infrastructure, a.s. on 30 March 2017.

An agreement on providing professional assistance signed by and between EP ENERGY TRADING, a.s. and EP Infrastructure, a.s. on 2 January 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. The agreement fully replaced the preceding two agreements.

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 controlling and analytical advisory services signed by and between EP Sourcing, a.s. and EP Infrastructure, a.s. on 30 March 2017.

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

An agreement on providing professional assistance signed by and between EP Sourcing, a.s. and EP Infrastructure, a.s. as on 26 October 2018. The agreement fully replaced the preceding two agreements.

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 controlling and analytical advisory services signed by and between Plzeňská energetika, a.s. and EP Infrastructure, a.s. on 30 March 2017.

An agreement on providing professional assistance signed by and between Plzeňská energetika, a.s. and EP Infrastructure, a.s. on 3 April 2017.

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

An agreement on providing professional assistance signed by and between Plzeňská energetika, a.s. and EP Infrastructure, a.s. on 1 October 2018. The agreement fully replaced the preceding three agreements.

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

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 controlling and analytical advisory services signed by and between Pražská teplárenská, a.s. and EP Infrastructure, a.s. on 19 December 2017.

An agreement on providing professional assistance signed by and between Pražská teplárenská, a.s. and EP Infrastructure, a.s. on 6 February 2018.

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

An agreement on providing professional assistance signed by and between Pražská teplárenská a.s. and EP Infrastructure, a.s. on 1 October 2018. The agreement fully replaced the preceding three agreements.

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 3 April 2017.

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

An agreement on providing professional assistance signed by and between Severočeská teplárenská, a.s. and EP Infrastructure, a.s. on 1 October 2018. The agreement fully replaced the preceding two agreements.

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 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 controlling and analytical advisory services signed by and between United Energy, a.s. and EP Infrastructure, a.s. on 30 March 2017.

An agreement on providing professional assistance signed by and between United Energy, a.s. and EP Infrastructure, a.s. on 3 April 2017.

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

An agreement on providing professional assistance signed by and between United Energy, a.s. and EP Infrastructure, a.s. on 1 October 2018. The agreement fully replaced the preceding three agreements.

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.

## **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 2018 are disclosed in the notes to the financial statements, which form part of the consolidated annual report.

## **VI.**

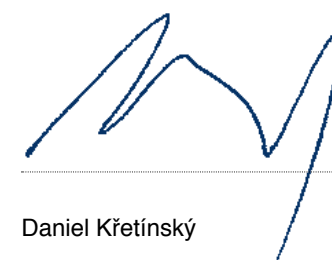
We hereby confirm that we have included in this Report on relations between related entities of EP Infrastructure, a.s., prepared pursuant to Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended) for the accounting period from 1 January 2018 to 31 December 2018, all information regarding:

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

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

In addition, the board of directors of 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/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, 28 March 2019



Daniel Křetínský

Chairman of the Board of Directors



Gary Mazzotti

Vice-Chairman of the Board of Directors

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



Consolidated adjusted EBITDA  
for 2018 increased annually  
to EUR 1,466 million.

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## Consolidated Financial Statements

as of and for the year ended 31 December 2018

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 2018  
In millions of EUR ("MEUR")

	Note	2018	2017
Sales: Energy	7	3,101	3,083
of which: Gas		1,454	1,430
Electricity		1,277	1,299
Heat		350	341
Coal		20	13
Sales: Other	7	28	27
Gain (loss) from commodity derivatives for trading with electricity and gas, net		(23)	(6)
<b>Total sales</b>		<b>3,106</b>	<b>3,104</b>
Cost of sales: Energy	8	(1,363)	(1,307)
Cost of sales: Other	8	(28)	(21)
<b>Total cost of sales</b>		<b>(1,391)</b>	<b>(1,328)</b>
<b>Subtotal</b>		<b>1,715</b>	<b>1,776</b>
Personnel expenses	9	(214)	(207)
Depreciation and amortisation	16, 17	(331)	(345)
Repairs and maintenance		(10)	(7)
Emission rights, net	10	(22)	(20)
Negative goodwill		5	-
Taxes and charges	11	(8)	(8)
Other operating income	12	54	48
Other operating expenses	13	(90)	(73)
<b>Profit (loss) from operations</b>		<b>1,099</b>	<b>1,164</b>
Finance income	14	6	4
Finance expense	14	(170)	(183)
Profit (loss) from financial instruments	14	(7)	(5)
<b>Net finance income (expense)</b>		<b>(171)</b>	<b>(184)</b>
Share of profit (loss) of equity accounted investees, net of tax	18	-	(7)
<b>Profit (loss) before income tax</b>		<b>928</b>	<b>973</b>
Income tax expenses	15	(254)	(284)
<b>Profit (loss) for the year</b>		<b>674</b>	<b>689</b>

## Consolidated statement of comprehensive income

	Note	2018	2017
<b>Other comprehensive income</b>			
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Foreign currency translation differences for foreign operations	15	14	(69)
Foreign currency translation differences from presentation currency	15	(21)	72
Effective portion of changes in fair value of cash-flow hedges, net of tax	15	(44)	42
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>(50)</b>	<b>45</b>
<b>Total comprehensive income for the year</b>		<b>624</b>	<b>734</b>
<b>Profit (loss) attributable to:</b>			
Owners of the Company		329	318
Non-controlling interest	27	345	371
<b>Profit (loss) for the year</b>		<b>674</b>	<b>689</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		289	357
Non-controlling interest		335	377
<b>Total comprehensive income for the year</b>		<b>624</b>	<b>734</b>
<b>Basic and diluted earnings per share in EUR</b>	<b>26</b>	<b>1,02</b>	<b>0,98</b>

The notes presented on pages 52 to 188 form an integral part of these consolidated financial statements.

# Consolidated statement of financial position

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

	Note	31 December 2018	31 December 2017
<b>Assets</b>			
Property, plant and equipment	16	6,748	6,592
Intangible assets	17	120	129
Goodwill	17	101	104
Equity accounted investees	18	1	1
Restricted Cash		1	-
Financial instruments and other financial assets	31	18	14
Trade receivables and other assets	21	47	76
Prepayments and other deferrals		1	-
Deferred tax assets	19	5	2
<b>Total non-current assets</b>		<b>7,042</b>	<b>6,918</b>
Inventories	20	200	219
Trade receivables and other assets	21	367	446
Financial instruments and other financial assets	31	39	284
Contract assets	21	37	-
Prepayments and other deferrals		11	12
Tax receivables	23	28	25
Cash and cash equivalents	22	416	584
Restricted cash		4	1
Assets/disposal groups held for sale	24	-	5
<b>Total current assets</b>		<b>1,102</b>	<b>1,576</b>
<b>Total assets</b>		<b>8,144</b>	<b>8,494</b>
<b>Equity</b>			
Share capital	25	2,988	2,988
Share premium		8	8
Reserves	25	(3,932)	(3,892)
Retained earnings		675	587
<b>Total equity attributable to equity holders</b>		<b>(261)</b>	<b>(309)</b>
Non-controlling interest	27	1,495	1,497
<b>Total equity</b>		<b>1,234</b>	<b>1,188</b>

Consolidated statement of financial position

	Note	31 December 2018	31 December 2017
<b>Liabilities</b>			
Loans and borrowings	28	4,022	4,510
Financial instruments and financial liabilities	31	80	22
Provisions	29	240	139
Deferred income	30	112	195
Contract liabilities	7, 30	94	-
Deferred tax liabilities	19	972	990
Trade payables and other liabilities	32	12	29
<b>Total non-current liabilities</b>		<b>5,532</b>	<b>5,885</b>
Trade payables and other liabilities	32	363	629
Contract liabilities	7, 32	74	-
Loans and borrowings	28	797	671
Financial instruments and financial liabilities	31	53	27
Provisions	29	65	52
Deferred income	30	10	18
Current income tax liability		16	23
Liabilities from disposal groups held for sale	24	-	1
<b>Total current liabilities</b>		<b>1,378</b>	<b>1,421</b>
<b>Total liabilities</b>		<b>6,910</b>	<b>7,306</b>
<b>Total equity and liabilities</b>		<b>8,144</b>	<b>8,494</b>

The notes presented on pages 52 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	Other capital funds from capital contributions	Other capital funds
Balance at 1 January 2018 (A)	2,988	8	23	689
Adjustment on initial application of IFRS 9 (net of tax)	-	-	-	-
Adjusted balance at the beginning of the period	2,988	8	23	689
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:				
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 2018 (H) = (A + D + G)	2,988	8	23	689

Consolidated statement of changes in equity

	Attributable to owners of the Company						Non-controlling interest	Total Equity
	Non-distributable reserves	Translation reserve	Fair value reserve	Hedging reserve	Other capital reserves	Retained earnings		
1	(65)	(1)	(13)	(4,526)	587	(309)	1,497	1,188
-	-	-	-	-	(3)	(3)	(1)	(4)
1	(65)	(1)	(13)	(4,526)	584	(312)	1,496	1,184
-	-	-	-	-	329	329	345	674
-	(8)	-	-	-	-	(8)	22	14
-	2	-	-	-	-	2	(23)	(21)
-	-	-	-	-	-	-	1	1
-	-	-	(34)	-	-	(34)	(10)	(44)
-	(6)	-	(34)	-	-	(40)	(10)	(50)
-	(6)	-	(34)	-	329	289	335	624
-	-	-	-	-	(235)	(235)	(454)	(689)
-	-	-	-	-	(235)	(235)	(454)	(689)
-	-	-	-	-	(3)	(3)	<sup>(1)</sup> 39	36
-	-	-	-	-	-	-	<sup>(1)</sup> 79	79
-	-	-	-	-	(3)	(3)	118	115
-	-	-	-	-	(238)	(238)	(336)	(574)
1	(71)	(1)	(47)	(4,526)	675	(261)	1,495	1,234

(1) For more information refer to Note 6(a) – Acquisitions and step-acquisitions

The notes presented on pages 52 to 188 form an integral part of these consolidated financial statements.

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

	Attributable to owners of the Company			
	Share capital	Share premium	Other capital funds from capital contributions	Other capital funds
Balance at 1 January 2017 (A)	2,988	8	23	689
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	-	-	-	-
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:				
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	-	-	-	-
Total changes in ownership interests in subsidiaries (F)	-	-	-	-
Total transactions with owners (G) = (E + F)	-	-	-	-
Balance at 31 December 2017 (H) = (A + D + G)	2,988	8	23	689

	Attributable to owners of the Company						Non-controlling interest	Total Equity
	Non-distributable reserves	Translation reserve	Fair value reserve	Hedging reserve	Other capital reserves	Retained earnings		
1	(63)	(1)	(54)	(4,526)	980	45	1,627	1,672
-	-	-	-	-	318	318	371	689
-	2	-	-	-	-	2	(71)	(69)
-	(4)	-	-	-	-	(4)	76	72
-	-	-	41	-	-	41	1	42
-	(2)	-	41	-	-	39	6	45
-	(2)	-	41	-	318	357	377	734
-	-	-	-	-	(675)	(675)	(434)	(1,109)
-	-	-	-	-	(675)	(675)	(434)	(1,109)
-	-	-	-	-	(36)	(36)	(73)	(109)
-	-	-	-	-	(36)	(36)	(73)	(109)
-	-	-	-	-	(711)	(711)	(507)	(1,218)
1	(65)	(1)	(13)	(4,526)	587	(309)	1,497	1,188

The notes presented on pages 52 to 188 form an integral part of these consolidated financial statements.

# Consolidated statement of cash flows

For the year ended 31 December 2018

In millions of EUR ("MEUR")

	Note	2018	2017
<b>OPERATING ACTIVITIES</b>			
Profit (loss) for the year		674	689
<i>Adjustments for:</i>			
Income taxes	15	254	284
Depreciation and amortisation	16, 17	331	345
Dividend income	14	(1)	(3)
Impairment losses on property, plant and equipment, intangible assets and financial assets	13	20	-
Non-cash (gain) from commodity derivatives for trading with electricity and gas, net		5	1
(Gain) on disposal of property, plant and equipment, investment property and intangible assets	12	(21)	(11)
(Gain) loss on disposal of inventories		-	(1)
Emission rights	10	22	20
Share of (profit) loss of equity accounted investees	18	-	7
Loss on financial instruments	14	7	5
Net interest expense	14	164	170
Change in allowance for impairment to trade receivables and other assets, write-offs		1	3
Change in provisions		(11)	4
Other finance fees, net	14	5	5
Negative goodwill	6	(5)	-
Unrealised foreign exchange (gains) losses, net		4	20
<b>Operating profit before changes in working capital</b>		<b>1,449</b>	<b>1,538</b>
Change in trade receivables and other assets		86	(143)
Change in inventories (including proceeds from sale)		22	8
Change in liabilities linked to assets held for sale		-	(1)
Change in trade payables and other liabilities		(18)	90
Change in restricted cash		(4)	-
<b>Cash generated from (used in) operations</b>		<b>1,535</b>	<b>1,492</b>
Interest paid		(139)	(170)
Income taxes paid		(292)	(307)
<b>Cash flows generated from (used in) operating activities</b>		<b>1,104</b>	<b>1,015</b>
<b>INVESTING ACTIVITIES</b>			
Dividends received, other		2	3
Loans provided to minority shareholders as a prepayment for a dividend		(318)	(428)
Loans provided to the other entities		-	(2)
Proceeds (outflows) from sale (settlement) of financial instruments		(9)	(12)
Acquisition of property, plant and equipment, investment property and intangible assets	16, 17	(192)	(145)
Purchase of emission rights	17	(26)	(19)
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		50	32
Acquisition of subsidiaries, joint-ventures and associates, net of cash acquired	22, 6	(46)	24
Increase (decrease) in participation in existing subsidiaries, special purpose entities, joint-ventures and associates	6	(12)	(108)
Interest received		-	1
<b>Cash flows from (used in) investing activities</b>		<b>(551)</b>	<b>(654)</b>

Consolidated statement of cash flows

	Note	2018	2017
<b>FINANCING ACTIVITIES</b>			
Proceeds from loans received		1,705	393
Repayment of borrowings		(2,267)	(99)
Proceeds from bonds issued, net of transaction fees		750	-
Repayment of bonds issued		(598)	-
Finance fees paid from repayment of borrowings		(13)	(7)
Payment of finance lease liabilities		(5)	(4)
Other financing cash flow		-	-
Dividends paid		(291)	(799)
<b>Cash flows from (used in) financing activities</b>		<b>(719)</b>	<b>(516)</b>
<i>Net increase (decrease) in cash and cash equivalents</i>		(166)	(155)
<b>Cash and cash equivalents at beginning of the year</b>		<b>584</b>	<b>729</b>
Effect of exchange rate fluctuations on cash held		(2)	10
<b>Cash and cash equivalents at end of the year</b>		<b>416</b>	<b>584</b>

The notes presented on pages 52 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.

On 10 March 2016 the Company’s shareholder decided to issue new shares. This issue of shares increased share capital of the Company by EUR 54 million. On 20 April 2016 the share capital of the Company was increased by EUR 2,934 million by a non-cash consideration in the form of shares in Czech Gas Holding Investment B.V. and EPH Gas Holding B.V.

On 24 February 2017 EPH completed the previously concluded agreement with a consortium of global institutional investors led by Macquarie Infrastructure and Real Assets (MIRA) on the sale of a 31% stake in EPIF. The remaining 69% of EPIF remains with EPH (held via 100% owned subsidiary EPIF Investments a.s.), which will also retain management control over EPIF.

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

The consolidated financial statements of the Company for the year ended 31 December 2018 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 37 – Group entities.

The shareholders of the Company as at 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>

Shareholders of the Company as at 31 December 2017 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 2018 were:

- Daniel Křetínský (Chairman of the Board of Directors)
- Jiří Zrůst (Vice-chairman of the Board of Directors)
- Gary 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.

## 2. Basis of preparation

### A STATEMENT OF COMPLIANCE

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

The consolidated financial statements were approved by the board of directors on 11 April 2019.

### B BASIS OF MEASUREMENT

This is the first set of Group's financial statements where IFRS 9 and IFRS 15 have been applied. Changes to significant accounting policies are described in Note 2(e).

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

- derivative financial instruments
- financial instruments at fair value through 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.

### 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 judgment in the process of applying the Company's accounting policies. The resulting accounting estimates will, by definition, seldom equal the related actual results.

## Basis of preparation

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 29 – Recognition and measurement of provisions,
- Notes 28, 31 and 35 – Valuation of loans and borrowings and financial instruments,
- Note 38 – 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. – judgments 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 is not applicable to the gas pipeline, transportation and distribution networks
- Note 27 – information relating to assessment of the control over the subsidiaries
- Note 29 – 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 2018 THAT HAVE BEEN APPLIED IN PREPARING THE GROUP'S FINANCIAL STATEMENTS

The following paragraphs provide a summary of the key requirements of IFRSs that are effective for annual periods beginning on or after 1 January 2018 and that have thus been applied by the Group for the first time.

#### IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

In millions of EUR

31 December 2018	Amount without adoption IFRS 15	Impact of adoption IFRS 15	31 December 2018 as reported
Trade and other receivables	404	(37)	367
Contract assets	-	37	37
Other current assets	698	-	698
<b>Total current assets</b>	<b>1,102</b>	<b>-</b>	<b>1,102</b>
Trade and other payables	437	(74)	363
Contract liabilities	-	74	74
Other current liabilities	941	-	941
<b>Total current liabilities</b>	<b>1,378</b>	<b>-</b>	<b>1,378</b>
Deferred income	206	(94)	112
Contract liabilities	-	94	94
Other non-current liabilities	5,326	-	5,326
<b>Total non-current liabilities</b>	<b>5,532</b>	<b>-</b>	<b>5,532</b>

Major impacts of IFRS 15 applications were as follows:

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

The Group has not identified any impact of IFRS 15 on the Consolidated statement of comprehensive income for the year ended 31 December 2018.

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

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

The Group's identified following main sources of Revenue in scope of IFRS 15:

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

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

Where the Group acts as energy provider it was analysed if the distribution service invoiced is 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.

- *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.

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

#### IFRS 9 FINANCIAL INSTRUMENTS

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

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

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

In millions of EUR

	Impact of adopting IFRS 9 on opening balance
<b>Retained earnings</b>	
Recognition of expected credit losses under IFRS 9	(3)
Impact at 1 January 2018	(3)
<b>Non-controlling interests</b>	
Recognition of expected credit losses under IFRS 9	(1)
Impact at 1 January 2018	(1)

Detail of IFRS 9 impact on opening balances:

In millions of EUR

	31 December 2017 as reported	Impact of adopting IFRS 9	1 January 2018
Trade receivables	215	(3)	212
Loans to other than credit institutions	276	(1)	275
<b>Total</b>	<b>491</b>	<b>(4)</b>	<b>487</b>

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

#### I. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost, FVOCI – debt investment, FVOCI – equity investment, or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset shall be measured at amortised 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 met 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 collecting contractual cash flows and selling financial assets and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ('SPPI test')

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

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 more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents 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 by through profit of loss by the Group are derivatives.

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

## II. IMPAIRMENT OF FINANCIAL ASSETS

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

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: 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. For trade receivables and contract assets, the Group has elected to measure loss allowances at an amount equal to lifetime ECLs.

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

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

- a 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;
- the Group 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% (not relevant condition in ECL model for intercompany loans and receivables); or
- 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 in debt securities carried at fair value 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 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 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
- 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
- other material events occur which require individual assessment (e.g. development of external ratings of sovereign credit risk).



For the purposes of ECL calculation, the Group uses components needed for the calculation, namely probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”). The Group implements forward looking information into the calculation of ECL. Forward-looking information means any macroeconomic factor projected for future, which has a significant impact on the development of credit losses. ECLs are present values of probability-weighted estimate of credit losses. The Group considers mainly expected growth of gross domestic product, reference interest rates, stock exchange indices or unemployment rates.

#### *PRESENTATION OF LOSS ALLOWANCES*

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets and the year-on-year change is recognized in income statement. For debt securities at FVOCI, the loss allowance is recognised in OCI.

#### *IMPACT OF THE NEW IMPAIRMENT MODEL*

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

### III. HEDGE ACCOUNTING

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

#### **IFRIC 22 FOREIGN CURRENCY TRANSLATIONS AND ADVANCE CONSIDERATION**

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

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

#### **AMENDMENTS TO IFRS 2 – CLASSIFICATION AND MEASUREMENT OF SHARE-BASED PAYMENT TRANSACTIONS**

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

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

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

#### **AMENDMENTS TO IAS 40 – TRANSFERS OF INVESTMENT PROPERTY**

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

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

#### **AMENDMENTS FROM THE 2014–2016 CYCLE OF ANNUAL IMPROVEMENTS (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)**

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

The amendments have no material impact on the Group's financial statements.

### II. STANDARDS NOT YET EFFECTIVE

At the date of authorisation of these consolidated financial statements, the following significant Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for the period ended 31 December 2018 and thus have not been adopted by the Group:

**IFRS 16 LEASES (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)**

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

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

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

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

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

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

The first-time application of the standard will lead to an increase in both property, plant and equipment (accounting for the rights of use) and financial liabilities (recognition of the corresponding lease liabilities) in the balance sheet. The impact of the transition on the amount of leasing liabilities and rights of use for continuing activities at the time of first-time application is expected to be EUR 65 to EUR 85 million. As a result of this change in the balance sheet net financial debt will increase slightly. Effect on retained earnings is expected to be immaterial.

In the future, instead of other operating expenses, depreciation on rights of use and interest expenses will be recognized in profit or loss from the accretion of lease liabilities (unless they relate to expenses from short-term and low-value leases). This will lead to improved annual EBITDA which is expected to be higher by EUR 10 to EUR 20 million.

The revised presentation of lease payments arising from operating leases will result in improved cash flows from operating activities and a deterioration in cash flow from financing activities. Interest payments are presented in cash flow from operating activities.

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

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

The Group has assessed the estimated impact of the adoption of IFRIC 23 on its consolidated financial statements. Based on the result of the assessment the Group expect that the new Standard will not have a material impact on the financial statements.

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

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

The amendment will have no impact on the Group's financial statements.

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

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

The amendment will have no impact on the Group's financial statements.

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

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

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

The amendment will have no impact on the Group's financial statements.

**AMENDMENTS TO REFERENCES TO THE CONCEPTUAL FRAMEWORK IN IFRS STANDARDS (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020 (NOT ADOPTED BY EU YET))**

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

Some Standards, their accompanying documents and IFRS practice statements contain references to, or quotations from, the IASC's Framework for the Preparation and Presentation of Financial Statements adopted by the Board in 2001 (Framework) or the Conceptual Framework for Financial

Reporting issued in 2010. Amendments updates some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

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

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

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

#### **AMENDMENT TO IFRS 3: DEFINITION OF A BUSINESS (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020 (NOT ADOPTED BY EU YET))**

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

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

#### **AMENDMENTS TO IAS 1 AND IAS 8: DEFINITION OF MATERIAL (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020 (NOT ADOPTED BY EU YET))**

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

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

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

## 3. Significant Accounting Policies

The EPIF Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

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

### **A 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 INVESTEEES

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.

## B 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 (except for impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss), a financial liability designated as a hedge of the net investment in a foreign operation, or qualifying cash flow hedges to the extent that the hedge is effective, in which case foreign exchange differences arising on retranslation are recognised in other comprehensive income.

A summary of the main foreign exchange rates applicable for the reporting period is presented in Note 35 – Risk management policies and disclosures.

## II. FINANCIAL STATEMENTS OF FOREIGN OPERATIONS

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

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

## III. TRANSLATION TO PRESENTATION CURRENCY

These consolidated financial statements are presented in Euro which is the Company's presentation currency. The assets and liabilities, including goodwill and fair value adjustments arising on consolidation, are translated from Czech crowns into Euros at foreign exchange rate at the reporting date. The income and expenses are translated from Czech crowns into Euros

using a foreign exchange rate that approximates the foreign exchange rate at the date of the transaction.

Foreign exchange differences arising on translation are recognised in other comprehensive income and presented in the translation reserve in equity. The relevant proportion of the translation difference is allocated to non-controlling interests if applicable. At disposal relevant part of translation reserve is recycled to financial income or expense in the statement of comprehensive income.

