EP **Power Europe** Annual Report 2018

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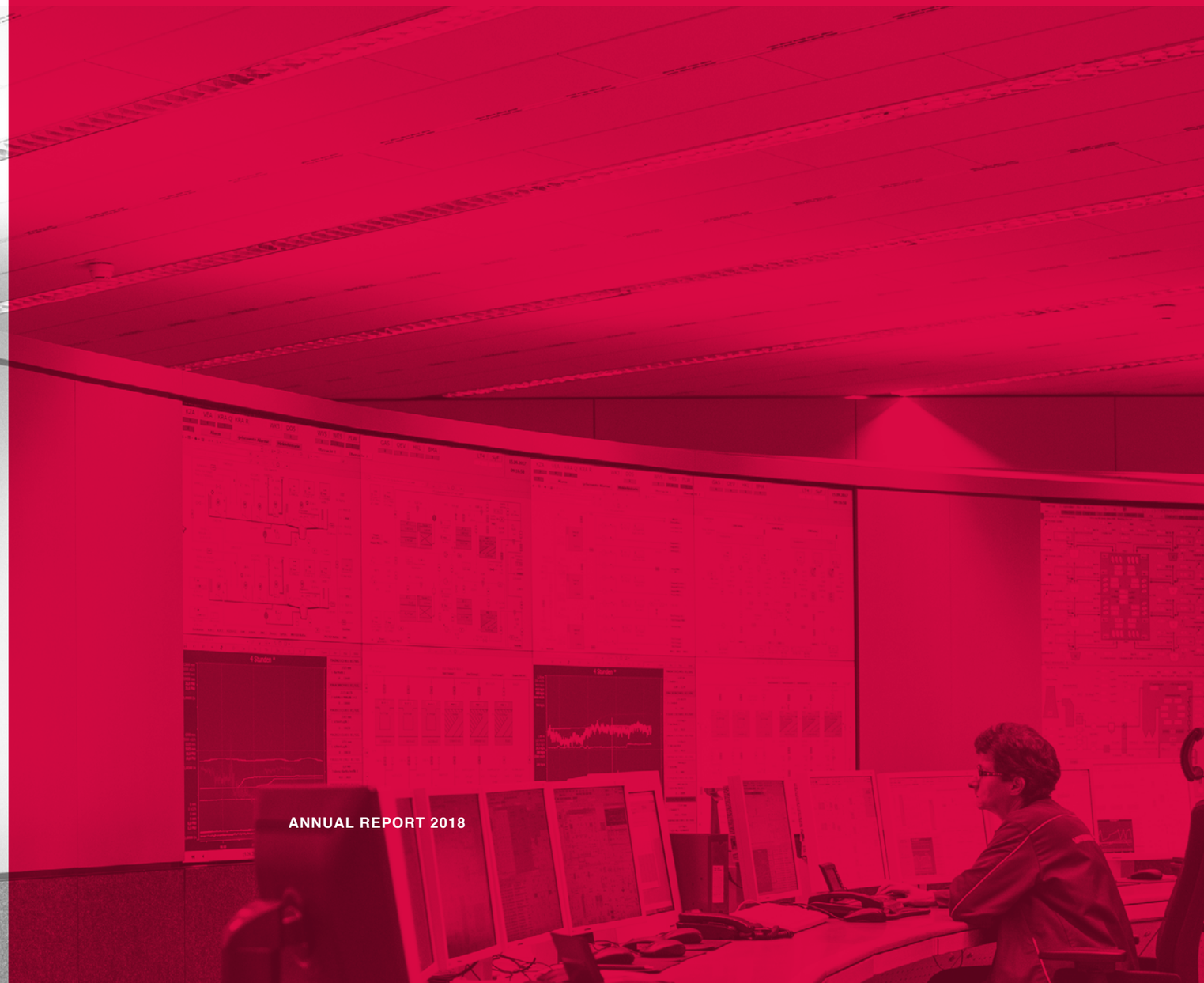
Annual Report
2018

EP Power Europe, a. s.

EP **Power Europe**

EP Power Europe, a.s.