## C NON-DERIVATIVE FINANCIAL ASSETS

### I. CLASSIFICATION

POLICY APPLICABLE FROM 1 JANUARY 2018

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

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

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

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

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

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

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

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

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

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.

#### POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

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

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

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

## II. RECOGNITION

#### POLICY APPLICABLE FROM 1 JANUARY 2018

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

#### POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

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

## III. MEASUREMENT

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

#### POLICY APPLICABLE FROM 1 JANUARY 2018

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

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

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

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

#### POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

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

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

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

## 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.

## D 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.

## E DERIVATIVE FINANCIAL INSTRUMENTS

### POLICY APPLICABLE FROM 1 JANUARY 2018

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

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

### OTHER NON-TRADING DERIVATIVES

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

### SEPARABLE EMBEDDED DERIVATIVES

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

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate

instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss. In the case of hybrid contracts that are financial assets the whole contract is assessed with respect to SPPI criteria.

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

### CASH FLOW HEDGES AND FAIR VALUE HEDGES

The majority of financial derivatives are held for hedging purposes but do not meet the criteria for hedge accounting as stated by IFRS 9. These derivatives are designated for trading, and related 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, swaps and forward purchases and sales for physical delivery are considered to fall outside the scope of application of IFRS 9, when the contract concerned is considered to have been entered into as part of the Group's normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

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

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

Contracts which fall under the scope of IFRS 9 are carried at fair value with changes in the fair value recognised in profit or loss. The Group presents revenues and expenses related to emission rights trading net in the line Emission rights, net.

### POLICY APPLICABLE BEFORE 1 JANUARY 2018

The policy applicable before 1 January 2018 is similar to that applied after 1 January 2018.

## F 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.

## G 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.

## H 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)

### POLICY APPLICABLE AFTER 1 JANUARY 2018

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

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

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

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

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

- a financial asset is overdue for more than 30 days (if a financial asset 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;

- the Group 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 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 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 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
- 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
- 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.

### POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

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

The recoverable amount of the Group’s investment in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original

effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. In determining the recoverable amount for loans and receivables consideration is also given to the credit standing and performance of the borrower and the value of any collateral or third-party guarantee.

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

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

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

### 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.

## I. 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

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

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

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

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

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

### III. FREE-OF-CHARGE RECEIVED PROPERTY

Several items of gas and electricity equipment (typically connection terminals) were obtained “free of charge” from developers and from local authorities (this does not represent a grant, because in such cases the local authorities act in the role of a developer). This equipment was recorded as property, plant, and equipment at the costs incurred by the 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.

## J. 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 2018 and 2017, expenditures incurred by the Group did not meet these recognition criteria. Development expenditure has thus been recognised in profit or loss.

III. EMISSION RIGHTS

RECOGNITION AND MEASUREMENT

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

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

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

IMPAIRMENT OF EMISSION RIGHTS

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

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

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

RECOGNITION OF GRANTS

A grant is initially recognised as deferred income and recognised in profit on a systematic basis over the compliance period, which is the relevant calendar year, regardless of whether the allowance received continues

to be held by the entity. The pattern for the systematic recognition of the deferred income in profit is assessed based on estimated pollutants emitted in the current month, taking into account the estimated coverage of the estimated total annually emitted pollutants by allocated emission 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.

K PROVISIONS

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

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

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



## I. EMPLOYEE BENEFITS

### LONG-TERM EMPLOYEE BENEFITS

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

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

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

#### *Pension plans*

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

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

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

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

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

### SHORT-TERM EMPLOYEE BENEFITS

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

## II. WARRANTIES

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

## III. PROVISION FOR LAWSUITS AND LITIGATIONS

Settlement of a lawsuit represents an individual potential obligation. 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.

## L REVENUE

APPLICABLE PRIOR 1 JANUARY 2018

## I. REVENUES FROM OWN PRODUCTS AND GOODS SOLD AND SERVICES RENDERED

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

Revenue from the sale of own products and goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Discounts are recognised as a reduction of revenue as the sales are recognised,

if it is probable that discounts will be granted and the amount can be measured reliably.

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

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

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

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

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

Other revenues represent revenues from non-energy activities.

## II. REVENUES FROM SALE OF ELECTRICITY, HEAT AND GAS

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

- inputs to the distribution companies system (measured value)
- supply of high and very high voltage levels (measured value)

- estimation of network losses
- estimation of low voltage level supply

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

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

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

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

The Group's identified following main sources of Revenue in scope of IFRS 15:

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

The Group recognizes 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.

## IV. 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.

## V. 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.

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

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

## VII. RENTAL INCOME

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

**M 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.

**N 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.

**O DIVIDENDS**

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

**P 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.

**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.

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.

**Q 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.

**A PROPERTY, PLANT AND EQUIPMENT**

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



## B INTANGIBLE ASSETS

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

## C 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 IFRIC 4, which could lead to a derecognition of the transmission pipelines. As there is no indication that the Russian gas supplier is in control of the asset and there are several other shippers using the asset, management concluded that no material indications of such leasing relationship were noted and that the transmission pipeline should be recognised in eustream's fixed assets.

## 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, a.s., SPP-distribúcia, a.s., Stredoslovenská distribučná, a.s. (further "SSD") and EP ENERGY TRADING, a.s.

The subsidiary companies SPP-distribúcia and SSD, which provide distribution of natural gas and power, are required by law to provide non-discriminatory access to the distribution network. Prices are subject to the review and approval of RONI. Both entities operate under 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 primarily operated in highly efficient co-generation mode and represented primarily by: Elektrárny Opatovice, a.s., United Energy, a.s., Plzeňská energetika a.s. (until 31 October 2018 when it merged with Plzeňská teplárenská, a.s.), Plzeňská teplárenská, a.s. and Pražská teplárenská a.s., which is operating the largest district heating system in the Czech Republic, supplying heat to the City of Prague, and three CHPs in Hungary, represented by Budapesti Erőmű Zrt., which is supplying the City of Budapest. The heat generated in its co-generation power plants is supplied mainly to retail customers through well maintained and robust district heating systems that the 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 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	1,808	192	582	3,334	6	-	(239)	3,101
<i>external revenues</i>	658	1,790	160	487	3,095	6	-	-	3,101
<i>of which: Gas</i>	658	636	160	-	1,454	-	-	-	1,454
<i>Electricity</i>	-	1,154	-	117	1,271	6	-	-	1,277
<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	-	(23)	-	-	(23)	-	-	-	(23)
<b>Total sales</b>	<b>752</b>	<b>1,793</b>	<b>192</b>	<b>597</b>	<b>3,334</b>	<b>11</b>	<b>-</b>	<b>(239)</b>	<b>3,106</b>
Cost of sales: Energy	(44)	(1,208)	(13)	(337)	(1,602)	-	-	239	(1,363)
<i>external cost of sales</i>	(41)	(991)	(11)	(320)	(1,363)	-	-	-	(1,363)
<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	(14)	(36)	(16)	(20)	(86)	(2)	(3)	1	(90)
<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 before discontinued operations</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>
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-	-
<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
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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.

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



## FOR THE YEAR ENDED 31 DECEMBER 2017

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	755	1,771	185	556	3,267	5	-	(189)	3,083
<i>external revenues</i>	707	1,757	150	464	3,078	5	-	-	3,083
<i>of which: Gas</i>	707	573	150	-	1,430	-	-	-	1,430
<i>Electricity</i>	-	1,184	-	110	1,294	5	-	-	1,299
<i>Heat</i>	-	-	-	341	341	-	-	-	341
<i>Coal</i>	-	-	-	13	13	-	-	-	13
<i>inter-segment revenues</i>	48	14	35	92	189	-	-	(189)	-
Sales: Other	-	7	-	16	23	4	-	-	27
<i>external revenues</i>	-	7	-	16	23	4	-	-	27
<i>inter-segment revenues</i>	-	-	-	-	-	-	-	-	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net	-	(6)	-	-	(6)	-	-	-	(6)
<b>Total sales</b>	<b>755</b>	<b>1,772</b>	<b>185</b>	<b>572</b>	<b>3,284</b>	<b>9</b>	<b>-</b>	<b>(189)</b>	<b>3,104</b>
Cost of sales: Energy	(47)	(1,105)	(18)	(326)	(1,496)	-	-	189	(1,307)
<i>external cost of sales</i>	(43)	(934)	(17)	(313)	(1,307)	-	-	-	(1,307)
<i>inter-segment cost of sales</i>	(4)	(171)	(1)	(13)	(189)	-	-	189	-
Cost of sales: Other	-	(1)	-	(17)	(18)	(3)	-	-	(21)
<i>external cost of sales</i>	-	(1)	-	(17)	(18)	(3)	-	-	(21)
<i>inter-segment cost of sales</i>	-	-	-	-	-	-	-	-	-
Personnel expenses	(29)	(94)	(22)	(58)	(203)	(1)	(3)	-	(207)
Depreciation and amortisation	(88)	(163)	(19)	(72)	(342)	(3)	-	-	(345)
Repairs and maintenance	(1)	(4)	-	(2)	(7)	-	-	-	(7)
Emission rights, net	-	-	-	(20)	(20)	-	-	-	(20)
Taxes and charges	(1)	(1)	(3)	(3)	(8)	-	-	-	(8)
Other operating income	2	18	4	23	47	2	-	(1)	48
Other operating expenses	(15)	(34)	(2)	(12)	(63)	(2)	(9)	1	(73)
<b>Operating profit</b>	<b>576</b>	<b>388</b>	<b>125</b>	<b>85</b>	<b>1,174</b>	<b>2</b>	<b>(12)</b>	<b>-</b>	<b>1,164</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	3	1	4	2	10	-	*1,014	*(1,020)	4
<i>external finance revenues</i>	2	1	-	1	4	-	-	-	4
<i>inter-segment finance revenues</i>	1	-	4	1	6	-	*1,014	*(1,020)	-
Finance expense	(44)	(19)	(7)	(8)	(78)	(2)	(182)	79	(183)
Profit (loss) from derivative financial instruments	-	(2)	(2)	1	(3)	-	(2)	-	(5)
Share of profit (loss) of equity accounted investees, net of tax	-	(1)	(3)	-	(4)	-	(3)	-	(7)
Gain (loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-	-	-	-	-	-	-	-
<b>Profit (loss) before income tax</b>	<b>535</b>	<b>367</b>	<b>117</b>	<b>80</b>	<b>1,097</b>	<b>-</b>	<b>*815</b>	<b>*(941)</b>	<b>973</b>
Income tax expenses	(147)	(96)	(30)	(13)	(286)	-	2	-	(284)
<b>Profit (loss) for the year before discontinued operations</b>	<b>388</b>	<b>271</b>	<b>87</b>	<b>67</b>	<b>813</b>	<b>-</b>	<b>*817</b>	<b>*(941)</b>	<b>689</b>
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-	-
<b>Profit (loss) for the year</b>	<b>388</b>	<b>271</b>	<b>87</b>	<b>67</b>	<b>813</b>	<b>-</b>	<b>*817</b>	<b>*(941)</b>	<b>689</b>

\* EUR 941 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>	664	551	144	157	1,516	5	(12)	-	1,509
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(1) EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortisation of intangible assets (negative goodwill not included, if applicable).  
For EBITDA reconciliation to the closest IFRS measure explanation see below.

**EBITDA RECONCILIATION TO THE CLOSEST IFRS MEASURE**

It must be noted that EBITDA is not 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 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
<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>

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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
<b>Profit from operations</b>	<b>576</b>	<b>388</b>	<b>125</b>	<b>85</b>	<b>1,174</b>	<b>2</b>	<b>(12)</b>	<b>-</b>	<b>1,164</b>
Depreciation and amortisation	88	163	19	72	342	3	-	-	345
<b>EBITDA</b>	<b>664</b>	<b>551</b>	<b>144</b>	<b>157</b>	<b>1,516</b>	<b>5</b>	<b>(12)</b>	<b>-</b>	<b>1,509</b>

**SEGMENT ASSETS AND LIABILITIES****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
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	-	-	-	192
Equity accounted investees	-	1	-	-	1	-	-	-	1

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

**FOR THE YEAR ENDED 31 DECEMBER 2017**

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
Reportable segment assets	2,719	4,028	836	1,089	8,672	38	2,473	(2,689)	8,494
Reportable segment liabilities	(1,888)	(1,524)	(485)	(676)	(4,573)	(41)	(5,381)	2,689	(7,306)
Additions to tangible and intangible assets <sup>(1)</sup>	14	78	6	75	173	1	-	-	174
Additions to tangible and intangible assets (excl. emission rights and goodwill)	14	77	5	48	144	1	-	-	145
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 the geographical location of customers and segment assets are based on the geographical location of the assets.

### FOR THE YEAR ENDED 31 DECEMBER 2018

In millions of EUR

	Czech Republic	Slovakia	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	Other	Total
Sales: Gas	224	1,125	105	1,454
Sales: Electricity	354	811	112	1,277
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	(23)	-	-	(23)
<b>Total</b>	<b>863</b>	<b>1,947</b>	<b>296</b>	<b>3,106</b>

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

### FOR THE YEAR ENDED 31 DECEMBER 2017

In millions of EUR

	Czech Republic	Slovakia	Other	Total
Property, plant and equipment	782	5,772	38	6,592
Intangible assets	141	89	3	233
<b>Total</b>	<b>923</b>	<b>5,861</b>	<b>41</b>	<b>6,825</b>

In millions of EUR

	Czech Republic	Slovakia	Other	Total
Sales: Gas	187	1,101	142	1,430
Sales: Electricity	316	868	115	1,299
Sales: Heat	273	-	68	341
Sales: Coal	10	1	2	13
Sales: Other	19	7	1	27
Gain (loss) from commodity derivatives for trading with electricity and gas, net	(6)	-	-	(6)
<b>Total</b>	<b>799</b>	<b>1,977</b>	<b>328</b>	<b>3,104</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 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 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 80.3% of underground gas storage facilities Inzenham – West, Wolfersberg and Breitbrunn/Eggstätt in the German state of Bavaria from DEA Deutsche Erdoel AG and Storengy Deutschland GmbH. As part of the transaction NAFTA has also acquired ownership of 19.7% participation interest in Breitbrunn/Eggstätt from Storengy Deutschland GmbH and became 100% owner of Inzenham – West, Wolfersberg and Breitbrunn/Eggstätt underground storage facilities, with a storage capacity of 1.8 billion cubic meters.

**ACQUISITION OF NON-CONTROLLING INTEREST**

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

**II. 31 DECEMBER 2017**

In millions of EUR

	Date of acquisition	Consideration transferred	Cash paid	Other consideration	Equity interest acquired %	Equity interest after acquisition %
<b>New subsidiaries</b>						
POZAGAS a.s.	12/12/2017	73	22	<sup>(1)</sup> 51	30	<sup>(2)</sup> 100
		<b>73</b>	<b>22</b>	<b>51</b>	<b>30</b>	<b>100</b>

- (1) Fair value of interest already held as at the date of step acquisition  
(2) Effective ownership of EPIF group is 61,98%

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

**STEP ACQUISITIONS**

On 12 December 2017 NAFTA a.s. acquired a 30% share in POZAGAS a.s. for EUR 22 million. This transaction resulted in total change of the Group's ownership interest in POZAGAS a.s. from 41.29% to 61.98% and EPIF Group obtained control of this entity.

**ACQUISITION OF NON-CONTROLLING INTEREST**

On 2 June 2017 Pražská teplárenská, a.s. acquired a 5% share in PT Transit, a.s. (previously Energotrans SERVIS a.s.) This transaction resulted in a total change of ownership interest from 95% to 100% share and derecognition of non-controlling interest in amount of EUR 4 million.

On 14 December 2017 PT Holding Investments B.V. ("PTHI") acquired 51% in Pražská teplárenská Holding a.s. ("PTH") that holds 47.42% in Pražská teplárenská. a.s. ("PT") and two other minor companies (see note 37). The Company increased by this transaction its shareholding in PTH from 49% to 100% and effectively increased its shareholding in PT from 73.82% to 98%. PTHI paid for the share in PTH EUR 121 million and gained control over cash held by PTH of EUR 13 million (net cash paid EUR 108 million) and derecognized non-controlling interest of EUR 69 million.

**B EFFECT OF ACQUISITIONS****I. 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.

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

**II. 31 DECEMBER 2017**

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

In millions of EUR

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

(1) Represents values at 100% share.

(2) Consideration other is presented mainly by the fair value of previously recognized share in POZAGAS a.s.

**III. RATIONALE FOR ACQUISITIONS**

The Group's strategic rationale for realised acquisitions comprised several factors, including:

- The subsidiaries' businesses are complementary to Group's portfolio;
- Potential for synergic effects;
- The subsidiaries have an advantageous position within the market;
- Subject industries are expected to grow in the future.

As further expansion in energy sectors of the countries in which the Group currently has operations is one of the strategic aims, the Group is investing both in energy companies and in companies supplying the energy industry. The Group's current aim is to further strengthen its position, and become an important participant in the energy market.

The Group's view is that there is long-term strategic value in these investments due to the development of the market and this resulted in historical goodwill in the total amount of EUR 101 million. For the development of historical goodwill, please refer to Note 17 – Intangible assets (including goodwill).

In 2018 the Group recognised negative goodwill of EUR 5 million (2017: EUR 0 million).

The following table provides information on revenues and profit or loss of acquirees that have been included in the consolidated statement of comprehensive income for the reporting period.

In millions of EUR	2018 Total
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	22
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	2

The following table provides information on the estimated revenues and profit or loss that would have been included in the consolidated statement of comprehensive income, if the acquisition had occurred at the beginning of the reporting period (i.e. as at 1 January 2018); this financial information was derived from the statutory or IFRS financial statements of the acquired entities.

In millions of EUR	2018 Total
Revenue of the acquirees recognised in the year ended 31 December 2018*	115
Profit (loss) of the acquirees recognised in the year ended 31 December 2018*	32

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

### C BUSINESS COMBINATIONS – ACQUISITION ACCOUNTING 2018 AND 2017

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

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>

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

In millions of EUR

	Property, plant and equipment	Trade receivables and other assets	Provisions	Total net effect on financial position
<b>Subsidiary</b>				
POZAGAS a.s.	4	(1)	(2)	1
<b>Total</b>	<b>4</b>	<b>(1)</b>	<b>(2)</b>	<b>1</b>

### D DISPOSAL OF INVESTMENTS IN 2018 AND 2017

#### I. 31 DECEMBER 2018

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

#### II. 31 DECEMBER 2017

During the year 2017 the Group didn't dispose any of its investment.

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



## 7. Sales

In millions of EUR

	2018	2017
<b>Sales: Energy</b>		
Gas	1,454	1,430
Electricity	1,277	1,299
Heat	350	341
Coal	20	13
<b>Total Energy</b>	<b>3,101</b>	<b>3,083</b>
<b>Sales: Other</b>	<b>28</b>	<b>27</b>
<b>Total revenues from customers</b>	<b>3,129</b>	<b>3,110</b>
<b>Gain (loss) from commodity derivatives for trading with electricity and gas, net</b>	<b>(23)</b>	<b>(6)</b>
<b>Total</b>	<b>3,106</b>	<b>3,104</b>

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

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

In millions of EUR

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

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

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

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

Sales

- received payments for services and goods where control over the assets was not transferred to customer reclassified from Trade payables and other liabilities to Contract liabilities of EUR 74 million
- deferred income related to grid connection fees collected and free-of-charge non-current assets transferred from customers reclassified to Contract liabilities in a total amount of EUR 94 million

Several items of gas and electricity equipment (typically connection terminals) were obtained “free of charge” from developers and from local authorities (this does not represent a grant, because in such cases the local authorities act in the role of a developer). This equipment was recorded as property, plant, and equipment at the costs incurred by the developers and local authorities with a corresponding amount recorded as contract liability (before 1 January 2018 as deferred income) as receipt of the free of charge property is related to obligation to connect the 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.

## 8. Cost of sales

In millions of EUR

	2018	2017
<b>Cost of Sales: Energy</b>		
Cost of sold electricity	863	828
Consumption of energy	257	234
Consumption of coal and other material	112	118
Cost of sold gas and other energy products	105	99
Other cost of sales	26	28
<b>Total Energy</b>	<b>1,363</b>	<b>1,307</b>
<b>Cost of Sales: Other</b>		
Other cost of goods sold	8	8
Consumption of material	12	6
Consumption of energy	4	3
Other cost of sales	4	4
<b>Total Other</b>	<b>28</b>	<b>21</b>
<b>Total for continuing operations</b>	<b>1,391</b>	<b>1,328</b>

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

	2018	2017
Wages and salaries	144	139
Compulsory social security contributions	52	51
Board members' remuneration (including boards of subsidiaries)	5	5
Expenses related to employee benefits (IAS 19)	2	1
Other social expenses	11	11
<b>Total for continuing operations</b>	<b>214</b>	<b>207</b>

The average number of employees during 2018 was 6,593 (2017: 6,323), of which 128 were executives (2017: 118).

## 10. Emission rights

In millions of EUR

	2018	2017
Deferred income (grant) released to profit and loss	14	10
Creation of provision for emission rights	(36)	(29)
Use of provision for emission rights	30	26
Consumption of emission rights	(30)	(27)
<b>Total for continuing operations</b>	<b>(22)</b>	<b>(20)</b>

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

	2018	2017
Property tax and real estate transfer tax	2	2
Other taxes and charges expenses	6	6
<b>Total for continuing operations</b>	<b>8</b>	<b>8</b>

## 12. Other operating income

In millions of EUR

	2018	2017
Profit from disposal of tangible and intangible assets	<sup>(1)</sup> 21	<sup>(1)</sup> 11
Property acquired free-of-charge and fees from customers	6	7
Rental income	6	7
Compensation from insurance companies	3	5
Consulting fees	4	4
Contractual penalties	3	3
Revenues from liabilities written-off	-	2
Profit from sale of material	1	1
Emission rights revaluation	-	1
Decentralization and cogeneration fee	4	-
Other	6	7
<b>Total for continuing operations</b>	<b>54</b>	<b>48</b>

(1) Profit from disposal of tangible and intangible assets includes profit from sale of Pod Juliskou, a.s. and Michelský trojúhelník, a.s. in amount of EUR 5 milion and sale of PT Real Estate Group in amount of EUR 15 milion representing not business but a land and a not utilized non-production buildings (2017: sale of Nový Veleslavín, a.s. (land and a not utilized non-production building) in amount of EUR 7 million)

## 13. Other operating expenses

In millions of EUR

	2018	2017
Outsourcing and other administration fees	26	22
Rent expenses	20	21
Consulting expenses	11	13
Information technologies costs	11	10
Office equipment and other material	8	8
Transport expenses	8	6
Insurance expenses	3	5
Change in provisions (continuing operations), net	(5)	3
Advertising expenses	3	3
Impairment losses	20	2
<i>Of which relates to: Inventories</i>	-	2
<i>Property, plant and equipment and intangible assets<sup>(1)</sup></i>	20	-
Gifts and sponsorship	2	2
Communication expenses	1	1
Security services	1	1
Loss from receivables written-off	-	1
Training, courses, conferences	1	1
Administrative expenses	-	1
Contractual penalties	1	-
Shortages and damages	1	-
Operating work capitalized	(40)	(37)
Other	18	10
<b>Total for continuing operations</b>	<b>90</b>	<b>73</b>

(1) 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 significant research and development expenses were recognised in profit and loss for the year ended 31 December 2018 and 31 December 2017.

### FEES PAYABLE TO STATUTORY AUDITORS

In millions of EUR

	2018	2017
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
- GDPR Advisory
- Transfer pricing
- Transaction advisory
- Comfort letter
- Tax advisory
- Accounting advisory

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

### RECOGNISED IN PROFIT OR LOSS

In millions of EUR

	2018	2017
Dividend income	1	3
Interest income	1	1
Net foreign exchange profit	4	-
<b>Finance income</b>	<b>6</b>	<b>4</b>
Interest expense incl. various financing and refinancing related fees	(162)	(169)
Interest expense from unwind of provision discounting	(3)	(2)
Net foreign exchange loss	-	(7)
Fees and commissions expense for other financing services	(5)	(2)
Other	-	(3)
<b>Finance costs</b>	<b>(170)</b>	<b>(183)</b>
Profit (loss) from hedging derivatives	(3)	(2)
Profit (loss) from interest rate derivatives reported as trading <sup>(1)</sup>	-	(1)
Profit (loss) from currency derivatives for trading <sup>(1)</sup>	(3)	-
Impairment losses from financial assets	(1)	(2)
<b>Profit (loss) from financial instruments</b>	<b>(7)</b>	<b>(5)</b>
<b>Net finance income (expense) recognised in profit or loss for continuing operations</b>	<b>(171)</b>	<b>(184)</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

	2018	2017
<i>Current taxes:</i>		
Current year	(268)	(303)
Adjustment for prior periods	-	-
<b>Total current taxes</b>	<b>(268)</b>	<b>(303)</b>
<i>Deferred taxes:</i>		
Origination and reversal of temporary differences <sup>(1)</sup>	14	19
<b>Total deferred taxes</b>	<b>14</b>	<b>19</b>
<b>Total income taxes (expense) benefit recognised in profit or loss for continuing operations</b>	<b>(254)</b>	<b>(284)</b>

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

Deferred taxes are calculated using currently enacted tax rates expected to apply when the asset is realised or the liability settled. According to Czech legislation the corporate income tax rates is 19% for fiscal year 2018 (19% for 2017) and Hungarian legislation the corporate income tax rate is 9% for fiscal year 2018 (9% for 2017). The Slovak corporate income tax rate is 21% for fiscal year 2018 (21% for 2017). 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

	2018		
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	14	-	14
Foreign currency translation differences from presentation currency	(21)	-	(21)
Effective portion of changes in fair value of cash-flow hedges	(57)	13	(44)
Fair value reserve included in other comprehensive income	1	-	1
<b>Total</b>	<b>(63)</b>	<b>13</b>	<b>(50)</b>

### Income tax expenses

In millions of EUR

	2017		
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	(69)	-	(69)
Foreign currency translation differences from presentation currency	72	-	72
Effective portion of changes in fair value of cash-flow hedges	53	(11)	42
Fair value reserve included in other comprehensive income	-	-	-
<b>Total</b>	<b>56</b>	<b>(11)</b>	<b>45</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

		2018		2017
	%		%	
Profit from continuing operations before tax		928		973
Income tax using the Czech domestic rate (19%)	19.00%	176	19.00%	185
Effect of tax rates in foreign jurisdictions	1.72%	16	1.95%	19
Non-deductible expenses <sup>(1)</sup>	1.83%	17	2.16%	21
Other non-taxable income <sup>(2)</sup>	(1.07%)	(10)	(1.34%)	(13)
Effect of special levy for business in regulated services	5.71%	53	6.57%	64
Current year losses for which no deferred tax asset was recognised	0.22%	2	0.74%	7
Effect of changes in tax rate	0.00%	0	0.10%	1
<b>Income taxes recognised in profit or loss for continuing operations</b>	<b>27.30%</b>	<b>254</b>	<b>29,16%</b>	<b>284</b>

(1) The basis consists mainly of non-deductible interest expense of EUR 81 million (2017: EUR 67 million).

(2) The basis represents mainly non-taxable gain from sale of property EUR 20 million.

## 16. Property, plant and equipment

In millions of EUR

	Land and buildings	Gas pipelines	Technical equipment, plant and machinery	Other equipment, fixtures and fittings	Under construction	Total
<b>Cost</b>						
<b>Balance at 1 January 2018</b>	<b>2,094</b>	<b>4,548</b>	<b>1,715</b>	<b>7</b>	<b>73</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)	-
Disposed entities	-	-	-	-	-	-
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>11</b>	<b>172</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>5</b>	<b>69</b>	<b>6,592</b>
<b>At 31 December 2018</b>	<b>1,679</b>	<b>3,830</b>	<b>1,063</b>	<b>8</b>	<b>168</b>	<b>6,748</b>

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 2017</b>	<b>1,969</b>	<b>4,510</b>	<b>1,643</b>	<b>7</b>	<b>97</b>	<b>8,226</b>
Effects of movements in foreign exchange rates	38	2	35	-	-	75
Additions	47	2	27	-	64	140
Acquisitions through business combinations	35	-	1	-	1	37
Disposals	(12)	(4)	(17)	-	(4)	(37)
Transfers	20	38	27	-	(85)	-
Disposed entities	-	-	(1)	-	-	(1)
Transfer to disposal group held for sale	(3)	-	-	-	-	(3)
<b>Balance at 31 December 2017</b>	<b>2,094</b>	<b>4,548</b>	<b>1,715</b>	<b>7</b>	<b>73</b>	<b>8,437</b>
<b>Depreciation and impairment losses</b>						
<b>Balance at 1 January 2017</b>	<b>(459)</b>	<b>(515)</b>	<b>(535)</b>	<b>(2)</b>	<b>(8)</b>	<b>(1,519)</b>
Effects of movements in foreign exchange rates	(16)	-	(13)	-	-	(29)
Depreciation charge for the year	(90)	(119)	(108)	-	-	(317)
Disposals	5	3	12	-	-	20
Impairment losses recognised in profit or loss	(2)	-	(2)	-	4	-
<b>Balance at 31 December 2017</b>	<b>(562)</b>	<b>(631)</b>	<b>(646)</b>	<b>(2)</b>	<b>(4)</b>	<b>(1,845)</b>
<b>Carrying amounts</b>						
<b>At 1 January 2017</b>	<b>1,510</b>	<b>3,995</b>	<b>1,108</b>	<b>5</b>	<b>89</b>	<b>6,707</b>
<b>At 31 December 2017</b>	<b>1,532</b>	<b>3,917</b>	<b>1,069</b>	<b>5</b>	<b>69</b>	<b>6,592</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.

### IDLE ASSETS

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

### FINANCE LEASE LIABILITIES

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

### SECURITY

At 31 December 2018 property, plant and equipment with a carrying value of EUR 379 million (2017: EUR 404 million) is subject to pledges to secure bank loans.

## 17. Intangible assets (including goodwill)

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
<b>Cost</b>						
<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>
Effect of movements in foreign exchange rates	-	-	-	-	-	-
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>

## Intangible assets (including goodwill)

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
<b>Cost</b>						
<b>Balance at 1 January 2017</b>	<b>106</b>	<b>64</b>	<b>34</b>	<b>170</b>	<b>11</b>	<b>385</b>
Effect of movements in foreign exchange rates	5	1	1	1	-	9
Additions	1	3	28	-	2	34
Disposals	-	(3)	(27)	-	-	(30)
Transfers	-	2	-	-	(2)	-
<b>Balance at 31 December 2017</b>	<b>112</b>	<b>67</b>	<b>36</b>	<b>171</b>	<b>11</b>	<b>397</b>
<b>Amortisation and impairment losses</b>						
<b>Balance at 1 January 2017</b>	<b>(8)</b>	<b>(27)</b>	<b>-</b>	<b>(98)</b>	<b>(4)</b>	<b>(137)</b>
Effect of movements in foreign exchange rates	-	-	-	-	(1)	(1)
Amortisation for the year	-	(11)	-	(17)	-	(28)
Disposals	-	2	-	-	-	2
<b>Balance at 31 December 2017</b>	<b>(8)</b>	<b>(36)</b>	<b>-</b>	<b>(115)</b>	<b>(5)</b>	<b>(164)</b>
<b>Carrying amount</b>						
<b>At 1 January 2017</b>	<b>98</b>	<b>37</b>	<b>34</b>	<b>72</b>	<b>7</b>	<b>248</b>
<b>At 31 December 2017</b>	<b>104</b>	<b>31</b>	<b>36</b>	<b>56</b>	<b>6</b>	<b>233</b>

In 2018, the Group purchased emission allowances of EUR 26 million (2017: EUR 19 million). The remaining part of EUR 13 million (2017: EUR 9 million) was allocated to the Group by the Ministry of the Environment of the Czech Republic, Slovakia and Hungary.

Amortisation of intangible assets is included in the row Depreciation and amortisation in the consolidated statement of comprehensive income.

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

The Group did not capitalise any development costs in 2018 and 2017.

The Group has also carried out research activities reflected in these consolidated financial statements. Research costs are recognised as operating expenses in the income statement immediately when incurred. No significant research costs were incurred during 2018 and 2017.



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

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

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

In millions of EUR

	31 December 2018	31 December 2017
Elektrárny Opatovice, a.s.	90	90
EP Cargo a.s.	5	5
EP ENERGY TRADING, a.s.	5	5
Plzeňská energetika a.s.	-	3
SPV100, s.r.o.	1	1
<b>Total goodwill</b>	<b>101</b>	<b>104</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 2018 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 5.43% to 7.65% (2017: 5.31% to 7.33%). 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.

Impairment of Goodwill (EUR 3 million) at Plzeňská energetika is a result of commercial negotiations 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. (2017: EUR 0 million).

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

The recoverable amount of Elektrárny Opatovice, a.s. was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of Elektrárny Opatovice, a.s. Value in use in 2018 was determined in a similar manner as in 2017. Management estimated that the recoverable amount for Elektrárny Opatovice, a.s. exceeded its carrying amount (including goodwill) by EUR 254 million (2017: EUR 595 million). Key assumptions used in the calculation of value in use were the discount rate, the terminal value growth rate and the planned EBITDA. These selected assumptions were as follows:

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

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

In millions of EUR

		Ownership 31 December 2017	Carrying amount 31 December 2017
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 2018 (EUR 7 million for the year ended 31 December 2017).

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 compre- hensive income	Total compre- hensive 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>

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

Equity accounted investees

In millions of EUR

Associates	Revenue	Profit (loss)	Other compre- hensive income	Total compre- hensive income	Assets	Liabilities	Equity
Pražská teplárenská Holding a.s. <sup>(2)</sup>	27	<sup>(1)</sup> 26	-	<sup>(1)</sup> 26	119	-	<sup>(2)</sup> 119
POZAGAS a.s. <sup>(3)</sup>	18	(7)	-	(7)	90	17	73
Energotel, a.s.	12	1	-		13	7	6
	<b>57</b>	<b>20</b>	<b>-</b>	<b>20</b>	<b>222</b>	<b>24</b>	<b>198</b>

In millions of EUR

Associates	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Energotel, a.s.	6	7	-	7
<b>Total</b>	<b>6</b>	<b>7</b>	<b>-</b>	<b>7</b>

(1) Profit (loss) primarily represents dividend income from Pražská teplárenská a.s.

(2) On 14 December 2017 the Group increased its share in Pražská teplárenská Holding, a.s. from 49% to 100%. Profit and Loss item represents the amounts from the beginning of the year to the date of the acquisition of remaining 51% share.

(3) On 12 December 2017 the Group increased its share in POZAGAS a.s. from 41.29% to 61.98% and gained management control over the entity. Profit and Loss item represents the amounts from the beginning of the year to the date of obtaining the control over the entity.

## 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 2018	31 December 2018	31 December 2018	31 December 2017	31 December 2017	31 December 2017
<b>Temporary difference related to:</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>
Property, plant and equipment	15	(988)	(973)	-	(971)	(971)
Intangible assets	-	(15)	(15)	-	(16)	(16)
Inventories	2	-	2	2	-	2
Trade receivables and other assets	4	-	4	2	-	2
Provisions	32	-	32	28	-	28
Employee benefits (IAS 19)	5	-	5	5	-	5
Loans and borrowings	1	(20)	(19)	-	(22)	(22)
Tax losses	2	-	2	5	-	5
Derivatives	18	(5)	13	4	(5)	(1)
Other items	6	(24)	(18)	5	(25)	(20)
<b>Subtotal</b>	<b>85</b>	<b>(1,052)</b>	<b>(967)</b>	<b>51</b>	<b>(1,039)</b>	<b>(988)</b>
Set-off tax	(80)	80	-	(49)	49	-
<b>Total</b>	<b>5</b>	<b>(972)</b>	<b>(967)</b>	<b>2</b>	<b>(990)</b>	<b>(988)</b>

### MOVEMENTS IN DEFERRED TAX DURING THE YEAR

In millions of EUR

<b>Balances related to:</b>	<b>Balance at 1 January 2018</b>	<b>Recognised in profit or loss</b>	<b>Recognised in other comprehen- sive income</b>	<b>Acquired in business combina- tions<sup>(1)</sup></b>	<b>Disposed entities<sup>(2)</sup></b>	<b>Effect of movements in foreign exchange rate</b>	<b>Balance at 31 December 2018</b>
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.s.

### Deferred tax assets and liabilities

In millions of EUR

<b>Balances related to:</b>	<b>Balance at 1 January 2017</b>	<b>Recognised in profit or loss</b>	<b>Recognised in other comprehen- sive income</b>	<b>Acquired in business combina- tions<sup>(1)</sup></b>	<b>Transfer to disposal group held for sale<sup>(2)</sup></b>	<b>Effect of movements in foreign exchange rate</b>	<b>Balance at 31 December 2017</b>
Property, plant and equipment	(981)	14	-	(3)	-	(1)	(971)
Intangible assets	(16)	-	-	-	-	-	(16)
Inventories	2	-	-	-	-	-	2
Trade receivables and other assets	2	-	-	-	-	(1)	2
Provisions	28	1	-	-	-	-	28
Employee benefits (IAS 19)	5	-	-	-	-	-	5
Loans and borrowings	(9)	(1)	(12)	-	-	-	(22)
Tax losses	3	2	-	-	-	-	5
Derivatives	(3)	2	1	-	-	(1)	(1)
Other	(20)	1	-	-	1	(2)	(20)
<b>Total</b>	<b>(989)</b>	<b>19</b>	<b>(11)</b>	<b>(3)</b>	<b>1</b>	<b>(5)</b>	<b>(988)</b>

(1) The acquisition of POZAGAS, a.s.

(2) The transfer of Pod Juliskou, a.s. to disposal group held for sale.

### UNRECOGNISED DEFERRED TAX ASSETS

A deferred tax asset has not been recognised in respect of the following tax losses that are available for carry forward by certain EPIF Group entities:

In millions of EUR

	<b>31 December 2018</b>	<b>31 December 2018</b>
Tax losses carried forward	308	288
<b>Total</b>	<b>308</b>	<b>288</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

	<b>31 December 2018</b>	<b>31 December 2017</b>
Slovak Gas Holding B.V.	158	158
Seattle Holding B.V.	77	60
EPH Gas Holding B.V.	53	53
Czech Gas Holding Investment B.V.	11	9
PT Holding Investment B.V.	4	4
EP Infrastructure, a.s.	3	-
SPP Infrastructure, a.s.	2	4
<b>Total</b>	<b>308</b>	<b>288</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 2018, then the associated tax income (savings) would be up to EUR 59 million (2017: 55 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:

	2019	2020	2021	2022	After 2023	Total
<b>Tax losses</b>	2	-	-	2	304	<b>308</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 2018	31 December 2017
Natural gas	149	164
Fossil fuel	20	26
Raw material and supplies	17	15
Spare parts	13	13
Work in progress	1	1
<b>Total</b>	<b>200</b>	<b>219</b>

At 31 December 2018 inventories in the amount of EUR 12 million (2017: EUR 20 million) were subject to pledges.

## 21. Trade receivables and other assets

In millions of EUR

	31 December 2018	31 December 2017
Trade receivables	242	215
Accrued income	98	138
Estimated receivables	1	60
Advance payments	37	40
Receivables from government grants <sup>(1)</sup>	-	72
Other receivables and assets	61	18
Allowance for bad debts	(25)	(21)
<b>Total</b>	<b>414</b>	<b>522</b>
<i>Non-current</i>	47	76
<i>Current</i>	367	446
<b>Total</b>	<b>414</b>	<b>522</b>

(1) For details refer to Note 30 – Deferred income

In 2018 EUR 0 million receivables were written-off through profit or loss (2017: EUR 1 million).

As at 31 December 2018 trade receivables with a carrying value of EUR 17 million are subject to pledges (2017: 51 million).

As at 31 December 2018 trade receivables and other assets amounting EUR 404 million are not past due (2017: EUR 494 million), remaining net balance of EUR 10 million is overdue (2017: EUR 28 million). For more detailed aging analysis refer to Note 35 (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 35 – Risk management policies and disclosures.

## 22. Cash and cash equivalents

In millions of EUR

	31 December 2018	31 December 2017
Current accounts with banks	397	522
Bills of exchange for trading	-	25
Term deposits	19	37
<b>Total</b>	<b>416</b>	<b>584</b>



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

As at 31 December 2018 cash equivalents of EUR 64 million are subject to pledges (2017: EUR 366 million). According to the bond documentation cash balances at specific entities are pledged in favour of the bondholders in case EPE defaults on bonds payments. As such, the pledged cash is readily available to the Group and does not represent restricted cash.

## 23. Tax receivables

In millions of EUR

	31 December 2018	31 December 2017
Current income tax receivables	21	17
Value added tax receivables	6	6
Energy tax	1	2
<b>Total</b>	<b>28</b>	<b>25</b>

## 24. Assets and liabilities held for sale and discontinued operations

The following items are presented within Assets/disposal groups held for sale:

In millions of EUR

	31 December 2018	31 December 2017
Land and buildings	-	5
<b>Total</b>	<b>-</b>	<b>5</b>

The following items are presented within Liabilities from disposal groups held for sale:

In millions of EUR

	31 December 2018	31 December 2017
Deferred tax liability	-	1
<b>Total</b>	<b>-</b>	<b>1</b>

As at 31 December 2018 there are no assets held for sale and liabilities held for sale in the Group. (2017: Pod Juliskou, a.s. and Nová Invalidovna, a.s.). These entities did not represent business but a group of land plots and unused non-production buildings and were sold during the year 2018.

## 25. Equity

### SHARE CAPITAL AND SHARE PREMIUM

The authorised, issued and fully paid share capital as at 31 December 2018 consisted of 222,870,000 ordinary shares with a par value of CZK 250 each (2017: 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 (2017: 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 2018 the Company declared dividends in amount of EUR 235 million (2017: EUR 675 million) to its shareholders.

### 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>

### 31 DECEMBER 2017

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 2018	31 December 2017
Non-distributable reserves	1	1
Fair value reserve	(1)	(1)
Hedging reserve	(47)	(13)
Translation reserve	(71)	(65)
Other capital reserves	(3,814)	(3,814)
<b>Total</b>	<b>(3,932)</b>	<b>(3,892)</b>

#### OTHER CAPITAL RESERVES

As stated in section 3 (a) 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 31 – Financial instruments and Note 35 – Risk management policies and disclosure).

During the year the Group recycled negative EUR 1 million from Hedging reserves to Profit or loss (2017: EUR 0 million).

## 26. Earnings per share

#### BASIC EARNINGS PER SHARE

Basic earnings per share in EUR per 1 share of CZK 250 (2017: in EUR per 1 share of CZK 250) nominal value equal 1.02 (2017: 0.98).

The calculation of basic earnings per share as at 31 December 2018 was based on profit attributable to ordinary shareholders of EUR 329 million (2017: EUR 318 million), and a weighted average number of ordinary shares outstanding of 323,000,000 (2017: 323,000,000).

#### 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>

#### WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2017

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.

27. Non-controlling interest

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 and management control

SPP - distribúcia, a.s. and its subsidiaries	eustream, a.s.	POZAGAS a.s.	Plzeňská 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	Distribution 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)	-		

31 DECEMBER 2017

In millions of EUR

	Pražská teplárenská a.s. and its subsidiaries	Stredoslovenská energetika, a.s. and its subsidiaries	NAFTA a.s. and its subsidiaries
Non-controlling percentage	2%	<sup>(6)</sup> 51.00%	31.01%
Business activity	Production and distribution of heat	Distribution of electricity	Gas storage and exploration
Country <sup>(1)</sup>	Czech Republic	Slovakia	Slovakia
Carrying amount of NCI at 31 December 2017	6	397	98
Profit (loss) attributable to non-controlling interest	6	58	22
Dividends declared	(14)	(40)	(2)
Statement of financial position information <sup>(2)</sup>			
Total assets	346	1,095	688
of which: non-current	280	766	647
current	66	329	41
Total liabilities	65	316	371
of which: non-current	34	140	294
current	30	176	77
Net assets	281	779	317
Statement of comprehensive income information <sup>(2)</sup>			
Total revenues	204	1,001	164
of which: dividends received	-	-	-
Profit after tax	25	115	71
Total comprehensive income for the year <sup>(2)</sup>	25	115	71
Net cash inflows (outflows) <sup>(2)</sup>	(35)	1	(9)

(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) Even though the Group holds less than half of the voting rights it assumes its control over the subgroups through shareholders' agreements and management control

SPP Infrastructure, a.s. and its subsidiaries <sup>(3)</sup>	SPP - distribúcia, a.s. and its subsidiaries	eustream, a.s.	POZAGAS a.s.	Other individually immaterial subsidiaries	Total
<sup>(6)</sup> 51.00%	<sup>(6)</sup> 51.00%	<sup>(6)</sup> 51.00%	38.02%		
Distribution of gas	Distribution of gas	Distribution of gas	Gas storage and exploration		
Slovakia	Slovakia	Slovakia	Slovakia		
(318)	866	424	28	(4)	1,497
(2)	79	198	-	10	371
(378)	-	-	-	-	(434)
6,582	2,814	2,719	90		
<sup>(4)</sup> 6,228	2,367	2,291	38		
354	447	428	52		
2,142	1,116	1,888	17		
1,373	1,018	1,752	15		
769	98	136	3		
4,440	1,698	831	73	-	-
847	423	760	-		
<sup>(5)</sup> 800	--	-	-		
797	155	388	-		
797	155	388	-	-	-
-	(43)	(33)	(-)		



## 28. Loans and borrowings

In millions of EUR

	31 December 2018	31 December 2017
Issued debentures	3,029	2,873
Loans payable to credit institutions	1,778	2,294
Bank overdraft	12	9
Liabilities from financial leases	-	5
<b>Total</b>	<b>4,819</b>	<b>5,181</b>
Non-current	4,022	4,510
Current	797	671
<b>Total</b>	<b>4,819</b>	<b>5,181</b>

The weighted average interest rate on loans and borrowings (excl. debentures) for 2018 was 1.80% (2017: 2.10%).

### ISSUED DEBENTURES AT AMORTISED COSTS

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

In millions of EUR

	Principal	Accrued interest	Unamortised fee	Maturity	Interest rate (%)	Effective interest rate (%)
SPP Infrastructure Financing bond I	<sup>(1)</sup> 749	13	-	18/07/2020	3.750	3.773/3.717
SPP Infrastructure Financing bond II	<sup>(2)</sup> 494	12	2	12/02/2025	2.625	2.685
EP Infrastructure 2024 notes	750	8	(5)	26/04/2024	1.659	1.786
SPPD bond	<sup>(3)</sup> 497	7	-	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>2,989</b>	<b>45</b>	<b>(5)</b>	<b>-</b>	<b>-</b>	<b>-</b>

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

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

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

### EP INFRASTRUCTURE BONDS (2024 NOTES)

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

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

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

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

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

### EP ENERGY BONDS

In 2012 and 2013 EP Energy Group (“EPE”, “EPE Group”) issued the senior secured notes. EPE Group comprises energy entities subsidiaries and associates as described in Note 37 – Group entities.

#### I. 2019 NOTES

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

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

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

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

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

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

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

## II. 2018 NOTES

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

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

### SPP INFRASTRUCTURE FINANCING BOND (2020 NOTES)

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

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

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

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

### 2021 SPPD BOND

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

Terms and conditions of outstanding loans as at 31 December 2017 were as follows:

In millions of EUR

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/17	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	EUR	variable*	2021	1,837	10	1,827	-
Secured bank loan	CZK	variable*	2021	1	-	1	-
Secured bank loan	CZK	fixed	2021	1	-	1	-
Unsecured bank loan	EUR	variable*	2024	430	6	344	80
Unsecured bank loan	EUR	fixed	2023	25	6	16	3
Overdraft	EUR	variable*		9	9	-	-
Liabilities from financial leases	EUR			5	2	3	-
<b>Total interest-bearing liabilities</b>				<b>2,308</b>	<b>33</b>	<b>2,192</b>	<b>83</b>

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

#### EPIF FACILITY AGREEMENT

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

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

The EPIF Facilities Agreement contains restrictive provisions which, among other things, limit the 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 Facilities Agreement, if the rating of the Issuer drops below a certain level, the Group will become subject to a regularly tested net leverage covenant on the Group level. The EPIF Facilities Agreement also contains change of control provisions the triggering of which may result in mandatory prepayment.