Consolidated Annual Report for the Year 2018



ANNUAL REPORT 2018

Content

EP Power Europe

Financial Highlights of the Year

ANNUAL REPORT 2018

		31/12/2018	31/12/2017	31/12/2016
INCOME STATEMENT				
Sales	€ million	3,874	2,849	1,905
Gross profit	€ million	978	914	790
Earnings before interest, taxes, depreciation and amortization (EBITDA)[1]	€ million	327	286	137
Earnings before interest and tax (EBIT)	€ million	103	155	(32)
Net financial result	€ million	(12)	(31)	(18)
Profit before tax	€ million	70	212	231
Profit for the year	€ million	40	172	222
BALANCE SHEET				
Balance sheet total	€ million	4,574	3,873	2,846
Equity total	€ million	1,424	954	890
Net working capital	€ million	209	(210)	(199)
Net financial debt[2]	€ million	746	814	128
Net financial debt[2] (excl. loans and borrowings provided by EPH[5])	€ million	332	136	31
CASH FLOW STATEMENT				
Cash flow from operating activities	€ million	511	191	319
Cash flow from investing activities	€ million	(621)	(554)	(411)
Cash flow from financing activities	€ million	290	238	240
Change in cash and cash equivalents	€ million	180	(125)	148
Cash and cash equivalents	€ million	373	188	308
Capital expenditures (CAPEX)	€ million	179	293	346
Tax paid	€ million	55	73	24

		31/12/2018	31/12/2017	31/12/2016
RATIOS				
EBITDA margin[3]	%	8.44%	10.10%	7.19%
Leverage[4]	x	2.3x	2.7x	0.9x
Leverage[4] (excl. loans and borrowings provided by EPH[5])	x	1.0x	0.5x	0.2x
Operating KPIs				
Average number of employees	#	3,622	3,416	3,352
Net installed capacity	MW	10,078	10,181	7,146
Net power production	TWh	24.4	19.7	14.3
Emissions intensity	t CO_2/GWh	527	568	703

1 EBITDA = Operating profit/loss + Depreciation and Amortization – Negative goodwill.
2 Net financial debt = Loans and borrowings – Cash and cash equivalents
3 EBITDA margin = EBITDA / Sales
4 Leverage = Net financial debt / EBITDA. Net financial debt used for calculation of Leverage in 2018 is impacted by the major investment project Lynemouth, whereas the 2018 EBITDA does not yet fully capture earnings associated with these business activities.
5 Energetický a průmyslový holding, a.s. (“EPH”) is a parent company of EP Power Europe, a.s.

EP Power Europe

Introduction by the Chairman of the Board of Directors

Introduction by the Chairman of the Board of Directors

Dear shareholders, business partners, colleagues, and friends,

2018 was for EP Power Europe, a.s. (“EPPE” or “Group”) a year of further growth. Sales of the Group reached EUR 3,874 million, a 36% increase compared to 2017. EBITDA of the Group reached EUR 327 million, a 14% increase compared to 2017. The solid growth is attributable to the acquisitions realized in 2017, which were first time consolidated for the whole year in 2018 and to the increasing power prices.

In 2018, the subsidiaries and affiliates of EPPE produced in aggregate more than 105 TWh of power. Our generation fleet is well balanced with nearly a half of the total installed capacity of 22.4 GW coming from either completely emission free power plants, or from plants with low carbon emissions. Our focus on zero or low carbon emission generation capacities is clearly visible from our investments as well, when vast majority of invested capital was invested into these. Over the last 30 months we have spent more than EUR 850 million in zero or low carbon emission generation capacities. We are excited by the fact that we have successfully commissioned a 400 MW Lynemouth pure biomass power plant in the UK that was converted from hard coal. Lynemouth belongs among the largest biomass power plants in the EU and contributes to decreasing the CO_2 emissions by saving more than 2.7 million tons of CO_2 annually. Another important initiative in this area was the finalization of the acquisition of two biomass power plants in Italy through the acquisition of Biomasse Italia S.P.A. and Biomasse Crotone S.P.A. and, more recently, acquisition of biomass power plant Fusine in early 2019.