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

#### FAIR VALUE INFORMATION

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

In millions of EUR

	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Issued debentures at amortised costs	3,029	2,993	2,873	2,907
Loans payable to credit institutions	1,448	1,436	1,994	2,013
Revolving credit facility	330	335	300	306
Bank overdraft	12	12	9	9
Liabilities from financial leases	-	-	5	5
<b>Total</b>	<b>4,819</b>	<b>4,776</b>	<b>5,181</b>	<b>5,240</b>

All interest bearing instruments held at amortised costs are categorised within Level 2 of the fair value hierarchy (for detail of valuation methods refer to Note 2 (d) i – Assumption and estimation uncertainties).

#### SIGNIFICANT INVESTING AND FINANCING ACTIVITIES NOT REQUIRING CASH:

In millions of EUR

	31 December 2018	31 December 2017
Investing activities	368	158
Financing activities	-	-
<b>Total</b>	<b>368</b>	<b>158</b>

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

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

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
5	2,996	(3,892)	587	1,497	6,369
-	-	-	-	-	2,455
-	-	-	-	-	(2,865)
-	-	-	-	-	(13)
(5)	-	-	-	-	(5)
-	-	-	(235)	(56)	(291)
(5)	-	-	(235)	(56)	(719)
-	-	-	-	118	151
-	-	(5)	(1)	(1)	3
-	-	-	-	-	162
-	-	-	-	-	(139)
-	-	-	-	(368)	(368)
-	-	-	-	(30)	(30)
-	-	-	-	(398)	(374)
-	-	(34)	323	335	624
-	2,996	(3,931)	674	1,495	6,053



In millions of EUR

	Liabilities			
	Loans from credit institutions	Loans from other than credit institutions	Bank overdraft	Issued debentures
<b>Balance at 1 January 2017</b>	<b>2,020</b>	<b>14</b>	<b>8</b>	<b>2,867</b>
<i>Changes from financing cash flows</i>				
Proceeds from loans and borrowings	370	13	10	-
Repayment of borrowings	(90)	-	(9)	-
Transaction cost related to loans and borrowings	(7)	-	-	-
Payment of finance lease liabilities	-	-	-	-
Dividend paid	-	-	-	-
<b>Total change from financing cash flows</b>	<b>273</b>	<b>13</b>	<b>1</b>	<b>-</b>
Changes arising from obtaining or losing of control of subsidiaries	-	(27)	-	-
Total effect of changes in foreign exchange rates	4	-	-	4
<i>Other changes</i>				
<b>Liability related</b>				
Interest expense	53	-	-	116
Interest paid	(56)	-	-	(114)
Set-off with loans provided	-	-	-	-
Liability from dividends not paid	-	-	-	-
Total liability-related other changes	<b>(3)</b>	<b>-</b>	<b>-</b>	<b>2</b>
Total equity-related other changes	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>2,294</b>	<b>-</b>	<b>9</b>	<b>2,873</b>

Equity					
Finance lease liabilities	Share capital/ premium	Reserves	Retained earnings	Non-controlling interest	Total
9	2,996	(3,931)	980	1,627	6,590
-	-	-	-	-	393
-	-	-	-	-	(99)
-	-	-	-	-	(7)
(4)	-	-	-	-	(4)
-	-	-	(743)	(56)	(799)
(4)	-	-	(743)	(56)	(516)
-	-	-	-	-	(27)
-	-	48	-	-	56
-	-	-	-	-	169
-	-	-	-	-	(170)
-	-	-	-	(158)	(158)
-	-	-	-	(221)	(221)
-	-	-	-	(379)	(380)
-	-	(9)	350	305	646
5	2,996	(3,892)	587	1,497	6,369

## 29. Provisions

In millions of EUR

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

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

(2) Acquisition of Plzeňská teplárenská, a.s. and NAFTA Germany GmbH.

In millions of EUR

	Employee benefits	Provision for emission rights	Provision for restoration and decommissioning	Other	Total
Balance at 1 January 2017	25	26	112	8	171
Provisions made during the year	3	29	1	<sup>(3)</sup> 7	40
Provisions used during the year	-	(26)	(4)	-	(30)
Provisions reversed during the year	(1)	-	(2)	-	(3)
Acquisition through business combination <sup>(2)</sup>	-	-	11	-	11
Unwinding of discount <sup>(1)</sup>	-	-	2	-	2
Effect of movement in foreign exchange rates	(1)	1	-	-	-
Balance at 31 December 2017	26	30	120	15	191
Non-current	25	-	112	2	139
Current	1	30	8	13	52

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

(2) Acquisition of POZAGAS a.s.

(3) The Group recognised a provision (reported under Other provisions) for the real estate tax that the Company expects to pay in connection with past transactions.

Accounting for provisions involves frequent use of estimates, such as probability of occurrence of uncertain events or calculation of the expected outcome. Such estimates are based on past experience, statistical models and professional judgement.

### EMPLOYEE BENEFITS

The Group recorded a 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 36 million (2017: EUR 26 million) was 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 provision in amount of EUR 11 million (2017: EUR 11 million) was recorded by Stredoslovenská energetika, a.s. and Stredoslovenská distribučná, a.s. (former Stredoslovenská energetika – Distribúcia, a.s.) and in amount of EUR 9 million by NAFTA Germany and its subsidiaries.

### I. SSE GROUP

#### PENSION PLANS

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

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

#### UNFUNDED PENSION PLAN WITH DEFINED BENEFIT

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

Years of service	Multiples of average monthly wage
10 years or less	2
11–15 years	4
16–20 years	5
21–25 years	6
25 years and more	7

The minimum requirement of the Labour Code to post the retirement, equal to one average monthly salary, is included in the above multiples.

## OTHER BENEFITS

The SSE Group also pays benefits for work and life anniversaries:

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

## 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 195 million (2017: 120 million) was primarily recorded by NAFTA a.s. EUR 96 million (2017: EUR 92 million), NAFTA Germany GmbH EUR 69 million (2017: EUR 0 million), POZAGAS a.s. EUR 9 million (2017: EUR 11 million), eustream, a.s. EUR 8 million and SPP Storage, s.r.o. EUR 7 million (2017: 14 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 of 2,15%.

NAFTA a.s. currently has 141 production wells in addition to 244 storage wells. Production wells that are currently in production or are being used for other purposes are expected to be abandoned after reserves have been fully produced or when it has been determined that the wells will not be used for any other purposes. Storage wells are expected to be abandoned after the end of their useful lives. NAFTA a.s. has the obligation to dismantle the production and storage wells, decontaminate contaminated soil, restore the area, and restore the site to its original condition to the extent as stipulated by law.

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects the current market assessment of the time value of money – risk free

rate (2018: 1.40%; 2017: 2.15%). The provision takes into account the estimated costs for the abandonment of production and storage wells and centres, and the costs of restoring the sites to their original condition. These costs are expected to be incurred between 2019 and 2093.

NAFTA Germany GmbH (through its subsidiaries) currently has 44 storage wells. Storage wells are expected to be abandoned after the end of their useful lives. NAFTA Germany GmbH has the obligation to dismantle the storage wells, decontaminate contaminated soil, restore the area, and restore the site to its original condition to the extent as stipulated by law.

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects the current market assessment of the time value of money – risk free rate of 1.56 %. The provision takes into account the estimated costs for the abandonment of storage wells and centres, and the costs of restoring the sites to their original condition. These costs are expected to be incurred between 2039 and 2061.

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

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects the current market assessment of the time value of money – risk free rate (2018: 2.20%; 2017: 2.48%). The provision takes into account the estimated costs for the abandonment of production and storage wells and centres, and the costs of restoring the sites to their original condition.

The Group uses stress tests in the form of expected costs, inflation and discount rate shocks, i.e. simulated immediate increase/decrease of expected costs by 10% and increases in inflation or the discount rate by 1%.

At the reporting date, a change of 10% in the expected costs would have increased or decreased the provision for asset retirement obligations by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

At the reporting date, an increase of 1% in the inflation or discount rate, or a 10% change in the expected costs of decommissioning, would have increased or decreased the provision for asset retirement obligations by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of EUR

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

## 30. Deferred income

In millions of EUR

	31 December 2018	31 December 2017
Government grants	98	112
Free-of-charge received property	-	42
Other deferred income	24	59
<b>Total</b>	<b>122</b>	<b>213</b>
Non-current	112	195
Current	10	18
<b>Total</b>	<b>122</b>	<b>213</b>

Balance of government grants in amount of EUR 98 million (2017: EUR 112 million) is mainly represented by Elektrárny Opatovice, a.s. of EUR 22 million (2017: EUR 38 million), Alternative Energy, s.r.o. of EUR 4 million (2017: EUR 5 million), eustream, a.s. of EUR 62 million (2017: EUR 62 million) and United Energy, a.s. of EUR 6 million (2017: EUR 5 million). Elektrárny Opatovice, a.s. and Alternative Energy, s.r.o. were provided with government grants to reduce emission pollutions and to build biogas facility. This deferred income is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets constructed and is recognised as other operating income.

Balance of government grants recognised by eustream includes the grants allocated by the European Commission for various business projects.

Balance of other deferred income in amount of EUR 24 million (2017: EUR 59 million) consists mainly of deferred income recognized by EP Cargo a.s. in the amount of EUR 14 million (2017: EUR 15 million), which represents compensation raised from a business partner from an unrealized business case.

The compensation covers capitalized additional investment costs and expected losses from a previously concluded rent contract. Because the losses from the rent contract occur over duration of the contract and because the capitalized costs are depreciated over time, the compensation is also recognized in revenues over time.

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

Beginning 1 January 2018 the balance of other deferred income and free-of-charge received property 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)).

## 31. Financial instruments

### FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

In millions of EUR

	31 December 2018	31 December 2017 (restated)
<b>Assets carried at amortised cost</b>		
Loans to other than credit institutions	7	<sup>(2)</sup> 276
<i>of which receivables from the related parties</i>	6	6
<b>Total</b>	<b>7</b>	<b>276</b>
<b>Assets carried at fair value</b>		
<b>Hedging: of which</b>	<b>34</b>	<b>11</b>
<i>Commodity derivatives cash flow hedge<sup>(1)</sup></i>	34	10
<i>Interest rate swaps cash flow hedge</i>	-	1
<b>Risk management purpose: of which</b>	<b>4</b>	<b>1</b>
<i>Commodity derivatives reported as trading</i>	4	1
<b>Equity instruments at fair value through OCI: of which</b>	<b>12</b>	<b>*10</b>
<i>Shares and interim certificates at fair value through OCI</i>	12	10
<b>Total</b>	<b>50</b>	<b>22</b>
Non-current	18	14
<i>of which receivables from the related parties</i>	6	6
Current	39	284
<b>Total</b>	<b>57</b>	<b>298</b>

\* According to IFRS 9 this balance was restated as of 31 December 2017 from Shares available for sale to Equity instruments at fair value through OCI

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

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



FINANCIAL INSTRUMENTS AND OTHER FINANCIAL LIABILITIES

In millions of EUR

	31 December 2018	31 December 2017
<b>Liabilities carried at fair value</b>		
<b>Hedging: of which</b>	125	34
Interest rate swaps cash flow hedge	82	27
Commodity derivatives cash flow hedge	43	5
Currency forwards cash flow hedge	-	2
<b>Risk management purpose: of which</b>	8	15
Interest rate swaps reported as trading	5	8
Commodity derivatives reported as trading	3	7
Currency forwards reported as trading	-	-
<b>Total</b>	<b>133</b>	<b>49</b>
Non-current	80	22
Current	53	27
<b>Total</b>	<b>133</b>	<b>49</b>

The weighted average interest rate on loans to other than credit institutions for 2018 was 1.60% (2017: 0.40%).

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

In millions of EUR

	31 December 2018	31 December 2018	31 December 2018	31 December 2018
	Nominal amount buy	Nominal amount sell	Positive fair value	Negative fair value
<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>

In millions of EUR

	31 December 2017	31 December 2017	31 December 2017	31 December 2017
	Nominal amount buy	Nominal amount sell	Positive fair value	Negative fair value
<b>Hedging: of which</b>	2,260	(2,254)	10	(34)
Interest rate swaps cash flow hedge	2,059	(2,059)	1	(27)
Commodity derivatives cash flow hedge	168	(162)	9	(5)
Currency forwards cash flow hedge	33	(33)	-	(2)
<b>Risk management purpose: of which</b>	745	(746)	1	(15)
Interest rate swaps reported as trading	432	(432)	-	(8)
Commodity derivatives reported as trading	58	(58)	-	(7)
Currency forwards reported as trading	255	(256)	1	-
<b>Total</b>	<b>3,005</b>	<b>(3,000)</b>	<b>11</b>	<b>(49)</b>

Swap derivatives are recognised in respect of interest rate swaps as described in detail in Note 35 – 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 35 – Risk management policies and disclosures.

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

In general, financial instruments carried at fair value are measured based on quoted market prices at the reporting date. If the market for a financial instrument is not active, fair value is established using valuation techniques. In applying valuation techniques, management uses estimates and assumptions that are consistent with available information that market participants would use in setting a price for the financial instrument.

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable on the market for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

In millions of EUR

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>
<i>Commodity derivatives cash flow hedge</i>	-	34	-	<b>34</b>
<i>Interest rate swaps cash flow hedge</i>	-	-	-	-
<b>Risk management purpose: of which</b>		4		<b>4</b>
<i>Currency forwards reported as trading</i>		-		-
<i>Commodity derivatives reported as trading</i>	-	4		<b>4</b>
<b>Equity instruments at fair value through OCI: of which</b>	-	-	12	<b>12</b>
<i>Shares and interim certificates at fair value through OCI</i>	-	-	12	<b>12</b>
<b>Total</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>
<i>Interest rate swaps cash flow hedge</i>	-	82	-	<b>82</b>
<i>Commodity derivatives cash flow hedge</i>	-	43	-	<b>43</b>
<i>Currency forwards cash flow hedge</i>	-	-	-	-
<b>Risk management purpose: of which</b>	-	8	-	<b>8</b>
<i>Interest rate swaps reported as trading</i>	-	5	-	<b>5</b>
<i>Commodity derivatives reported as trading</i>	-	3	-	<b>3</b>
<b>Total</b>	-	<b>133</b>	-	<b>133</b>

In millions of EUR

31 December 2017 (restated)				
	Level 1	Level 2	Level 3	Total
<b>Financial assets carried at fair value:</b>				
<b>Hedging: of which</b>	-	10	-	<b>10</b>
<i>Commodity derivatives cash flow hedge</i>	-	9	-	<b>9</b>
<i>Interest rate swaps cash flow hedge</i>	-	1	-	<b>1</b>
<b>Risk management purpose: of which</b>		1		<b>1</b>
<i>Currency forwards reported as trading</i>		1		<b>1</b>
<b>Equity instruments at fair value through OCI: of which</b>	-	-	10	<b>10</b>
<i>Shares and interim certificates at fair value through OCI*</i>	-	-	10	<b>10</b>
<b>Total</b>	-	<b>11</b>	<b>10</b>	<b>21</b>
<b>Financial liabilities carried at fair value:</b>				
<b>Hedging: of which</b>	-	34	-	<b>34</b>
<i>Interest rate swaps cash flow hedge</i>	-	27	-	<b>27</b>
<i>Commodity derivatives cash flow hedge</i>	-	5	-	<b>5</b>
<i>Currency forwards cash flow hedge</i>	-	2	-	<b>2</b>
<b>Risk management purpose: of which</b>	-	15	-	<b>15</b>
<i>Interest rate swaps reported as trading</i>	-	8	-	<b>8</b>
<i>Commodity derivatives reported as trading</i>	-	7	-	<b>7</b>
<b>Total</b>	-	<b>49</b>	-	<b>49</b>

\* According to IFRS 9 this balance was restated as of 31 December 2017 from Shares available for sale to Equity instruments at fair value through OCI.

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

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

In millions of EUR

	Carrying value	Fair value
	31 December 2018	31 December 2018
<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>

In millions of EUR

	Carrying value	Fair value
	31 December 2017	31 December 2017
<b>Financial assets</b>		
Loans to other than credit institutions	276	276
<b>Financial instruments held at amortised costs</b>	<b>276</b>	<b>276</b>
<b>Financial liabilities</b>		
<b>Loans and borrowings</b>	<b>5,181</b>	<b>5,240</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 2018 the Group is contractually obliged to purchase 2,175,207 pieces (2017: 3,033,421 pieces) of emission rights at an average price 16.26 EUR/piece (2017: 5.85 EUR/piece).

## 32. Trade payables and other liabilities

In millions of EUR

	31 December 2018	31 December 2017
Trade payables	167	158
Advance payments received	4	101
Liabilities to partners and associations	31	222
Estimated payables	56	54
Payroll liabilities	41	39
Other tax liabilities	32	26
Other liabilities	44	58
<b>Total</b>	<b>375</b>	<b>658</b>
<i>Non-current</i>	12	29
<i>Current</i>	363	629
<b>Total</b>	<b>375</b>	<b>658</b>

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

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

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

The Group's exposure to currency and liquidity risk related to trade payables and other liabilities is disclosed in Note 35 – Risk management policies and disclosures.

### 33. Commitments and contingencies

#### OFF BALANCE SHEET LIABILITIES

In millions of EUR

	31 December 2018	31 December 2017
Granted pledges – securities	611	8,972
Commitments	284	255
Other granted pledges	727	1,252
<b>Total</b>	<b>1,622</b>	<b>10,479</b>

Granted pledges represent securities of individual Group companies used as collateral for external financing.

#### COMMITMENTS

Majority of commitments is represented by contracts to purchase physical energy in following years by SSE Group in amount of EUR 236 million (2017: EUR 239 million), where physical delivery of the energy will be realised in future and EUR 19 million is related to contracts for purchase of non-current assets. Remaining EUR 29 million arise from different type of service contracts.

#### OTHER GRANTED PLEDGES

In millions of EUR

	31 December 2018	31 December 2017
Property, plant and equipment	379	404
Loans granted <sup>(1)</sup>	255	411
Cash and cash equivalents <sup>(2)</sup>	64	366
Trade receivables	17	51
Inventories	12	20
<b>Total</b>	<b>727</b>	<b>1,252</b>

(1) Total balance of pledged granted loans includes intercompany loans of EUR 249 million (2017: EUR 404 million), which are eliminated in these consolidated financial statements.

(2) According to the bond documentation cash balances at specific entities are pledged in favour of the bondholders in case EPE defaults on bonds payments. As such, the pledged cash is readily available to the Group and does not represent restricted cash.

#### Commitments and contingencies

#### OFF BALANCE SHEET ASSETS

In millions of EUR

	31 December 2018	31 December 2017
Received promises	357	372
Other received guarantees and warranties	105	155
<b>Total</b>	<b>462</b>	<b>527</b>

#### RECEIVED PROMISES

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

#### REGULATORY CONTINGENT ASSETS RELATED TO GREEN ENERGY

The SSE Group is legally bound to connect producers of green energy, if they comply with requirements set by primary legislation 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 2018 SSE recognised a loss of EUR 139 million (2017: EUR 97 million) as the difference between the green energy support costs and revenues from TPS in the period from 1 January 2018 to 31 December 2018. The loss includes revenues adjusted for compensation for past losses, which was recognised as accrued income as at 31 December 2017 (for 2017 revenues as at 31 December 2016).

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

Based on the RONI decision dated in December 2018 the resulting contingent asset of EUR 97 million originating in the year 2017 was recognized as accrued income in the consolidated statement of financial position as of 31 December 2018 and will be fully collected in the course of 2019 (31 December 2017: EUR 73 million originating in the year 2016 was recognized as accrued income in the consolidated statement of financial position as of 31 December 2017 and was fully collected in the course of 2018). The loss for 2018 has not yet been 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 2019 once a RONI confirmation on the exact amount shall be received.

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



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

**OTHER RECEIVED GUARANTEES AND WARRANTIES**

Other received guarantees and warranties mainly consist of guarantees received from parent company of the customer to secure trade receivables in the amount of EUR 77 million (2017: EUR 82 million) recognised by eustream, a.s. and SPP-distribúcia, a.s. and guarantees received from banks of EUR 26 million (2017: EUR 73 million) recognised by NAFTA a.s.

**34. Operating leases**

During the year ended 31 December 2018, EUR 20 million (2017: EUR 21 million) was recognised as an expense in profit or loss in respect of operating leases.

During the year ended 31 December 2018, EUR 6 million (2017: EUR 7 million) was recognised as income in profit or loss in respect of operating leases.

**35. 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 2018

In millions of EUR

	Corporate (non- financial institutions)	Banks	Individuals	Other	Total
<b>Assets</b>					
Cash and cash equivalents	-	416	-	-	416
Restricted cash	-	5	-	-	5
Contract assets	37	-	-	-	37
Trade receivables and other assets	348	1	1	64	414
Financial instruments and other financial assets	52	5	-	-	57
<b>Total</b>	<b>437</b>	<b>427</b>	<b>1</b>	<b>64</b>	<b>929</b>

## AS AT 31 DECEMBER 2017

In millions of EUR

	Corporate (non- financial institutions)	State, government	Financial institutions	Banks	Individuals	Other	Total
<b>Assets</b>							
Cash and cash equivalents	-	-	-	584	-	-	584
Restricted cash	-	-	1	-	-	-	1
Trade receivables and other assets	441	17	-	1	1	62	522
Financial instruments and other financial assets	285	-	-	13	-	-	298
<b>Total</b>	<b>726</b>	<b>17</b>	<b>1</b>	<b>598</b>	<b>1</b>	<b>62</b>	<b>1,405</b>

## CREDIT RISK BY LOCATION OF DEBTOR

## 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	-	416
Restricted cash	3	-	-	-	-	2	-	5
Contract assets	27	10	-	-	-	-	-	37
Trade receivables and other assets	99	189	12	3	-	21	90	414
Financial instruments and other financial assets	39	3	-	6	-	-	9	57
<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>

## AS AT 31 DECEMBER 2017

In millions of EUR

	Czech Republic	Slovakia	Germany	United Kingdom	Netherlands	Hungary	Other	Total
<b>Assets</b>								
Cash and cash equivalents	389	175	-	-	7	13	-	584
Restricted cash	-	-	-	-	-	1	-	1
Trade receivables and other assets	159	238	7	8	-	12	98	522
Financial instruments and other financial assets	11	272	-	2	-	6	7	298
<b>Total</b>	<b>559</b>	<b>685</b>	<b>7</b>	<b>10</b>	<b>7</b>	<b>32</b>	<b>105</b>	<b>1,405</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 info see note 2(e).

### 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 31 December 2017 – IAS39</b>	-	-	(24)	-	(24)
Impact of adopting IFRS 9	(1)	(2)	(1)	-	(4)
<b>Restated balance at 1 January 2018</b>	(1)	(2)	(25)	-	(28)
Impairment losses recognised during the year	-	(3)	-	-	(3)
Reversal of impairment losses during the year	1	-	-	-	1
Write-offs	-	-	1	-	1
<b>Balance at 31 December 2018</b>	-	(5)	(24)	-	(29)

The most significant change which contributed to change in the loss allowance during the period was mainly increase in the gross carrying amount of trade receivables.

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

In millions of EUR

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

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 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	448
After maturity (net)	-	-	10	10
<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	7
– after maturity 31–180 days	-	-	3	3
– after maturity 181–365 days	-	-	2	2
– after maturity >365 days	-	-	21	21
<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)	(6)
– after maturity 31–180 days	-	-	(1)	(1)
– after maturity 181–365 days	-	-	(2)	(2)
– after maturity >365 days	-	-	(20)	(20)
<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>

**CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS****AS AT 31 DECEMBER 2017**

In millions of EUR

	Loans to other than credit institutions	Trade receivables and other assets	Total
Before maturity (net)	276	494	770
After maturity (net)	-	28	28
<b>Total</b>	<b>276</b>	<b>522</b>	<b>798</b>
A – Assets for which a provision has been created (overdue and impaired)			
– Gross	-	44	44
– specific loss allowance <sup>(1)</sup>	-	(21)	(21)
<b>Net</b>	<b>-</b>	<b>23</b>	<b>23</b>
B – Assets for which a provision has not been created (overdue but not impaired)			
– after maturity <30 days	-	3	3
– after maturity 31–180 days	-	2	2
<b>Net</b>	<b>-</b>	<b>5</b>	<b>5</b>
<b>Total</b>	<b>-</b>	<b>28</b>	<b>28</b>

(1) All companies within the Group carried out the detailed analysis of trade receivables and other assets and based on the results of this analysis create a specific loss allowance. The Group carefully assessed the need to create a collective loss allowance and concluded that the impact of the collective loss allowance is immaterial to these financial statements. Therefore no collective loss allowance was recognized as at 31 December 2017.

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

In millions of EUR

	Loans to other than credit institutions	Trade receivables and other assets	Total
<b>Balance at 1 January 2017</b>	<b>(1)</b>	<b>(20)</b>	<b>(21)</b>
Impairment losses recognised during the year	(2)	(1)	(3)
Reversals of impairment losses recognised during the year	-	1	1
Effect of movement in foreign exchange rates		(1)	(1)
<b>Balance at 31 December 2017</b>	<b>(3)</b>	<b>(21)</b>	<b>(24)</b>

Impairment losses on financial assets at amortized cost at 31 December 2018 are calculated based on a new 3-stage model. Impairment losses from credit impaired financial assets relate either to trade receivables due from several customers which have already been impaired at the date of the application of a new 3-stage model or to receivables where events that have a detrimental impact on the estimated future cash flows of the asset have occurred. Remaining amount of impairment losses represents loss allowances at an amount equal to expected credit losses.

Group calculates a collective loss allowance for trade receivables on the basis of a simplified approach based on historical provision matrix. Probability of default is taken from a historical provision matrix (set up separately by each component) with element of forward-looking information (the group incorporates the following forward-looking information: GDP growth, unemployment rate, interest rates, change in stock market index). The resulting collective loss allowance was not significant as at 31. December 2018.

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

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

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

**B LIQUIDITY RISK**

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

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

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

The table below provides an analysis of financial liabilities by relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Therefore, in the case of liabilities, the earliest required repayment date is shown 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 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</i>	-	3,249	130	752	264	2,103	-
<i>outflow</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) 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.

MATURITIES OF FINANCIAL LIABILITIES

AS AT 31 DECEMBER 2017

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> 5,181	5,617	73	731	4,194	617	2
Trade payables and other liabilities	<sup>(3)</sup> 608	608	534	42	27	-	5
Financial instruments and financial liabilities	49	49	5	11	12	21	-
<i>out of which Derivatives – inflow</i>		2,475	190	652	102	1,531	-
<i>outflow</i>	(49)	(2,476)	(191)	(652)	(103)	(1,530)	-
<b>Total</b>	<b>5,837</b>	<b>6,273</b>	<b>612</b>	<b>784</b>	<b>4,233</b>	<b>637</b>	<b>7</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 644 million.  
(3) Advances received in amount of EUR 50 million are excluded from the carrying amount as these items will cause no future cash outflow.

It is not expected that the cash flows included in the maturity analysis 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 2018 is as follows:

In millions of EUR

	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
<b>Assets</b>					
Cash and cash equivalents	396	-	-	20	416
Restricted cash	4	-	-	1	5
Trade receivables and other assets	-	-	-	414	414
Financial instruments and other financial assets <sup>(1)</sup>	3	7	-	47	57
<i>out of which Derivatives – inflow</i>	-	-	-	347	347
<i>outflow</i>	-	-	-	(322)	(322)
<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	-	4,819
Trade payables and other liabilities	-	-	-	375	375
Financial instruments and financial liabilities <sup>(1)</sup>	86	-	-	47	133
<i>out of which Derivatives – inflow</i>	2,788	-	-	461	3,249
<i>outflow</i>	(476)	(209)	(2,103)	(484)	(3,272)
<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>
<b>Net interest rate risk position (incl. IRS)</b>	<b>319</b>	<b>(1,462)</b>	<b>(3,352)</b>	<b>62</b>	<b>(4,433)</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 31 – Financial instruments.

Interest rate risk exposure as at 31 December 2017 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	558	-	-	26	<b>584</b>
Restricted cash	-	-	-	1	<b>1</b>
Trade receivables and other assets	2	-	1	519	<b>522</b>
Financial instruments and other financial assets <sup>(1)</sup>	-	6	1	291	<b>298</b>
<i>out of which Derivatives – inflow</i>	<i>380</i>	<i>-</i>	<i>-</i>	<i>150</i>	<i><b>530</b></i>
<i>outflow</i>	<i>-</i>	<i>-</i>	<i>(380)</i>	<i>(143)</i>	<i><b>(523)</b></i>
<b>Total</b>	<b>560</b>	<b>6</b>	<b>2</b>	<b>837</b>	<b>1,405</b>
<b>Liabilities</b>					
Loans and borrowings <sup>(2)</sup>	2,919	1,760	497	5	<b>5,181</b>
Trade payables and other liabilities	7	-	-	651	<b>658</b>
Financial instruments and financial liabilities <sup>(1)</sup>	-	8	27	14	<b>49</b>
<i>out of which Derivatives – inflow</i>	<i>2,111</i>	<i>-</i>	<i>-</i>	<i>364</i>	<i><b>2,475</b></i>
<i>outflow</i>	<i>(32)</i>	<i>(400)</i>	<i>(1,679)</i>	<i>(366)</i>	<i><b>(2,477)</b></i>
<b>Total</b>	<b>2,926</b>	<b>1,768</b>	<b>524</b>	<b>670</b>	<b>5,888</b>
<b>Net interest rate risk position</b>	<b>(2,366)</b>	<b>(1,762)</b>	<b>(522)</b>	<b>167</b>	<b>(4,483)</b>
<b>Net interest rate risk position (inc. IRS)</b>	<b>93</b>	<b>(2,162)</b>	<b>(2,581)</b>	<b>167</b>	<b>(4,483)</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 31 – 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

	2018	2017
	Profit (loss)	Profit (loss)
Decrease in interest rates by 1%	(3)	(3)
Increase in interest rates by 1%	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 2018, Group's financial assets and liabilities based on denomination translated to millions of EUR was as follows:

In millions of EUR

	CZK	EUR	HUF	Other	Total
<b>Assets</b>					
Cash and cash equivalents	57	354	4	1	416
Restricted cash	3	-	2	-	5
Contract assets	28	9	-	-	37
Trade receivables and other assets	67	317	29	1	414
Financial instruments and other financial assets	16	41	-	-	57
	171	721	35	2	929
<b>Off balance sheet assets</b>					
Received promises and guarantees	2	460	-	-	462
Receivables from derivative operations	155	3,399	40	2	3,596
	157	3,859	40	2	4,058
<b>Liabilities</b>					
Loans and borrowings	-	4,819	-	-	4,819
Contract liabilities	24	144			168
Trade payables and other liabilities	79	266	29	1	375
Financial instruments and financial liabilities	64	66	3	-	133
	167	5,290	32	1	5,490
<b>Off balance sheet liabilities</b>					
Commitments	-	282	2	-	284
Payables related to derivative operations	151	3,399	43	2	3,595
	151	3,681	45	2	3,879
<b>Net FX risk position</b>	4	(4,569)	3	1	(4,561)

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 31 – Financial instruments for more details).

As of 31 December 2017 Group's financial assets and liabilities based on denomination translated to millions of EUR was as follows:

In millions of EUR

	CZK	EUR	HUF	Other	Total
<b>Assets</b>					
Cash and cash equivalents	219	351	13	1	584
Restricted cash	-	-	1	-	1
Trade receivables and other assets	125	377	20	-	522
Financial instruments and other financial assets	9	283	6	-	298
	353	1,011	40	1	1,405
<b>Off balance sheet assets</b>					
Received promises and guarantees	-	372	-	-	372
Receivables from derivative operations	176	2,778	51	-	3,005
	176	3,150	51	-	3,377
<b>Liabilities</b>					
Loans and borrowings	2	5,179	-	-	5,181
Trade payables and other liabilities	125	510	23	-	658
Financial instruments and financial liabilities	31	18	-	-	49
	158	5,707	23	-	5,888
<b>Off balance sheet liabilities</b>					
Guarantees given	-	255	-	-	255
Payables related to derivative operations	293	2,672	31	4	3,000
	293	2,927	31	4	3,255
<b>Net FX risk position</b>	195	(4,696)	17	1	(4,483)

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 31 – Financial instruments for more details).

The following significant exchange rates applied during the period:

CZK

	31 December 2018		31 December 2017	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
EUR 1	25.643	25.725	26.33	25.54

**SENSITIVITY ANALYSIS**

A strengthening (weakening) of the Czech crown, as indicated below, against the EUR 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

	2018	2017
	Profit (loss)	Profit (loss)
EUR (5% strengthening)	50	48
HUF (5% strengthening)	-	(1)

Effect in millions of EUR

	2018	2017
	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**

An increase/decrease in the price of electricity by 5% would have no significant impact to profit from the related commodity derivatives presented in Note 31 – Financial instruments by the amount as shown in the table below.

An increase/decrease in the price of natural gas by 5% would have increased/decreased profit from the related commodity derivatives described in Note 31 – Financial instruments by the amount as shown in the table below.

Impact in millions of EUR

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

**F REGULATORY RISK**

The Group is exposed to risks resulting from the state regulation of electricity selling prices by the states in which it undertakes business activities. In Slovakia electricity prices for households and small enterprises 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 2018	31 December 2017
Proportionate Gross Debt*	3,700	4,076
Less: Proportionate cash and cash equivalents*	253	479
<b>Net debt</b>	<b>3,447</b>	<b>3,597</b>
Proportionate EBITDA*	802	848
<b>Proportionate net debt to proportionate EBITDA*</b>	<b>4.30</b>	<b>4.24</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. 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 2018	31 December 2017
Total liabilities	6,910	7,306
Less: cash and cash equivalents	416	584
<b>Net debt</b>	<b>6,494</b>	<b>6,722</b>
Total equity attributable to the equity holders	(261)	(309)
Less: Other capital reserves related to common control transactions	(4,526)	(4,526)
Less: amounts accumulated in equity relating to cash flow hedges	(47)	(13)
<b>Adjusted capital</b>	<b>4,312</b>	<b>4,204</b>
<b>Debt to adjusted capital</b>	<b>1.51</b>	<b>1.59</b>

## I HEDGE ACCOUNTING

The balance as at 31 December 2018 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.

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

In millions of EUR

	Commodity derivatives – cash flow hedge	Interest rate swaps – cash flow hedge	Total
<b>Balance at 1 January 2018</b>	<b>(8)</b>	<b>(5)</b>	<b>(13)</b>
Utilization of cash flow hedges	(2)	-	(2)
Deferred tax – cash flow hedges utilization	1	-	1
Revaluation of cash flow hedges	-	(45)	(45)
Deferred tax – cash flow hedges revaluation	2	10	12
<b>Balance at 31 December 2018</b>	<b>(7)</b>	<b>(40)</b>	<b>(47)</b>

#### CASH FLOW HEDGES – HEDGE OF FOREIGN CURRENCY RISK AND COMMODITY PRICE RISK OF REVENUES OF POWER PRODUCTION WITH FINANCIAL DERIVATIVES

The Group applies hedge accounting for hedging instruments designed to hedge the commodity price risk and the foreign currency risk of cash-flows from Group's power production sold to or commodities purchased from the third parties. This includes commodity derivatives with net settlement for commodity risk. As a result of the hedge relationship on the Group level, the Group recorded a change in a foreign currency cash flow hedge reserve of EUR 11 million (2017: negative EUR 7 million). For risk management policies, refer to Note 35 (d) and (e) – Risk management policies and disclosures.

#### CASH FLOW HEDGES – HEDGE OF COMMODITY PRICE RISK OF GAS

The Group applies hedge accounting for commodity hedging instruments designed to hedge cash flow from sales of gas. The hedging instruments are commodity swaps to hedge selling price for entities surplus of gas in-kind. A decline in the prices could result in a decrease in net income and cash flows. As a result of the hedge relationship on the Group level, the Group recorded a change in a cash flow hedge reserve of negative EUR 10 million (2017: EUR 0 million). For risk management policies, refer to Note 35 (c) – Risk management policies and disclosures.

The following table provides details of cash flow hedge commodity derivatives gas and power for commodity price risk recorded by the Group as at 31 December 2018:

In millions of EUR

	31 December 2018	31 December 2018	31 December 2018	31 December 2018
	Positive fair value	Negative fair value	Nominal amount hedged (buy)	Nominal amount hedged (sell)
Up to 3 months	4	2	69	69
3 months to 1 year	21	38	390	305
1–5 years	9	3	105	165
Over 5 years	-	-	-	22
<b>Total</b>	<b>34</b>	<b>43</b>	<b>564</b>	<b>562</b>

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

In millions of EUR

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

#### CASH FLOW HEDGES – HEDGE OF INTEREST RATE RISK

The Group applies hedge accounting for hedging instruments designed to hedge interest rate risk of its debt financing. The hedging instruments are interest rate swaps used in order to hedge risk related to repricing of interest rates on its financing. As a result of the hedge relationship on the Group level, the Group recorded a change in interest rate cash flow hedge reserve of negative EUR 35 million (2017: positive EUR 48 million). For risk management policies, refer to Note 35 (c) – Risk management policies and disclosures.

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

In millions of EUR

	31 December 2018	31 December 2018	31 December 2018	31 December 2018
	Positive fair value	Negative fair value	Nominal amount hedged (buy)	Nominal amount hedged (sell)
Up to 3 months	-	-	11	11
3 months to 1 year	-	2	65	65
1–5 years	-	7	209	209
Over 5 years	-	73	2 103	2 103
<b>Total</b>	<b>-</b>	<b>82</b>	<b>2 388</b>	<b>2 388</b>

## 36. Related parties

The Group has a related party relationship with its shareholders and other parties, as identified in the following table:

### A THE SUMMARY OF OUTSTANDING BALANCES WITH RELATED PARTIES AS AT 31 DECEMBER 2018 AND 31 DECEMBER 2017 WAS AS FOLLOWS:

In millions of EUR

	Accounts receivable and other financial assets	Accounts payable and other financial liabilities	Accounts receivable and other financial assets	Accounts payable and other financial liabilities
	2018	2018	2017	2017
Ultimate shareholder <sup>(1)</sup>	-	-	-	-
Companies controlled by ultimate shareholders	32	47	14	25
Companies under significant influence by ultimate shareholders	4	10	3	9
Associates	6	-	7	-
Other related parties	-	-	-	-
<b>Total</b>	<b>42</b>	<b>57</b>	<b>24</b>	<b>34</b>

(1) Daniel Křetínský represents the ultimate shareholder.

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

In millions of EUR

	Revenues	Expenses	Revenues	Expenses
	2018	2018	2017	2017
Ultimate shareholder <sup>(1)</sup>	-	-	-	-
Companies controlled by ultimate shareholders	138	141	62	94
Companies under significant influence by ultimate shareholders	35	85	33	90
Associates	-	-	15	-
Other related parties	-	-	-	-
<b>Total</b>	<b>173</b>	<b>226</b>	<b>110</b>	<b>184</b>

(1) Daniel Křetínský represents the ultimate shareholder.

Related parties

### TRANSACTIONS WITH THE KEY MANAGEMENT PERSONNEL

For the financial years ended 31 December 2018 and 2017 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, a.s., SPP Infrastructure, a.s., eustream, a.s., SPP-distribúcia, a.s., NAFTA a.s., POZAGAS a.s., Elektrárny Opatovice, a.s., Pražská teplárenská a.s., United Energy, a.s., Plzeňská teplárenská a.s., SPP Storage, s.r.o. 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

	2018	2017
Nr. of personnel	63	73
Compensation, fees and rewards	4	3
Compulsory social security contributions	1	1
<b>Total</b>	<b>5</b>	<b>4</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.

## 37. Group entities

The list of the Group entities as at 31 December 2018 and 31 December 2017 is set out below:

		31 December 2018		31 December 2017		2018	2017
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso-lidation method	Conso-lidation method
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. <sup>(5)</sup>	Czech Republic	100	Direct	-	-	Full	Full
PT Koncept, a.s. <sup>(4)</sup>	Czech Republic	100	Direct	100	Direct	Full	Full
TERMONTA PRAHA a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Transit, a.s. <sup>(3)</sup>	Czech Republic	100	Direct	100	Direct	Full	Full
Tepló Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
PT měření, a.s.	Czech Republic	100	Direct	-	-	Full	Full
PT Holding Investment B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Pražská teplárenská Holding a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
NPTH, a.s.*	Czech Republic	100	Direct	-	-	Full	-
Pražská teplárenská a.s. <sup>(5)</sup>	Czech Republic	-	-	47.42	Direct	-	Full
PT Koncept, a.s. <sup>(4)</sup>	Czech Republic	-	-	100	Direct	-	Full
TERMONTA PRAHA a.s.	Czech Republic	-	-	100	Direct	-	Full
Energotrans SERVIS, a.s. <sup>(3)</sup>	Czech Republic	-	-	100	Direct	-	Full
Tepló Neratovice, spol. s r.o.	Czech Republic	-	-	100	Direct	-	Full
PT Real Estate, a.s. <sup>(6)</sup>	Czech Republic	-	-	47.42	Direct	-	Full
RPC, a.s.	Czech Republic	-	-	100	Direct	-	Full
Pod Juliskou, a.s.	Czech Republic	-	-	100	Direct	-	IFRS 5
Nová Invalidovna, a.s.	Czech Republic	-	-	100	Direct	-	IFRS 5
Michelský trojúhelník, a.s.	Czech Republic	-	-	100	Direct	-	Full
Nové Modřany, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties I, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties II, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties III, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties IV, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT měření, a.s.	Czech Republic	-	-	47.42	Direct	-	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	-	-	100	Direct	-	Full

### Group entities

		31 December 2018		31 December 2017		2018	2017
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso-lidation method	Conso-lidation method
VTE Moldava II, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
MR TRUST s.r.o. *	Czech Republic	100	Direct	100	Direct	Full	Full
Arisun, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Greeninvest Energy, a.s.	Czech Republic	41.70	Direct	41.70	Direct	IFRS 5	IFRS 5
POWERSUN a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Triskata, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
VTE Pchery, s.r.o.	Czech Republic	64	Direct	64	Direct	Full	Full
CHIFFON ENTERPRISES LIMITED *	Cyprus	100	Direct	100	Direct	Full	Full
Claymore Equity, s.r.o. *	Slovakia	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
NPTH, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
Pražská teplárenská a.s. <sup>(5)</sup>	Czech Republic	-	-	50.58	Direct	-	Full
PT Koncept, a.s. <sup>(4)</sup>	Czech Republic	-	-	100	Direct	-	Full
TERMONTA PRAHA a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Transit, a.s. <sup>(3)</sup>	Czech Republic	-	-	100	Direct	-	Full
Tepló Neratovice, spol. s r.o.	Czech Republic	-	-	100	Direct	-	Full
PT Real Estate, a.s. <sup>(6)</sup>	Czech Republic	-	-	50.58	Direct	-	Full
RPC, a.s.	Czech Republic	-	-	100	Direct	-	Full
Pod Juliskou, a.s.	Czech Republic	-	-	100	Direct	-	IFRS 5
Nová Invalidovna, a.s.	Czech Republic	-	-	100	Direct	-	IFRS 5
Michelský trojúhelník, a.s.	Czech Republic	-	-	100	Direct	-	Full
Nové Modřany, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties I, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties II, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties III, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties IV, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT měření, a.s.	Czech Republic	-	-	50.58	Direct	-	Full
Stredoslovenská energetika Holding, a.s. (Stredoslovenská energetika a.s.) <sup>(7)</sup>	Slovakia	49	Direct	49	Direct	Full	Full
Stredoslovenská distribučná, a.s. <sup>(2)</sup>	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	-	-	Full	-
Stredoslovenská energetika, a.s. (Stredoslovenská energetika Obchod, a.s.) <sup>(8)</sup>	Slovakia	100	Direct	-	-	Full	-



		31 December 2018		31 December 2017		2018	2017
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso- lidation method	Conso- lidation method
EP ENERGY HR d.o.o.	Croatia	100	Direct	100	Direct	Full	Full
EP Cargo a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Hungary, a.s.* <sup>(1)</sup>	Czech Republic	-	-	100	Direct	-	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	-	-	Full	-
Plzeňská teplárenská, AUTODOPRAVA s.r.o.	Czech Republic	100	Direct	-	-	At cost	-
Plzeňská teplárenská SERVIS IN a.s..	Czech Republic	100	Direct	-	-	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	100	Direct	Full	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
NAFTA International B.V.*	Netherlands	100	Direct	100	Direct	Full	Full
NAFTA Germany GmbH	Germany	100	Direct	-	-	Full	-
NAFTA Bavaria GmbH	Germany	100	Direct	-	-	Full	-
NAFTA Speicher Management GmbH (DEA Speicher Management GmbH) <sup>(11)</sup>	Germany	100	Direct	-	-	Full	-
NAFTA Speicher GmbH & Co. KG (DEA Speicher Holding GmbH & Co. KG) <sup>(9)</sup>	Germany	100	Direct	-	-	Full	-
NAFTA Speicher Inzenham GmbH (DEA Speicher GmbH) <sup>(10)</sup>	Germany	100	Direct	-	-	Full	-
NAFTA RV	Ukraine	100	Direct	100	Direct	Full	Full
CNG Holdings Netherlands B.V.*	Netherlands	50	Direct	50	Direct	Equity	Equity
CNG LLC	Ukraine	100	Direct	100	Direct	Equity	Equity
EPH Gas Holding B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Seattle Holding B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Slovak Gas Holding B.V.	Netherlands	100	Direct	100	Direct	Full	Full
SPP Infrastructure, a.s.	Slovakia	49	Direct	49	Direct	Full	Full
eustream, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
Central European Gas HUB AG	Austria	15	Direct	15	Direct	At cost	At cost
Eastring B.V.	Netherlands	100	Direct	100	Direct	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	100	Direct	Full	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
NAFTA International B.V.*	Netherlands	100	Direct	100	Direct	Full	Full
NAFTA Germany GmbH	Germany	100	Direct	-	-	Full	-

		31 December 2018		31 December 2017		2018	2017
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso- lidation method	Conso- lidation method
NAFTA Bavaria GmbH	Germany	100	Direct	-	-	Full	-
NAFTA Speicher Management GmbH (DEA Speicher Management GmbH) <sup>(11)</sup>	Germany	100	Direct	-	-	Full	-
NAFTA Speicher GmbH & Co. KG (DEA Speicher Holding GmbH & Co. KG) <sup>(9)</sup>	Germany	100	Direct	-	-	Full	-
NAFTA Speicher Inzenham GmbH (DEA Speicher GmbH) <sup>(10)</sup>	Germany	100	Direct	-	-	Full	-
NAFTA RV	Ukraine	100	Direct	100	Direct	Full	Full
CNG Holdings Netherlands B.V.*	Netherlands	50	Direct	50	Direct	Equity	Equity
CNG LLC	Ukraine	100	Direct	100	Direct	Equity	Equity
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) EP Hungary, a.s. merged with EP ENERGY, a.s. as at 1 January 2017. EP ENERGY, a.s. is the successor company

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

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

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

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

(6) In July 2018 the shares of PT Real Estate, a.s. were transferred to Pražská teplárenská Holding a.s. as part of internal reorganization. In December 2018 PT Real Estate, a.s. and its subsidiaries were sold

(7) In January 2019 Stredoslovenská energetika a.s. was renamed to Stredoslovenská energetika Holding, a.s.

(8) In January 2019 Stredoslovenská energetika Obchod, a.s. was renamed to Stredoslovenská energetika, a.s.

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

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

(11) 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.

## 38. Litigations and claims

### ELEKTRÁRNÝ OPATOVICE, A.S.

Elektrárny Opatovice, a.s. is involved in a dispute with its former minority shareholders who claim that compensation received for their shares through a compulsory sell-out procedure (“squeeze-out”) was inadequate, and who are challenging the underlying expert valuation. As the compensation was not paid by Elektrárny Opatovice, a.s. but instead by its former majority shareholder (International Holdings, B.V.), any resulting liability is thus expected to be the responsibility of the former shareholder.

### STREDOSLOVENSKÁ ENERGETIKA HOLDING, A.S. GROUP (“SSE GROUP”)

The SSE Group is a party to various legal proceedings. As at 31 December 2018 and 2017 no legal provisions were recorded. The Group management has decided not to disclose details in respect of material legal claims as they are currently ongoing and disclosure may prejudice the SSE Group.

### REGULATORY PROCEEDINGS BY ERO AGAINST PRAŽSKÁ TEPLÁRENSKÁ (“PT”)

PT is involved in regulatory proceedings commenced in October 2015 by ERO claiming that prices charged to customers of PT’s local small-scale heating infrastructures in 2011 were in breach of the Czech Act on Prices. In March 2016, ERO issued a decision ordering PT to pay EUR 9 million (CZK 240 million) consisting of a penalty in the amount of EUR 4.5 million (CZK 120 million) and restitution to affected customers in the amount of EUR 4.5 million (CZK 120 million). PT appealed the decision on 24 March 2016 with supplemental information provided on 14 April 2016. On 7 July 2016 PT received a resolution from ERO by which the Chairman of ERO returned the case again to the first instance for a new hearing. In November 2016 PT received new decision which confirmed the result of the court of the first instance. PT appealed again and on 23 December 2016 ERO issued a decision changing the amount to be paid to EUR 8 million (CZK 222 million) consisting of a penalty in the amount of EUR 4 million (CZK 111 million) and restitution to affected customers in the amount of EUR 4 million (CZK 111 million). On 26 January 2017 PT filed an appeal on the decision and applied for suspensive effect. At the same time PT submitted a fine of EUR 4 million to the ERO’s account. On 23 February 2017 the regional court satisfied the request for a suspensive effect in full and on 28 April 2017 the ERU returned the fine back to PT and PT again conservatively recorded a provision of EUR 4 million. On 7 March 2019 the regional court cancelled the ERO decision and the returned the matter back to ERO for a new proceeding.

In August 2018, Pražská teplárenská a.s. (“PT”) received a notice on the commencement of an administrative procedure concerning the possible commission of an administrative delict under provisions of the Act on Prices, which PT as the seller in the price location “Prague – local gas sources” is alleged to have committed in 2014 by demanding from customers heat energy prices whose amount did not comply with the conditions of price regulation based on cost of inputs under provisions of the Act on Prices. On 10 January 2019, as part of the administrative procedure, PT received a notification on an expert appointment according to which the Energy Regulatory Office asked the appointed expert to prepare an expert opinion on the above. Due to the early phase of the administrative procedure and its unclear results, PT has decided not to create any provisions as at 31 December 2018.

### PLZEŇSKÁ TEPLÁRENSKÁ, A.S. (“PLTEP”)

In August 2012, Škoda Investment a.s. (SI) filed a claim for unjust enrichment against Plzeňská energetika a.s. (“PE”; merged with Plzeňská teplárenská, a.s. effectively on 31 October 2018, until then Plzeňská energetika, a.s. is used in the paragraph) for approximately EUR 2 million. This unjust enrichment claim allegedly arises from the fact that Plzeňská energetika a.s. owns and operates utility distribution systems (e.g., for gas, water and heat), which lie on the property of Škoda Investment a.s., thereby illegally restricting the ownership of Škoda Investment a.s. In February 2016 both parties, i.e. PE as well as SI, received an official request from the court to settle the dispute by mediation. Following this request the hearing has been adjourned until further notice. In June 2016 SI has filed an additional claim for unjust enrichment against PE for approximately EUR 1 million. Additional claim covers period 2013 – 2014. The claim was further extended in 2018 to the total of ca EUR 4 million. In January 2018, another court hearing was held and the Court ruled in favor of Plzeňská energetika, a.s. SI appealed and as a result of the appeal, the legal case was returned back to the District court, the hearing is expected to take place in the Q2 2019. Since the legal case is still open and after considering all the circumstances Plzeňská teplárenská, a.s. reported an adequate provision, representing its best estimate of the outcome, for the year ended 31 December 2018.

### WASTE INCINERATION PLANT PROJECT AND RELATED BANK GUARANTEE

PLTEP relationships with ČKD PRAHA DIZ, a.s., the former general supplier of the project ZEVO Plzeň (waste incineration plant, “ZEVO”), are primarily burdened by the year 2016 when PLTEP prematurely terminated a contract for work before the work itself was completed. In line with contractual documentation, PLTEP exercised a bank guarantee on completion of the work. ČKD PRAHA DIZ, a.s. has challenged this decision. ČKD PRAHA DIZ, a.s. is now in insolvency proceeding and is currently represented by an insolvency administrator. The internal assessment of claims of individual parties is currently in process and negotiations are expected to be complicated. Based on an internal analysis, PLTEP recorded a provision in an appropriate amount as at 31 December 2018 to account for this fact.

## 39. Subsequent events

In January 2019, NAFTA a.s. has extended maturity of its loan facilities comprising of EUR 175 million term loan and EUR 75 million revolving facility maturing until 2024. Both loans were presented as current at the end of year 2018.

On 5 March 2019 the Group declared a dividend of EUR 143 million to its shareholders. The dividends were paid on 6 March 2019.

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

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

Except for the matters described above and elsewhere in the Notes, the Company’s management is not aware of any other material subsequent events that could have an effect on the consolidated financial statements as at 31 December 2018.

### APPENDICES\*:

#### Appendix 1 – Business combinations

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

Date:	Signature of the authorised representative	
11 April 2019	 Daniel Křetínský Chairman of the Board of Directors of EP Infrastructure, a.s.	 Gary Mazzotti 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)
Net identifiable assets and liabilities	182	(60)	122
Non-controlling interest			(79)
Goodwill on acquisitions of a subsidiary			-
Cost of acquisition			43
Consideration paid, satisfied in cash (A)			-
Consideration other			43
Total consideration transferred			43
Less: Cash acquired (B)			32
Net cash inflow (outflow) (C) = (B – A)			32

(1) Represents values at 100% share.

In millions of EUR

	*2018 Total
Revenue of the acquirees recognised since the acquisition date	22
Profit (loss) of the acquirees recognised since the acquisition date	2

\* These figures include information after merger of Plzeňská energetika, a.s. and Plzeňská teplárenská, a.s.

In millions of EUR

	2018 Total
Revenue of the acquirees recognised in the year ended 31 December 2018*	71
Profit (loss) of the acquirees recognised in the year ended 31 December 2018*	16

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

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of NAFTA Germany GmbH 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)
Net identifiable assets and liabilities	68	50	118
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(5)
Cost of acquisition			113
Consideration paid, satisfied in cash (A)			118
Consideration other			(5)
Total consideration transferred			113
Less: Cash acquired (B)			43
Net cash inflow (outflow) (C) = (B – A)			(75)

(1) Represents values at 100% share.



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

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.

## Independent Auditor's Report to the Statutory Financial Statements



Introduction by the Chairman of the Board of Directors

Independent Auditor's Report to the Consolidated Annual Report

Other Information

Report on relations

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

” KPMG: The financial statements give a true and fair view on the unconsolidated financial position of EPIF.





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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 2018, 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 2018, 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 2018 used in the valuation models prepared in 2017 to the actual results for 2018. We also compared the cash-flow plans included in the 2018 valuation models to the cash-flow plans included in the 2017 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 International Financial Reporting Standards as adopted by the European Union.

#### **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 and Audit Committee are responsible for the oversight of 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:

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 29 March 2018 and our uninterrupted engagement has lasted for 5 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 27 February 2019 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:

Name	Description of services provided
IT advisory	Assurance related to customer care IT system.
Transfer pricing	Review of selected arm's length interest rates and guarantee fees within EP Infrastructure Group.
Comfort letter	Issuance of a comfort letter regarding EP Infrastructure's bond issue.
Accounting advisory	Review and gap analysis regarding implemented IFRS16 accounting policy.
GDPR Advisory	Advisory services regarding personal data protection issues ("GDPR").
Transaction advisory	Evaluation of the feasibility and impact of carving out real estate assets from one of the EP Infrastructure Group's companies.
Tax advisory	Advisory linked to calculation of the tax liability related to previous acquisitions.



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

Prague  
27 February 2019

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

*Karel Charvát*  
Karel Charvát  
Partner  
Registration number 2032





The EPIF Group declared and paid a dividend of EUR 143 million to its shareholders.

## Statutory Financial Statements and Notes to the Statutory Financial Statements

Introduction by the Chairman of the Board of Directors

Independent Auditor's Report to the Consolidated Annual Report

Other Information

Report on relations

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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## Individual Financial Statements

as of and for the year ended 31 December 2018

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 2018  
In thousands of CZK

	Note	2018	2017
Sales: Other		16,673	6,580
<b>Total sales</b>		<b>16,673</b>	<b>6,580</b>
Cost of sales: Other		(330)	(403)
<b>Total cost of sales</b>		<b>(330)</b>	<b>(403)</b>
<b>Subtotal</b>		<b>16,343</b>	<b>6,177</b>
Personnel expenses	15	(54,108)	(27,231)
Depreciation and amortisation		(17)	(6)
Taxes and charges		(8)	(17)
Other operating income		45	656
Other operating expenses	20	(43,784)	(180,190)
<b>Profit (loss) from operations</b>		<b>(81,529)</b>	<b>(200,611)</b>
Interest income under the effective interest method	16	1,697,744	916,595
Interest expense	16	(1,555,662)	(1,262,252)
Other finance expense	16	(96,016)	(166,744)
Foreign currency differences	16	84,086	(433,264)
Profit (loss) from derivative instruments	16	(23,364)	(11,208)
Dividend income	16	1,079,830	19,550,999
Profit (loss) from financial instruments	21	44,686	-
<b>Net finance income (expense)</b>		<b>1,231,303</b>	<b>18,594,126</b>
<b>Profit (loss) before income tax</b>		<b>1,149,774</b>	<b>18,393,515</b>
Income tax expenses	17	22,854	71,437
<b>Profit (loss) from continuing operations</b>		<b>1,172,628</b>	<b>18,464,952</b>
<b>Profit (loss) for the year</b>		<b>1,172,628</b>	<b>18,464,952</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	17	(817,540)	404,650
<b>Total other comprehensive income for the year</b>		<b>355,088</b>	<b>18,869,602</b>
<b>Total profit (loss) for the year attributable to Owners of the Company:</b>		<b>1,172,628</b>	<b>18,464,952</b>
<b>Total other comprehensive income attributable to Owners of the Company:</b>		<b>355,088</b>	<b>18,869,602</b>
<b>Basic and diluted earnings per share in CZK</b>	10	<b>3.63</b>	<b>57.17</b>

The notes presented on pages 206 to 265 form an integral part of these financial statements.

# Statement of financial position

As of 31 December 2018  
In thousands of CZK

	Note	31/12/2018	31/12/2017	1/1/2017
<b>Assets</b>				
Equity investments	6	135,639,913	133,977,345	131,701,292
Property, plant and equipment		29	46	-
Intangible assets		1,231	1,159	-
Financial instruments and other financial assets	7	44,734,020	45,931,422	23,050,933
Deferred tax assets	18	95,754	-	-
<b>Total non-current assets</b>		<b>180,470,947</b>	<b>179,909,972</b>	<b>154,752,225</b>
Inventories		5,153	-	-
Trade receivables and other assets	8	109,466	9,032	20,965,007
Financial instruments and other financial assets	7	87,097	-	-
Tax receivables	8	7,848	7,869	-
Cash and cash equivalents	5	122,377	401,889	1,045,641
<b>Total current assets</b>		<b>331,941</b>	<b>418,790</b>	<b>22,010,648</b>
<b>Total assets</b>		<b>180,802,888</b>	<b>180,328,762</b>	<b>176,762,873</b>
<b>Equity</b>				
Share capital	9	80,750,000	80,750,000	80,750,000
Share premium		222,826	222,826	222,826
Reserves		19,157,975	19,157,975	19,157,975
Retained earnings		26,643,391	31,670,963	30,951,853
Effective portion of changes in fair value of cash flow hedges, net of tax		(161,628)	655,912	251,262
<b>Total equity attributable to equity holders</b>		<b>126,612,564</b>	<b>132,457,676</b>	<b>131,333,916</b>
<b>Liabilities</b>				
Loans and borrowings	13	52,401,177	46,673,029	42,766,596
Financial instruments and financial liabilities	13	1,250,311	489,052	476,812
Deferred tax liabilities	18	-	118,867	94,874
<b>Total non-current liabilities</b>		<b>53,651,488</b>	<b>47,280,948</b>	<b>43 338 282</b>
Trade payables and other liabilities	14	21,068	196,728	1,638,805
Loans and borrowings	13	390,591	263,870	336,260
Financial instruments and financial liabilities	13	109,930	1,429	115,610
Provisions	14	17,247	128,111	-
<b>Total current liabilities</b>		<b>538,836</b>	<b>590,138</b>	<b>2,090,675</b>
<b>Total liabilities</b>		<b>54,190,324</b>	<b>47,871,086</b>	<b>45,428,957</b>
<b>Total equity and liabilities</b>		<b>180,802,888</b>	<b>180,328,762</b>	<b>176,762,873</b>

The notes presented on pages 206 to 265 form an integral part of these financial statements.

# Statement of changes in equity

In thousands of CZK

	Share capital	Other capital funds	Share premium	Effective portion of changes in fair value of cash flow hedges	Retained earnings	Total equity
Balance at 1 January 2017	80,750,000	19,157,975	222,826	251,262	30,951,853	131,333,916
Total comprehensive income for the period:						
Profit or loss	-	-	-	-	18,464,952	18,464,952
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	404,650	-	404,650
Total other comprehensive income:				404,650	18,464,952	18,869,602
Contributions by and distributions to owners:						
Dividends to equity holders					(17,745,842)	(17,745,842)
Balance at 31 December 2017	80,750,000	19,157,975	222,826	655,912	31,670,963	132,457,676
IFRS9 transition impact, net of tax	-	-	-	-	(184,225)	(184,225)
Balance at 1 January 2018	80,750,000	19,157,975	222,826	655 912	31,486,738	132,273,451
Total comprehensive income for the period:						
Profit or loss	-	-	-	-	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 other comprehensive income:				(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

The notes presented on pages 206 to 265 form an integral part of these financial statements.

# Cash flow statement

At 31 December 2018

In thousands of CZK

	Note	2018	2017
OPERATING ACTIVITIES			
Profit (loss) for the year	10	1,172,628	18,464,952
Adjustments for:			
Income tax	17	(22,854)	(71,437)
Depreciation and amortisation		17	6
Change in provisions	14	(110,864)	128,111
Change in allowance for impairment to financial assets	21	(44,686)	-
Interest income and expense	16	(142,082)	345,657
Dividend income	16	(1,079,830)	(19,550,999)
Loss on financial instruments	16	23,364	11,208
Unrealised foreign exchange gains (losses), net		18,320	690,610
Operating profit before changes in working capital		(185,987)	18,108
Change in trade receivables and other assets	8	(3,975)	(3,644)
Change in trade payables and other liabilities	14	(18,664)	(64,965)
Change in inventories		(5,153)	
Cash generated from (used in) operations		(213,779)	(50,501)
Interest paid	5	(896,515)	(1,097,516)
Income taxes paid		23	(22,070)
Cash flows generated from (used in) operating activities		(1,110,271)	(1,170,087)
INVESTING ACTIVITIES			
Received dividends		1,074,850	12,223,550
Proceeds (outflows) from sale (settlement) of financial instruments		(3,496)	(237,404)
Acquisition of property, plant and equipment and intangible assets		(72)	(1,211)
Acquisition of subsidiaries, joint-ventures and associates, net of cash acquired	6	(1,662,568)	-
Borrowings to related parties	7	(6,368,750)	-
Interest received	7	1,221,915	-
Borrowings from related parties	7	8,081,698	-
Cash flows from (used in) investing activities		2,343,577	11,984,935
FINANCING ACTIVITIES			
Proceeds from loans received	5	49,063,946	11,739,219
Repayment of borrowings	5	(63,169,963)	(4,004,711)
Proceeds from bonds issued	5	19,106,250	-
Finance fees, charges paid		(539,566)	(20,137)
Dividends paid	5	(6,025,675)	(19,153,228)
Cash flows from (used in) financing activities		(1,565,008)	(11,438,857)
Net increase (decrease) in cash and cash equivalents		(331,702)	(624,009)
Cash and cash equivalents at beginning of the year		401,889	1,045,641
Effect of exchange rate fluctuations on cash held		52,190	(19,743)
Cash and cash equivalents at end of the year		122,377	401,889

The notes presented on pages 206 to 265 form an integral part of these financial statements.



# Notes to the financial statements

## (non-consolidated)

### EP INFRASTRUCTURE, A.S.

for period ended 31 December  
(in thousands CZK)

## 1. Background

EP Infrastructure, a.s. (the “Company” or “EPIF”) was registered on 6 December 2013 by subscribing share capital in the form of a monetary contribution of TCZK 2,000.

The Company’s principal activity is the management of its own assets. The primary mission of the Company is strategic management of the development of companies directly or indirectly controlled by the Company, coordination of their activities, and management, acquisition and disposing of the Company’s equity investments and other assets.

The financial year is identical with the calendar year. The financial statements were prepared for the period from 1 January 2018 to 31 December 2018 (“2018”). The comparable period (“2017”) is the financial year from 1 January 2017 to 31 December 2017.

The financial statements have been prepared in accordance with IFRS as adopted by the European Union (“IFRS-EU”). The Company prepares financial statements in accordance with IFRS for the first time for the period ended 31 December 2018. Transactions related to the adoption of IFRS contain requirements for recognition and valuation of separate items in the financial statements as defined in international accounting standards.

### 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  
(in thousands CZK)

### THE SHAREHOLDERS OF THE COMPANY AS AT 31 DECEMBER 2018 ARE:

	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., 100 % OWNER OF EPIF INVESTMENTS A.S. AS AT 31 DECEMBER 2018 ARE:

	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 for 2016 and 2017 of the widest group of entities have been prepared by Energetický a průmyslový holding, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Prague 1, Czech Republic.

The consolidated financial statements of the widest group of entities for 2018 are 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 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 2018

#### MEMBERS OF THE BOARD OF DIRECTORS

Daniel Křetínský (chairman)  
Jiří Zrůst (vice-chairman)  
Gary 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 Střiteský (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 European Union.

The financial statements were approved by the board of directors on 27 February 2019.

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 will, by definition, seldom 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 both current and future periods.

### I. ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

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

- Note 7 – Financial instruments
- Note 13 – 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 company to which the Company belongs 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 does not report any income from sale of products and services in the Czech Republic and abroad. Most income is financial income and is described in detail in note 16 to these financial statements.

## F APPLICATION OF IFRS 1

These financial statements of EP Infrastructure, a.s. have been prepared for the first time in accordance with IFRS as adopted by the European Union.

The Company has applied the accounting policies stated in Note 3 below to all accounting periods presented in these financial statements.

In preparing the opening statement of financial position in accordance with IFRS-EU, the Company restated the values reported under Czech Accounting Standards. The process and explanation of these restatements as adjustments compared to the preceding statutory financial statement prepared in accordance with Czech Accounting Standards are stated in Notes 11 and 12 to these financial statements.

All estimates used by the Company at the beginning of the initial accounting period and in the comparable period are identical with the estimates prepared under Czech Accounting Standards. It means that the estimates prepared under Czech Accounting Standards have not been adjusted by information received later.

## G RECENTLY ISSUED ACCOUNTING STANDARDS

### I. NEWLY ADOPTED STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 THAT HAVE BEEN APPLIED IN PREPARING THE COMPANY'S FINANCIAL STATEMENTS

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 15 REVENUE FROM CONTRACTS WITH CUSTOMERS

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

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

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

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

Because of the timing and measurement of the Company's revenues and with respect to the nature of the Company's operations and the types of revenues it earns, there is no material effect to the opening balance of the Company's equity as at 1 January 2018 and therefore no impact of the adoption of IFRS 15 is presented as an adjustment to the opening balance of equity as at 1 January 2018.

## IFRS 9 FINANCIAL INSTRUMENTS

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

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

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

In thousands of CZK

	Impact of adopting IFRS 9 on opening balance
Retained earnings	
Recognition of expected credit losses under IFRS 9	(184,225)
Impact at 1 January 2018	(184,225)

Detail of IFRS 9 impact on opening balances:

In thousands of CZK

	31 December 2017 as reported	Impact of adopting IFRS 9	1 January 2018
Non-current assets			
Financial instruments and other financial assets	45,913,083	(184,225)	45,728,858
<b>Total</b>	<b>45,913,083</b>	<b>(184,225)</b>	<b>45,728,858</b>

### I. CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

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

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

Under IFRS 9, on initial recognition, a financial asset is classified as measured at: amortised cost (AC), fair value through profit and loss (FVOCI) – debt investment, fair value of other comprehensive income (FVOCI) – equity investment, or fair value through profit and loss (FVTPL). The classification of financial assets under IFRS 9 is generally based on the business model in which the financial assets are managed, and on contractual cash flow characteristics.

A financial asset shall be measured at amortised 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 met 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 collecting 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 choice at initial recognition for particular investments in equity instruments that would otherwise be measured at fair value through profit to present subsequent changes in fair value in other comprehensive income. The Company has equity instruments classified as financial assets at fair value through other comprehensive income. The key type of financial assets measured at fair value through comprehensive income by the Company are therefore investments in equity instruments. The Company applies the exception from the standard IFRS 9 in accordance with IAS 27 for investments in subsidiaries, associates, and jointly controlled entities, and these are accounted for at cost.

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 more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents 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 of 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 FVOCI, as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases.

## II. IMPAIRMENT OF FINANCIAL ASSETS

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

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: 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 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.

The Company has elected to measure loss allowances for trade receivables and contract assets 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 financial asset portfolio 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 permanently 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, the 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 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 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;
- 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 occur 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 are credit impaired. A financial asset is credit impaired when one or more events have occurred with a detrimental impact on the estimated future cash flows of the financial asset. The Company considers financial asset to be credit-impaired if:

- (a) a financial asset or its significant part is overdue for more than 90 days; or
- (b) legal action has been taken in relation to the debtor whose 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 intercompany 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 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 recognised in the income statement. For debt securities measured at FVOCI, the loss allowance is recognised in OCI.

#### IMPACT OF THE NEW IMPAIRMENT MODEL

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

#### III. HEDGE ACCOUNTING

The Company has decided to apply hedge accounting in accordance with IAS 39 from 1 January 2018, not under the current requirements in IFRS 9.

#### IFRIC 22 FOREIGN CURRENCY TRANSLATIONS AND ADVANCE CONSIDERATION (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2018)

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

The Company has assessed the estimated impact of the adoption of IFRIC 22 on its financial statements. Based on the result of the assessment the Company expects that the new Standard will not have a material impact on the financial statements.

#### II. STANDARDS NOT YET EFFECTIVE

#### IFRS 16 LEASES (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2019)

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

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

The Company has assessed the estimated impact of the adoption of IFRS 16 on its financial statements. Resulting from this assessment, the Company expects that the new standard will not have a material impact on the financial statements.

According to the Company's analysis, IFRS 16 will not have a 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 estimated impact of the adoption of IFRIC 23 on its financial statements. Based on the result of the assessment the Company expect that the new Standard will not have a material impact on the financial statements.

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

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

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

The amendment will have no impact on the Company’s financial statements.

#### AMENDMENTS TO REFERENCES TO THE CONCEPTUAL FRAMEWORK IN IFRS STANDARDS (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020 (NOT ADOPTED BY EU YET))

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

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

#### AMENDMENTS TO IAS 1 AND IAS 8: DEFINITION OF MATERIAL (EFFECTIVE FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020 (NOT ADOPTED BY EU YET))

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

The amendments will probably have no material 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

POLICY APPLICABLE FROM 1 JANUARY 2018

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

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

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

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

#### POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

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

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

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

## II. RECOGNITION

#### POLICY APPLICABLE FROM 1 JANUARY 2018

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

#### POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

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

## III. MEASUREMENT

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

#### POLICY APPLICABLE FROM 1 JANUARY 2018

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

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

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

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

#### POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

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

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

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

#### 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.

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)

##### POLICY APPLICABLE AFTER 1 JANUARY 2018

The Company measures loss allowances using expected credit loss ("ECL") model for financial assets at amortized cost, debt instruments at FVtOCI 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 of 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 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;
- 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 occur 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) 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 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.

#### POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. IAS 39 does not provide clear guidance on what is significant relative to cost or what is a prolonged decline in the fair value. As such, the Company policy states that impairment should be considered if declines in equity markets

have been, and continue to be, severe with many equity global indices down by nearly 50% from their 12-month highs for a period longer than 6 months (impairment criteria).

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

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

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

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

## 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 and loss. 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 Company derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

## F DERIVATIVE FINANCIAL ASSETS AND LIABILITIES

### POLICY APPLICABLE FROM 1 JANUARY 2018

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 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.

## 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 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).

## H REVENUE

### REVENUE FROM SERVICES

From 1 January 2018, 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 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 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 related tax benefit 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. Profit share prepayments are recognised in current profit or loss, i.e. in the period when the profit share prepayment 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, using pricing models or discounted cash flows techniques.

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

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

The fair value of trade and other receivables and of held-to-maturity investments 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 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 Company and counterparty when appropriate.

**5. Cash and cash equivalents**

In thousands of CZK

	31 December 2018	31 December 2017	1 January 2017
Cash on hand	12	11	-
Current accounts with banks	122,365	401,878	1,045,641
<b>Total cash and cash equivalents</b>	<b>122,377</b>	<b>401,889</b>	<b>1,045,641</b>

Reconciliation of movement of liabilities to cash flows arising from financing activities:

	Liabilities			Equity	
	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 2018</b>	<b>46,936,899</b>	<b>-</b>	<b>-</b>	<b>31,486,738</b>	<b>78,423,637</b>
<i>Changes from financing cash flows</i>					
Received loans and borrowings	47,933,646	1,130,300	19,106,250	-	<b>68,170,196</b>
Repayment of borrowings	(62,037,660)	(1,132,303)	-	-	<b>(63,169,963)</b>
Dividend paid	-	-	-	(6,025,675)	<b>(6,025,675)</b>
<b>Total change from financing cash flows</b>	<b>(14,104,014)</b>	<b>(2,003)</b>	<b>19,106,250</b>	<b>(6,025,675)</b>	<b>(1,025,442)</b>
<b>Total effect of changes in foreign exchange rates</b>	<b>294,440</b>	<b>2,007</b>	<b>188,264</b>	<b>9,700</b>	<b>494,411</b>
<i>Other liability changes</i>					
Transaction costs related to loans and borrowings (net)	(148,407)	-	(140,815)	-	<b>(289,222)</b>
Interest expense	1,318,372	3,123	234,167	-	<b>1,555,662</b>
Interest paid	(893,388)	(3,127)	-	-	<b>(896,515)</b>
<b>Total liability-related other changes</b>	<b>276,577</b>	<b>(4)</b>	<b>93,352</b>	<b>-</b>	<b>369,924</b>
<b>Profit/(loss)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,172,628</b>	<b>1,172,628</b>
<b>Balance at 31 December 2018</b>	<b>33,403,902</b>	<b>-</b>	<b>19,387,866</b>	<b>26,643,391</b>	<b>79,435,159</b>



	Liabilities			Equity	
	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 2017</b>	<b>43,102,856</b>	<b>-</b>	<b>-</b>	<b>30,951,853</b>	<b>74,054,709</b>
<i>Changes from financing cash flows</i>					
Received loans and borrowings	9,176,939	2,562,280	-	-	<b>11,739,219</b>
Repayment of borrowings	(2,977,711)	(1,027,000)	-	-	<b>(4,004,711)</b>
Dividend paid	-	-	-	(19,153,228)	<b>(19,153,228)</b>
<b>Total change from financing cash flows</b>	<b>6,199,228</b>	<b>1,535,280</b>	<b>-</b>	<b>(19,153,228)</b>	<b>(11,418,720)</b>
<b>Total effect of changes in foreign exchange rates</b>	<b>(2,508,224)</b>	<b>2,699</b>	<b>-</b>	<b>-</b>	<b>(2,505,525)</b>
<i>Other liability changes</i>					
Transaction costs related to loans and borrowings (net)	(20,137)	-	-	-	<b>(20,137)</b>
Liability set-off	-	(1,539,539)	-	-	<b>(1,539,539)</b>
Interest expense	1,257,811	4,441	-	-	<b>1,262,252</b>
Interest paid	(1,094,635)	(2,881)	-	-	<b>(1,097,516)</b>
<b>Total liability-related other changes</b>	<b>143,039</b>	<b>(1,537,979)</b>	<b>-</b>	<b>-</b>	<b>(1,394,940)</b>
<b>Profit/(loss)</b>				18,464,952	<b>18,464,952</b>
<b>Unpaid interim dividend declared in 2016</b>	<b>-</b>	<b>-</b>	<b>-</b>	1,407,386	<b>1,407,386</b>
<b>Balance at 31 December 2017</b>	<b>46,936,899</b>	<b>-</b>	<b>-</b>	<b>31,670,963</b>	<b>78,607,862</b>

## 6. Equity investments

### 31 DECEMBER 2018

Company name	Total profit (+) loss (-) for the period 01.01.2018–31.12.2018* (in TCZK/TEUR)	Equity at 31.12.2018* (in TCZK/TEUR)	Value of equity investment in foreign currency at 31.12.2018 (in TEUR)	Net value of equity investment at 31.12.2018 (in TCZK)	Net value of equity investment at 31.12.2017 (in TCZK)	Net value of equity investment at 01.01.2017 (in TCZK)
EP Energy, a.s. („EPE“)	(2,958,489)** (CZK)	16,461,891 (CZK)	1,257,751	34,619,604	34,619,604	34,619,604
Czech Gas Holding Investment B.V. („CGHI“)	28,596 (EUR)	88,824 (EUR)	355,700	9,623,464	9,623,464	9,623,464
EPH Gas holding B. V. („EPHGH“)	314,332 (EUR)	493,049 (EUR)	3,235,000	89,734,277	89,734,277	87,458,224
Plzeňská teplárenská, a.s. („PT“)	243,496 (CZK)	4,991,015 (CZK)	-	1,662,568	-	-
<b>Total equity investments</b>				<b>135,639,913</b>	<b>133,977,345</b>	<b>131,701,292</b>

\* Information based on unaudited financial statements at 31 December 2018.

\*\* Loss of EPE in 2018 was mainly influenced by one-off loss of CZK 2 773 million incurred as a result of the reorganization of the subsidiaries within the EPE Group.

All equity investments except Plzeňská teplárenská, a.s. (35%, with managerial control) are fully owned by the Company.

As at 31 December 2018 the registered offices of the companies were as follows:

EP Energy, a.s.	Pařížská 130/26, Josefov, 110 00 Prague 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

IN 2018, NON-CURRENT FINANCIAL ASSETS CHANGED AS FOLLOWS:

On 10 May 2018, EPIF purchased a 100% equity investment in Plzeňská energetika a.s. from EP Energy, a.s. In October 2018, the Company increased this equity investment by a contribution outside of the share capital of CZK 604,323 thousand. On 31 October 2018, Plzeňská energetika a.s. became a part of the merger project by merging with Plzeňská teplárenská, a.s., to which the entire business assets and liabilities of the dissolving company Plzeňská energetika, a.s. were transferred. EPIF gained a 35% stake in the merger as well as management control.

## 7. Financial instruments

### FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

In thousands of CZK

	31 December 2018	31 December 2017	1 January 2017
<b>Financial assets measured at amortised costs</b>			
<i>Loans to other than credit institutions:</i>			
EPH Gas Holding B. V. („EPHGH“)	15,350,848	23,532,106	-
Slovak Gas Holding B.V. („SGH“)	22,997,691	22,380,977	23,050,933
EP Energy, a.s. („EPE“)	6,472,578	-	-
<b>Total</b>	<b>44,821,117</b>	<b>45,913,083</b>	<b>23,050,933</b>
<b>Financial assets measured at fair value</b>			
<b>Hedging: of which</b>		18,339	
<i>Interest rate swaps cash flow hedge</i>		18,339	
<i>Non-current</i>	44,734,020	45,931,422	23,050,933
<i>Current</i>	87,097	-	-
<b>Total</b>	<b>44,821,117</b>	<b>45,931,422</b>	<b>23,050,933</b>

Derivatives held at fair values 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).

### DETERMINATION OF FAIR VALUES

Fair values and the respective loans carried at amortised costs are disclosed in the following table:

In thousands of CZK

	31 December 2018		31 December 2017		1 January 2017	
	Carrying amount	Real values	Carrying amount	Real values	Carrying amount	Real values
Loan EPHGH	15,350,848	15,376,626	23,532,106	23,772,695	-	-
Loan SGH	22,997,691	23,281,594	22,380,977	22,898,345	23,050,933	23,455,694
Loan EPE	6,472,578	6,475,806	-	-	-	-
<b>Total</b>	<b>44,821,117</b>	<b>45,134,026</b>	<b>45,913,083</b>	<b>46,671,040</b>	<b>23,050,933</b>	<b>23,455,694</b>

All interest-bearing 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). The fair value hierarchy of loans provided to non-financial institutions is based on Level 3 inputs.

## 8. Trade receivables and other assets

In thousands of CZK

	31 December 2018	31 December 2017	1 January 2017
Trade receivables	6,360	8,485	-
Estimated receivables	3,987	14	-
Advance payments	861	529	67
Tax receivables	7,848	7,869	-
Dividends declared	-	-	20,964,818*
Other receivables and assets	98,258	4	122
<b>Total</b>	<b>117,314</b>	<b>16,901</b>	<b>20,965,007</b>
<i>Current</i>	117,314	16,901	20,965,007
<b>Total</b>	<b>117,314</b>	<b>16,901</b>	<b>20,965,007</b>

\* Declared dividend from EPHGH, converted during 2017 on interest-free loan based on the loan contract.

At 31 December 2018 all trade receivables and other assets were not 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 21 – Risk management policies and disclosures.

## 9. Equity

### SHARE CAPITAL AND SHARE PREMIUM

The authorised, issued and fully paid share capital as at 31 December 2018 and 31 December 2017 consisted of 222,870,000 ordinary shares with a par value of CZK 250 each ("Shares A") and 100,130,000 shares (with which special rights are connected as specified in the Articles of Incorporation) with a par value of CZK 250 each ("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.

Reconciliation of the number of issued shares at the start and end of the period:

	Number of issued shares
Nominal value of shares (CZK)	250
<b>Issued shares at 1 January 2017</b>	<b>323,000,000</b>
Decrease in number of Shares A – from 226,100,000 to 222,870,000 shares	(3,230,000)
Increase in number of Shares B – from 96,900,000 to 100,130,000 shares	3,230,000
<b>Issued shares at 31 December 2017 and 31 December 2018</b>	<b>323,000,000</b>

### 31 DECEMBER 2018

In thousands of pieces

	Number of shares 250 CZK Shares A	Shares B	Ownership %	Voting rights %
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 (2017: in CZK per 1 share of CZK 250) nominal value equal 3.63 (2017: 57.17).

The calculation of basic earnings per share as at 31 December 2018 was based on profit attributable to ordinary shareholders of TCZK 1,172,628 (2017: TCZK 18,464,952), and a weighted average number of ordinary shares outstanding of 323,000,000 (2017: 323,000,000).

### WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2018 AND 2017

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>

### DILUTIVE 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 is the same as basic earnings per share.

## 11. Comparison of Statement of financial position, Statement of changes in equity and cash flow statement as at and for the year ended 31 December 2017 prepared in accordance with applicable Czech accounting standards ("CAS") and IFRS

### 11.1. STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2017 PREPARED IN ACCORDANCE WITH APPLICABLE CZECH ACCOUNTING STANDARDS ("CAS") AND IFRS

In thousands of CZK

	Balance under CAS	Adjustments	Balance under IFRS
<b>Assets</b>			
Valuable rights	1,126	33	1,159
Property, plant and equipment	46	-	46
Equity investments – group undertakings	123,829,445	10,147,900	133,977,345
Financial instruments and other financial assets	48,222,524	(2,291,102)	45,931,422
Other assets	18,339	(18,339)	-
<b>Total non-current assets</b>	<b>172,071,480</b>	<b>7,838,492</b>	<b>179,909,972</b>
Trade receivables and other assets	9,033	(1)	9,032
Tax receivables	7,869	-	7,869
Cash and cash equivalents	401,889	-	401,889
<b>Total current assets</b>	<b>418,791</b>	<b>(1)</b>	<b>418,790</b>
<b>Total assets</b>	<b>172,490,271</b>	<b>7,838,491</b>	<b>180,328,762</b>
<b>Equity</b>			
Share capital	80,750,000	-	80,750,000
Other funds	19,157,975	-	19,157,975
Share premium	222,826	-	222,826
Gains or losses from the revaluation of assets	(7,822,130)	7,822,130	-
Effective portion of changes in fair value of cash flow hedges, net of tax	655,912	-	655,912
Retained earnings	31,192,833	478,130	31,670,963
<b>Total equity attributable to equity holders</b>	<b>124,157,416</b>	<b>8,300,260</b>	<b>132,457,676</b>

	Balance under CAS	Adjustments	Balance under IFRS
<b>Liabilities</b>			
Loans and borrowings	47,172,380	(499,351)	(46,673,029)
Financial instruments and financial liabilities	489,052	-	489,052
Other reserves	128,111	(128,111)	-
Deferred tax liabilities	81,285	37,582	118,867
<b>Total non-current liabilities</b>	<b>47,870,828</b>	<b>(589,880)</b>	<b>47,280,948</b>
Trade payables and other liabilities	196,728	-	196,728
Loans and borrowings	263,870	-	263,870
Financial instruments and financial liabilities	1,429	-	1,429
Reserves	-	128,111	128,111
<b>Total current liabilities</b>	<b>462,027</b>	<b>128,111</b>	<b>590,138</b>
<b>Total liabilities</b>	<b>48,332,855</b>	<b>(461,769)</b>	<b>47,871,086</b>
<b>Total equity and liabilities</b>	<b>172,490,271</b>	<b>7,838,491</b>	<b>180,328,762</b>

### EQUITY INVESTMENTS WITH CONTROLLING INFLUENCE

Under Section 60 (3) of Decree No. 500/2002 Coll., foreign exchange gains or losses on equity investments held at foreign currencies that are not measured at fair value or equity method at the end of the reporting date are not recorded separately to the profit or loss accounts but through equity. This principle does not apply in IFRS, where equity investments are held at cost.

### NON-CURRENT FINANCIAL ASSETS AND LIABILITIES

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

The restatement is carried out due to a discount of the interest-free loan from a subsidiary which was reported at fair value in IFRS upon its receipt while under CAS it was reported at nominal value.

Financial liabilities are initially recognised at the settlement date at fair value plus any directly attributable transaction costs. Financial liabilities are subsequently measured at amortised cost using the effective interest rate.

The effective interest rate method is not defined in CAS. Interest income/expense is derived from the contractual interest and it is presented in profit or loss in accordance with the accrual principle.

### DEFERRED TAX LIABILITIES

The deferred tax liability distinguishes all temporary taxable differences.



**11.2. STATEMENT OF CHANGES IN EQUITY AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2017 PREPARED IN ACCORDANCE WITH APPLICABLE CZECH ACCOUNTING STANDARDS ("CAS") AND IFRS**

In thousands of CZK

	Share capital	Other funds	Share premium	Gains or losses from the revaluation of assets	Retained earning	Comprehensive income for the year	Total equity
<b>31 December 2017 – under CAS</b>	<b>80,750,000</b>	<b>19,157,975</b>	<b>222,826</b>	<b>(7,166,218)</b>	<b>13,003,089</b>	<b>18,189,744</b>	<b>124,157,416</b>
Gains or losses from the revaluation of assets	-	-	-	7,822,130	-	-	7,822,130
Retained earnings restatements	-	-	-	-	202,922	-	202,922
Comprehensive income for the year	-	-	-	-	-	275,208 <sup>(1)</sup>	275,208
Reclassification of Comprehensive income for the year	-	-	-	-	18,464,952	(18,464,952)	-
<b>31 December 2017 – under IFRS</b>	<b>80,750,000</b>	<b>19,157,975</b>	<b>222,826</b>	<b>655,912</b>	<b>31,670,963</b>	<b>-</b>	<b>132,457,676</b>

(1) The difference between comprehensive income for the year under CAS and IFRS is explained in detail in Note 12 – Comparison of profit (loss) for the period from 1 January 2017 to 31 December 2017 under CAS and IFRS.

In thousands of CZK

	Share capital	Other funds	Share premium	Gains or losses from the revaluation of assets	Retained earning	Comprehensive income for the year	Interim dividend	Total equity
<b>1 January 2017 – under CAS</b>	<b>80,750,000</b>	<b>19,157,975</b>	<b>222,826</b>	<b>(395,161)</b>	<b>-</b>	<b>37,377,179</b>	<b>(6,628,249)</b>	<b>130,484,570</b>
Gains or losses from the revaluation of assets	-	-	-	646,423	-	-	-	646,423
Retained earnings restatements	-	-	-	-	169,079	-	-	169,079
Comprehensive income for the year	-	-	-	-	-	33,844	-	33,844
Reclassification of Comprehensive income for the year	-	-	-	-	30,782,774	(37,411,023)	6,628,249	-
<b>1 January 2017 – under IFRS</b>	<b>80,750,000</b>	<b>19,157,975</b>	<b>222,826</b>	<b>251,262</b>	<b>30,951,853</b>	<b>-</b>	<b>-</b>	<b>131,333,916</b>

**PREVIOUSLY APPLIED GAAP**

The Company prepared the prior financial statements as at 31 December 2017 in accordance with Act No. 563/1991 Coll., on Accounting, as amended, and related regulations on accounting for businessmen, primarily Decree No. 500/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting. The financial statements have been prepared under the historical cost convention.

**11.3. COMPARISON OF CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2017 PREPARED IN ACCORDANCE WITH APPLICABLE CZECH ACCOUNTING STANDARDS ("CAS") AND IFRS**

In thousands of CZK

	Balance under CAS	Adjustments	Balance under IFRS
<b>P. Cash and cash equivalents at beginning of the period</b>	<b>1,045,641</b>	<b>-</b>	<b>1,045,641</b>
Z. Profit (loss) before income tax	18,116,660	276,855	18,393,515
Profit (loss) for the year	18,189,744	275,208	18,464,952
A.* Operating profit before changes in working capital	(80,925)	99,033	18,108
A.** Cash generated from (used in) operations before tax	(146,795)	96,294	(50,501)
A.*** Cash flows generated from (used in) operating activities	(1,266,381)	96,294	(1,170,087)
B.*** Cash flows from (used in) investing activities	12,222,339	(237,404)	11,984,935
C.*** Cash flows from (used in) financing activities	(11,599,710)	160,853	(11,438,857)
<b>F. Net increase (decrease) in cash and cash equivalents</b>	<b>(643,752)</b>	<b>19,743</b>	<b>(624,009)</b>
Effect of exchange rate fluctuations on cash held	-	(19,743)	(19,743)
<b>R. Closing balance of cash and cash equivalents</b>	<b>401,889</b>	<b>-</b>	<b>401,889</b>

**PREVIOUSLY APPLIED GAAP**

The Company prepared the prior cash flow statement for the year ended 31 December 2017 in accordance with Act No. 563/1991 Coll., on Accounting, as amended, and related regulations on accounting for businessmen, primarily Decree No. 500/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting and in accordance Czech Accounting Standard No. 023, which set out the basic methods for the cash flow statement preparation to achieve consistency in the use of accounting policies.

Under CAS the cash flow statement is prepared based on the profit (loss) before income tax while in IFRS Profit (loss) for the year is used. Non-cash adjustments primarily contain interest expense / income, foreign currency differences and expenses / income from financial instruments.

Cash flows from (used in) investing activities are affected by interest rates settlement in CAS presented within cash flows from (used in) financing activities.

Closing balance of cash and cash equivalents is not adjusted under CAS for the effect of exchange rate revaluation at the year end.

## 12. Comparison of total comprehensive income for year 2017 and 2018 prepared in accordance with applicable Czech accounting standards (“CAS”) and IFRS

In thousands of CZK

	Total comprehensive income
<b>Profit (loss) 2017 – under CAS</b>	<b>18,189,744</b>
Depreciation of intangible assets	(34)
Discounted transaction costs relating to bank loan	205,460
Release of transaction costs relating to a bank loan	(143,359)
Discounted revenue of the loan	(86,120)
Release of revenues of the loan	47,387
Foreign exchange gains/losses	37,885
Deferred tax	(1,647)
Presumed interest on interest-free loan	215,636
<b>Profit (loss) 2017 – under IFRS</b>	<b>18,464,952</b>

	Total comprehensive income
<b>Profit (loss) 2018 – under CAS</b>	<b>364,054</b>
Depreciation of intangible assets	58
Discounted transaction costs relating to a bond	140,815
Release of transaction costs relating to a bond	(15,155)
Discounted transaction costs relating to bank loan	148,407
Release of transaction costs relating to a bank loan	(514,297)
Discounted revenue of the loan	(104,698)
Release of revenues of the loan	65,515
Foreign exchange gains/losses	(16,729)
Deferred tax	53,695
Change in credit losses under IFRS 9	44,685
Presumed interest on interest-free loan	1,006,278
<b>Profit (loss) 2018 – under IFRS</b>	<b>1,172,628</b>

## 13. Financial instruments and financial liabilities

In thousands of CZK

	31 December 2018	31 December 2017	1 January 2017
Loans payable to credit institutions	33,403,902	46,936,899	43,102,856
Issued debentures	19,387,866	-	-
Other liabilities	-	-	-
<b>Total</b>	<b>52,791,768</b>	<b>46,936,899</b>	<b>43,102,856</b>
Non-current	52,401,177	46,673,029	42,766,596
Current	390,591	263,870	336,260
<b>Total</b>	<b>52,791,768</b>	<b>46,936,899</b>	<b>43,102,856</b>

The weighted average interest rate on loans for 2018 was 1.753% (2017: 2.424%).

### FINANCIAL INSTRUMENTS AND FINANCIAL LIABILITIES

In thousands of CZK

	31 December 2018	31 December 2017	1 January 2017
<b>Liabilities carried at fair value</b>			
Hedging: <i>of which</i>	1,250,311	277,253	-
<i>Interest rate swaps cash flow hedge</i>	1,250,311	277,253	-
Risk management purpose: <i>of which</i>	109,930	213,228	592,422
<i>Interest rate swaps reported as trading</i>	109,930	213,228	592,422
<b>Total</b>	<b>1,360,241</b>	<b>490,481</b>	<b>592,422</b>
Non-current	1,250,311	489,052	476,812
Current	109,930	1,429	115,610
<b>Total</b>	<b>1,360,241</b>	<b>490,481</b>	<b>592,422</b>

Financial instruments held at fair value are 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 2018 are presented in the following table:

In thousands of CZK

	Principal	Accrued interest	Unamortised transaction costs	Maturity	Interest rate (%)	Effective interest rate (%)
EPIF Bond	19,293,750	218,358	(124,242)	26/04/2024	1.659	1.786
<b>Total</b>	<b>19,293,750</b>	<b>218,358</b>	<b>(124,242)</b>	<b>-</b>	<b>-</b>	<b>-</b>

**2024 NOTES**

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

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

The 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 101 % of the prematurely redeemed, plus accrued and unpaid interest and additional amounts, if any.

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

The 2024 Notes are stated net of debt issue costs of 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%.

**EPIF FACILITIES AGREEMENT**

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

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

The EPIF Facilities Agreement contains restrictive provisions which, among other things, limit the 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 Facilities Agreement, if the rating of the Issuer drops below a certain level, the Group will become subject to a regularly tested net leverage covenant on the Group level. The EPIF Facilities Agreement also contains change of control provisions the triggering of which may result in mandatory prepayment.

The EPIF Facilities Agreement is stated net of issue costs of CZK 140,815 thousand. These costs are allocated to the income statement over the term of the EPIF Facilities Agreement through the effective interest rate of 1.739%.

**BANK LOAN AT AMORTISED COST**

Details about the bank loan as at 31 December 2018 are presented in the following table:

In thousands of CZK

	Principal	Accrued interest	Unamortised transaction costs	Maturity	Interest rate (%)	Effective interest rate (%)
Bank loan	33,365,325	172,233	(133,656)	2022/2023	1.55-1.75	1.739
<b>Total</b>	<b>33,365,325</b>	<b>172,233</b>	<b>(133,656)</b>	<b>-</b>	<b>-</b>	<b>-</b>

**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 2017: EUR 440 million) of the total volume of drawn loan of EUR 1,297 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 2019 to 2032. As a result of the hedging relationship, the Company reported CZK 774,651 thousand in equity as at 31 December 2018 (at 31 December 2017 – CZK 915 725), including the related deferred tax of CZK (147,185) thousand (at 31 December 2017 – CZK (173,988) thousand). In 2018, as a result of realised hedged cash flows from the amount recognised in equity in relation to the application of the hedge accounting, CZK 59,674 thousand was transferred to income accounts (2017: CZK 45,675 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 1/1/2017</b>	<b>310,200</b>	<b>(58,939)</b>	<b>-</b>	<b>-</b>	<b>251,261</b>
Utilisation of cash flow hedges	(45,675)				(45,675)
Revaluation of cash flow hedges	651,200				651,200
Deferred tax – cash flow hedges		(115,049)			(115,049)
Change in fair value of interest rate swaps			(105,957)		(105,957)
Deferred tax – interest rate swaps				20,132	20,132
<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	-	-	26,803
Change in fair value of interest rate swaps	-	-	(868,233)	-	(868,233)
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>

#### 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 2018		31 December 2017		1 January 2017	
	Carrying amount	Fair values	Carrying amount	Fair values	Carrying amount	Fair values
Bank loan	33,403,902	33,033,408	46,936,900	46,215,487	43,102,856	44,785,884
Issued debentures	19,387,866	17,692,369	-	-	-	-
<b>Total</b>	<b>52,791,768</b>	<b>50,725,777</b>	<b>46,936,900</b>	<b>46,215,487</b>	<b>43,102,856</b>	<b>44,785,884</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).

## 14. Trade payables and other liabilities

In thousands of CZK

	31 December 2018	31 December 2017	1 January 2017
Trade payables	16,463	35,397	11,023
Estimated payables	759	158,007	87,307
Payroll liabilities	1,780	2,566	-
Other tax liabilities	1,542	4	14,939
Provisions	17,247	128,111*	-
Declared dividends	-	-	1,525,536
Other liabilities	524	754	
<b>Total</b>	<b>38,315</b>	<b>324,839</b>	<b>1,638,805</b>
<i>Current</i>	38,315	324,839	1,638,805
<b>Total</b>	<b>38,315</b>	<b>324,839</b>	<b>1,638,805</b>

\* The Company recognised a provision for the real estate transfer tax that it expects to pay in connection with past transactions. A part of the provision was paid in 2018.

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 2018 and 31 December 2017.

As at 31 December 2018 and 31 December 2017, no liabilities to tax authorities were after maturity.

## 15. Personnel expenses

In thousands of CZK

	2018	2017
Wages and salaries	30,682	17,177
Compulsory social security contributions	8,973	5,726
Board members' remuneration	14,445	4,320
Other social expenses	8	8
<b>Total</b>	<b>54,108</b>	<b>27,231</b>

The average number of employees during 2018 was 17 (2017: 13), of which 7 (2017: 7) were executives.



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

### RECOGNISED IN PROFIT OR LOSS

In thousands of CZK

	2018	2017
Interest income (under the effective interest method)	1,697,744	916,595
Net foreign exchange profit	84,085	-
Dividend income	1,079,830	19,550,999
Profit (loss) from loss allowances to loans	44,686	-
<b>Finance income</b>	<b>2,906,345</b>	<b>20,467,594</b>
Interest expense (under the effective interest method)	(1,555,662)	(1,262,252)
Fees and commissions expense for other financing services	(96,016)	(166,744)
Net foreign exchange loss	-	(433,264)
<b>Finance costs</b>	<b>(1,651,678)</b>	<b>(1,862,260)</b>
Profit (loss) from hedging derivatives	(3,652)	-
Profit (loss) from interest rate derivatives reported as trading*	(19,712)	(11,208)
<b>Profit (loss) from financial instruments</b>	<b>(23,364)</b>	<b>(11,208)</b>
<b>Net finance income (expense) recognised in profit or loss</b>	<b>1,231,303</b>	<b>18,594,126</b>

\* All derivatives are for the risk management purposes.

## 17. Income tax expenses

### INCOME TAXES RECOGNISED IN PROFIT OR LOSS

In thousands of CZK

	2018	2017
<i>Current taxes:</i>		
Current year	-	-
Adjustment for prior periods	-	513
<b>Total current taxes</b>	<b>-</b>	<b>513</b>
<i>Deferred taxes:</i>		
Origination and reversal of temporary differences <sup>(1)</sup>	22,854	70,924
<b>Total deferred taxes</b>	<b>22,854</b>	<b>70,924</b>
<b>Total income taxes (expense) benefit recognised in profit or loss for continuing operations</b>	<b>22,854</b>	<b>71,437</b>

(1) For details refer to Note 18 – Deferred tax assets and liabilities.

Deferred taxes are calculated using currently enacted tax rates expected to apply when the asset is realised, or the liability settled. According to Czech legislation the corporate income tax rates is 19% for fiscal year 2018 (19% for 2017).

### INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

In thousands of CZK

	2018		
	Gross	Income tax	Net of income tax
Effective portion of changes in fair value of cash-flow hedges	(141,074)	26,803	(114,271)
Fair value reserve included in other comprehensive income	(868,233)	164,964	(703,269)
<b>Total</b>	<b>(1,009,307)</b>	<b>191,767</b>	<b>(817,540)</b>

In thousands of CZK

	2017		
	Gross	Income tax	Net of income tax
Effective portion of changes in fair value of cash-flow hedges	605,524	(115,049)	490,475
Fair value reserve included in other comprehensive income	(105,957)	20,132	(85,825)
<b>Total</b>	<b>499,667</b>	<b>(94,917)</b>	<b>404,650</b>

## RECONCILIATION OF EFFECTIVE TAX RATE

In thousands of CZK

		2018		2017
	%		%	
Profit from continuing operations before tax		1,149,774		18,393,515
Income tax using the Czech domestic rate (19 %)	19.00 %	(218,457)	19,00%	(3,494,768)
Non-taxable income – dividends	(17.9)%	205,168	(20.1)%	3,714,690
Other non-taxable income	(0.2)%	2,492		
Non-deductible expenses – interest	8.0%	(91,459)	0.6%	(107,300)
Non-deductible expenses – other financial expenses	4.6%	(52,523)	0.1%	(53,950)
Non-deductible expenses – provisions	-	-	0.1%	(24,341)
Non-deductible expenses – other	1.4%	(15,793)	0.1%	(12,692)
Other differences	0.5%	(6,257)	(0.0)%	8,826
Change in unrecognised deferred tax asset	(0.8)%	8,490	-	-
Other differences in financial instruments held at amortised costs	(16.6)%	191,193	(0.2)%	40,972
<b>Income taxes recognised in profit or loss for continuing operations</b>	<b>(2.0)%</b>	<b>22,854</b>	<b>(0.4)%</b>	<b>71,437</b>

## 18. Deferred tax assets and liabilities

### THE FOLLOWING DEFERRED TAX ASSETS AND LIABILITIES HAVE BEEN RECOGNISED:

In thousands of CZK

	31 December 2018	31 December 2018	31 December 2017	31 December 2017	1 January 2017	1 January 2017
Temporary difference related to:	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Financial instruments and financial liabilities	-	(49,001)	-	(94,877)	-	(88,426)
Loans and borrowings	65,113	-	57,294	-	52,490	-
Derivatives	185,096	-	20,132	-	-	-
Cash flow hedges	-	(147,184)		(173,987)	-	(58,938)
Tax losses	41,730	-	72,571	-	-	-
<b>Total</b>	<b>291,939</b>	<b>(196,185)</b>	<b>149,997</b>	<b>(268,864)</b>	<b>52,490</b>	<b>(147,364)</b>
<b>Total (net)</b>	<b>95,754</b>	<b>-</b>	<b>-</b>	<b>(118,867)</b>	<b>-</b>	<b>(94,874)</b>

The Company has not recognised a deferred tax asset of TCZK 26,512 (31 December 2017: TCZK 35,002).

Movements in deferred tax during the year:

In thousands of CZK

Balances related to:	Balance at 1 January 2018	Recognised in profit or loss	Recognised in other comprehensive income	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>

Movements in deferred tax during the prior period:

In thousands of CZK

Deferred tax assets (liabilities) related to:	Balance at 1 January 2017	Recognised in profit or loss	Recognised in equity	Balance at 31 December 2017
Financial instruments and financial liabilities	(88,426)	(6,451)	-	(94,877)
Loans and borrowings	52,490	4,804	-	57,294
Derivatives	-	-	20,132	20,132
Cash flow hedges	(58,938)	-	(115,049)	(173,987)
Tax losses	-	72,571	-	72,571
<b>Total</b>	<b>(94,874)</b>	<b>70,924</b>	<b>(94,917)</b>	<b>(118,867)</b>

## 19. Financial commitments and contingencies

The Company recognizes receivables in the amount of CZK 48,877,500 thousand in its off-balance sheet accounts (31 December 2017: CZK 52,396,842 thousand) and payables in the amount of CZK 48,877,500 thousand (31 December 2017: CZK 52,396,842 thousand), which represent the notional value of the concluded derivatives.

As at 31 December 2017, the Company recognised long-term bank loans that were secured by 50% minus one share of EP Energy, a.s., by shares of Czech Gas Holding Investment B.V. ("CGHI"), cash in bank accounts, and receivables from Slovak Gas Holding B.V. ("SGH") and EPH Gas Holding B.V. ("EPHGH"). SGH also entered into an agreement with EPIF as a guarantee. Loans B1 and C were also secured by shares of EPHGH, Seattle Holding B.V, SGH and SPP Infrastructure, a.s. The above collateral was terminated in 2018 and new EPIF bank loans are no longer secured.

## 20. Operating expenses and income

### SALES

Sales of the Company consists of consulting services provided to the EPIF Group.

### OTHER OPERATING EXPENSES

In thousands of CZK

	2018	2017
Audit, accounting, consolidation	25,705	23,965
Tax advisory	499	3,374
Legal advisory	509	4,458
Other advisory	5,392	7,235
Rent expenses	3,703	1,643
Travel expenses	4,188	6,184
Change in provisions	(4,575)	128,111
Other	8,363	5,220
<b>Total for continuing operations</b>	<b>43,784</b>	<b>180,190</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 2018 and 31 December 2017.

## 21. 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 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>

## AS AT 31 DECEMBER 2017

In thousands of CZK

	Corporate (non-financial institutions)	State, government	Banks	Total
<b>Assets</b>				
Cash and cash equivalents	-	-	401,889	<b>401,889</b>
Trade receivables and other assets and tax receivables	9,032	7,869	-	<b>16,901</b>
Financial instruments and other financial assets	45,913,083	-	18,339	<b>45,931,422</b>
<b>Total</b>	<b>45,922,115</b>	<b>7,869</b>	<b>420,228</b>	<b>46,350,212</b>

## CREDIT RISK BY LOCATION OF DEBTOR

### 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>

### AS AT 31 DECEMBER 2017

In thousands of CZK

	Czech Republic	Netherlands	Other	Total
<b>Assets</b>				
Cash and cash equivalents	401,889	-	-	<b>401,889</b>
Trade receivables and other assets and tax receivables	14,678	1,692	531	<b>16,901</b>
Financial instruments and other financial assets	8,639	45,913,083	9,700	<b>45,931,422</b>
<b>Total</b>	<b>425,206</b>	<b>45,914,775</b>	<b>10,231</b>	<b>46,350,212</b>

## I. IMPAIRMENT LOSSES

All financial assets of the Company are classified at Stage 1.

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 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	<b>44,938,431</b>
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 (overdue and impaired)			
– Gross	-	44,960,656	<b>45,066,135</b>
– specific loss allowance	-	(139,539)	<b>(139,539)</b>
– collective loss allowance <sup>(1)</sup>	-	-	-
<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>	184,225	<b>184,225</b>
Impairment losses recognised during the year	-	-
Reversals of impairment losses recognised during the year	(44,686)	<b>(44,686)</b>
<b>Balance at 31 December 2018</b>	<b>139,539</b>	<b>139,539</b>



## CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

AS AT 31 DECEMBER 2017

In thousands of CZK

	Trade receivables and other assets	Financial instruments	Loans to other than credit institutions <sup>(2)</sup>	Total
Before maturity (net)	16,901	18,339	45,913,083	45,948,323
After maturity (net)	-	-	-	-
<b>Total</b>	<b>16,901</b>	<b>18,339</b>	<b>45,913,083</b>	<b>45,948,323</b>
A – Assets for which a provision has been created (overdue and impaired)				
– Gross	-	-	-	-
– specific loss allowance	-	-	-	-
– collective loss allowance <sup>(1)</sup>	-	-	-	-
<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>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total</b>	<b>16,901</b>	<b>18,339</b>	<b>45,913,083</b>	<b>45,948,323</b>

(1) In the first IFRS9 application, a loss allowance to loans to maturity of CZK 184,225 thousand was recognised. (As at 1 January 2018).

(2) It does not include assets held in fair value of CZK 18,339 thousand.

## 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 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 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	<b>52,791,768</b>	56,776,151	5,532	989,838	36,293,251	19,487,530	-
Financial instruments and financial liabilities	<b>1,360,241</b>	1,360,241	-	109,930	122,185	1,128,126	-
Trade payables and other liabilities	<b>38,315</b>	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.

## MATURITIES OF FINANCIAL LIABILITIES

AS AT 31 DECEMBER 2017

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	<b>46,936,899</b>	52,879,692	520,466	750,753	51,608,473	-	-
Financial instruments and financial liabilities	<b>490,481</b>	490,481	-	1,429	211,800	277,252	-
Trade payables and other liabilities	<b>324,839</b>	324,839	196,728	-	-	-	128,111
<b>Total</b>	<b>47,752,219</b>	<b>53,695,012</b>	<b>717,194</b>	<b>752,182</b>	<b>51,820,273</b>	<b>277,252</b>	<b>128,111</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 2018 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	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 <sup>(1)</sup>	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</i>					
– inflow (receivables)	48,877,500	-	-	-	48,877,500
– outflow (payables)	(10,290,000)	(3,770,914)	(34,816,586)	-	(48,877,500)
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>	10,503,448	34,577,625	(53,986,094)	(224,495)	<b>(9,129,516)</b>

(1) Disregarding agreed interest rate

Interest rate risk exposure as at 31 December 2017 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	401,889	-	-	-	<b>401,889</b>
Trade receivables and other assets and tax receivables	-	-	-	16,901	<b>16,901</b>
Financial instruments and other financial assets <sup>(1)</sup>	-	22,380,977	23,550,445	-	<b>45,931,422</b>
<b>Total</b>	<b>401,889</b>	<b>22,380,977</b>	<b>23,550,445</b>	<b>16,901</b>	<b>46,350,212</b>
<b>Liabilities</b>					
Loans and borrowings <sup>(1)</sup>	46,673,029	-	-	263,870	<b>46,936,899</b>
Financial instruments and financial liabilities	490,481	-	-	-	<b>490,481</b>
<i>out of which Derivatives</i>					
– inflow (receivables)	52,396,842	-	-	-	52,396,842
– outflow (payables)	(11,022,042)	-	(41,374,800)	-	(52,396,842)
Trade payables and other liabilities	-	-	-	324,839	<b>324,839</b>
<b>Total</b>	<b>47,163,510</b>	<b>-</b>	<b>-</b>	<b>588,709</b>	<b>47,752,219</b>
<b>Net interest rate risk position</b>	<b>(46,761,621)</b>	<b>22,380,977</b>	<b>23,550,445</b>	<b>(571,808)</b>	<b>(1,402,007)</b>
<b>Net interest rate risk position (incl. IRS)</b>	(5,386,821)	22,380,977	(17,824,355)	(571,808)	(1,402,007)

(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 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

	31/12/2018	31/12/2017
	<b>Profit (loss)</b>	<b>Profit (loss)</b>
Decrease in interest rates by 1 %	(105,034)	53,684
Increase in interest rates by 1 %	105,034	(53,684)

## 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 rates when necessary to address short-term imbalances on the single Companies level.

As of 31 December 2018, 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	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
	<b>15,923</b>	<b>45,044,885</b>	<b>-</b>	<b>45,060,808</b>
<b>Off-balance sheet assets</b>				
Receivables from derivative operations	-	48,877,500	-	48,877,500
	<b>-</b>	<b>48,877,500</b>	<b>-</b>	<b>48,877,500</b>
<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
	<b>1,379,926</b>	<b>52,808,326</b>	<b>2,072</b>	<b>54,190,324</b>
<b>Off-balance sheet liabilities</b>				
Payables related to derivative operations	-	48,877,500	-	48,877,500
	<b>-</b>	<b>48,877,500</b>	<b>-</b>	<b>48,877,500</b>
<b>Net FX risk position</b>	<b>(1,364,003)</b>	<b>(7,763,441)</b>	<b>(2,072)</b>	<b>(9,129,516)</b>
Effect of currency hedging	-	11,319,000	-	11,319,000
<b>Net FX risk position after hedging</b>	<b>(13)</b>	<b>3,555,559</b>	<b>(2 072)</b>	<b>(2 189 484)</b>

Off-balance sheet assets are described in more detail in Note 19 – Commitments and contingencies.

The Company's foreign exchange risk exposure as at 31 December 2017 was as follows:

In thousands of CZK

	CZK	EUR	Other	Total
<b>Assets</b>				
Cash and cash equivalents	1,062	400,827	-	401,889
Trade receivables and other assets and tax receivables	14,670	2,231	-	16,901
Financial instruments and other financial assets	18,339	45,913,083	-	45,931,422
	<b>34,071</b>	<b>46,316,141</b>	<b>-</b>	<b>46,350,212</b>
<b>Off balance sheet assets</b>				
Receivables from derivative operations	-	52,396,842	-	52,396,842
	<b>-</b>	<b>52,396,842</b>	<b>-</b>	<b>52,396,842</b>
<b>Liabilities</b>				
Loans and borrowings	-	46,936,899	-	46,936,899
Financial instruments and financial liabilities	490,481	-	-	490,481
Trade payables and other liabilities	34,476	288,056	2,307	324,839
	<b>524,957</b>	<b>47,224,955</b>	<b>2,307</b>	<b>47,752,219</b>
<b>Off balance sheet liabilities</b>				
Payables related to derivative operations	-	52,396,842	-	52,396,842
	<b>-</b>	<b>52,396,842</b>	<b>-</b>	<b>52,396,842</b>
<b>Net FX risk position</b>	<b>(490,886)</b>	<b>(908,814)</b>	<b>(2,307)</b>	<b>(1,402,007)</b>
Effect of currency hedging	-	11,237,600	-	11 237 600
<b>Net FX risk position after hedging</b>	<b>(490,886)</b>	<b>10,328,786</b>	<b>(2,307)</b>	<b>9,835,593</b>

Off-balance sheet assets are described in more detail in Note 19 – Commitments and contingencies.

The following significant exchange rates applied during the period:

In thousands of CZK

	2018		2017	
	Average rate	Reporting date rate	Average rate	Reporting date rate
CZK				
EUR	25.643	25.725	26.330	25.540

## SENSITIVITY ANALYSIS

A strengthening (weakening) of the Czech crown, as indicated below, against the EUR 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 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

	31/12/2018	31/12/2017
	Profit (loss)	Profit (loss)
EUR (5% strengthening)	(178,606)	(516,439)

Effect in thousands of CZK

	31/12/2018	31/12/2017
	Other comprehensive income	Other comprehensive income
EUR (5% strengthening)	565,950	561,880

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 2018	31 December 2017
Total liabilities bearing interest	52,792	46,937
Less: cash and cash equivalents	122	402
<b>Net debt</b>	<b>52,670</b>	<b>46,535</b>
Total equity attributable to the equity holders	126,613	132,458
Less: amounts accumulated in equity relating to cash flow hedges	162	(656)
<b>Adjusted capital</b>	<b>126,775</b>	<b>131,802</b>
<b>Debt to adjusted capital</b>	<b>0.42</b>	<b>0.35</b>

G HEDGE ACCOUNTING

The balance as at 31 December 2018 represents primarily derivative agreements to hedge interest rate and foreign exchange rate, and the effect of a cash flow hedge.

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

CASH FLOW HEDGES – HEDGE OF FOREIGN CURRENCY RISK  
WITH NON-DERIVATIVE FINANCIAL LIABILITY

The Company applied hedge accounting for financial instruments designed to hedge foreign currency risk of cash-flows denominated in foreign currency (EUR). The hedging instruments were bonds issued in EUR in total amount of EUR 400 million. The hedged cash inflows in EUR arising from EUR denominated transactions were expected to occur and impact profit or loss in periods of 2019 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 are 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 TCZK (974,191) (2017: negative TCZK (105,957)).

The Company has interest rate swaps in the nominal value of EUR 1,500 million with maturity in 2023–2026 and fixed interest rates of 0.916%–1.185%.

22. 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 2018 AND 31 DECEMBER 2017:

The Company has 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
	31/12/2018	31/12/2018	31/12/2017	31/12/2017
Ultimate shareholder*	-	-	-	-
Companies controlled by ultimate shareholder	45,069,372	14,953	45,921,292	186,298
<b>Total</b>	<b>45,069,372</b>	<b>14,953</b>	<b>45,921,292</b>	<b>186,298</b>

\* Daniel Křetinský is the ultimate shareholder.

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

In thousands of CZK

	Revenues	Expenses	Revenues	Expenses
	2018	2018	2017	2017
Ultimate shareholder*	-	-	-	-
Companies controlled by ultimate shareholder	2,794,141	89,136	20,473,971	196,520
<b>Total</b>	<b>2,794,141</b>	<b>89,136</b>	<b>20,473,971</b>	<b>196,520</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 EP Infrastructure, a.s. did not receive any other significant monetary or non-monetary performance for 2018 and 2017. At the same time, they were also employed by other companies from the EPH Group.


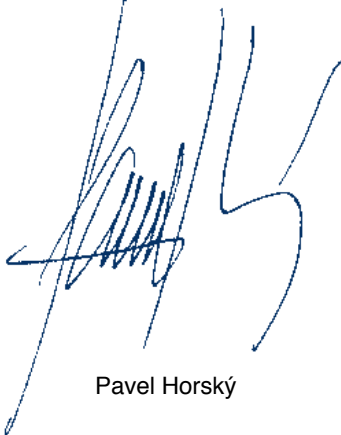
The remuneration to the members of the board of directors and the supervisory board of EP Infrastructure, a.s. for the performance of their function was CZK 14,445 thousand (2017: CZK 4,320 thousand). For details, please refer to Note 15 – Personnel expenses.

Social security and health insurance liabilities are not overdue.

**23. Subsequent events**

On 27 February 2019 the Board of Directors proposed to declare dividends of EUR 143 million.

Other than that, the Company's management is not aware of any material subsequent events that could have an effect on these financial statements as at 31 December 2018.

Date:	Signature of the authorised representative	
27 February 2019	 Daniel Křetínský Chairman of the Board of Directors of EP Infrastructure, a.s.	 Pavel Horský Member of the Board of Directors of EP Infrastructure, a.s.