Our mission remains to meet the electricity needs of the communities, infrastructure and industries of the countries in which we operate by delivering reliable and affordable electricity. EPPE is becoming one of the most important power producers in the EU providing base load, reliable and controllable supply of power mainly from zero or low emission power plans (CCGTs and biomass).

We continue to pay high attention to social and environmental aspects of our operations and keep open and active dialogue with different stakeholders in regions in which we operate. We do carefully consider, apart from other aspect, the environment, social and economic aspect relevant for our operations and do upmost to keep balanced approach, reflecting also the needs of the regions, countries and people living in regions and countries, we operate in.

I would like to express my thanks to our employees across the segments and countries for their hard work as well as to our investors and business partners who have been participating in the implementation of our strategy for placing their trust and support into our business activities. To all of them, we owe the success we achieved this year and we look forward to executing our strategy, together with all our stakeholders in the years to come.

Sincerely,

Daniel Křetínský

Chairman of the Board of Directors

EP Power Europe

1 Combined Review of Operations

ANNUAL REPORT 2018

1.1 Market development

MACROECONOMIC DEVELOPMENTS

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

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

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

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

On a global perspective, the U.S. Treasury yield curve inverted at the end of 2018 when the 2-year yield rose above the 5-year one. Whilst the 2 vs 10-year curve did not invert before the end of year, it flattened throughout 2018 with the 10-2 year yield spread decreasing to 0.2%. Furthermore, the U.S.

Federal Open Market Committee raised the Fed Funds Rate (FFR) from 1.5% to 2.5%, closing in on the 10-year yield weekly average (2.75%). It is worth noting that every recession over past 70 years has been preceded by an inverted yield curve and an increase of the FFR above the 2 and 10-year treasuries.

ENERGY DEVELOPMENTS

ELECTRICITY CONSUMPTION

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

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

CONVENTIONAL ELECTRICITY PRODUCTION

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

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

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

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

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

RENEWABLE ELECTRICITY PRODUCTION

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

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

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

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

POWER PRICES

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

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

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

COAL

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

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

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

OIL

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

NATURAL GAS

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

Gas demand in Europe decreased for the first time after two years to 599 bcm, a year-on-year drop by 1.9%. Electricity production from gas power plants decreased by 5%. Although the temperatures were below normal in February and March, most of the year was warmer than usual which contributed to

the lower overall gas consumption for heating. However, the cold weather at the beginning of the year resulted in high gas withdrawals. These reached unprecedented levels as the stocks decreased below 10% of capacity in northwest Europe following a high UK consumption. The filling rate of 82.7% at the end of Q3 was lower by 1.8% compared to the same time in 2017. The natural gas production in the EU declined in 2018 with the Dutch output dropping after an earthquake in Groningen area early in the year and the subsequent government's decision to stop the production from this field as quickly as possible. Decreased production and depleted storages lead to record gas imports from Russia (> 200 bcm). The LNG imports decreased throughout 2018 amid high spot prices in Asia which diverted the deliveries to Europe.

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

EUA

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

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

POLITICAL DEVELOPMENTS

BREXIT

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

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

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

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

OPEC OVERVIEW

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

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

VENEZUELA

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

IRAN

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

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

TRADE WAR BETWEEN CHINA AND USA

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

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

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

ETS (EMISSION TRADING SYSTEM)

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

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

1.2 Major events

EVENTS IN THE REVIEWED FISCAL YEAR

A WAY TO NATURAL GAS EXTRACTION IN UKRAINE

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

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

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

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

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

EVENTS THAT OCCURRED AFTER THE REPORTING DATE

ACQUISITION OF A BIOMASS POWER PLANT FUSINE

On 7 February 2019, EPPE Group is getting stronger in the biomass sector. Through the subsidiary EP New Energy Italia the Group completed the acquisition of the biomass power plant in Fusine, province of Sondrio, with an installed capacity of 7 MW by the Holcim Italia Group (100%).

ACQUISITION OF KILROOT AND BALLYLUMFORD POWER STATIONS

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

Except for the matters described above and elsewhere in the Annual Report or Notes to the Financial Statements, the Company's management is not aware of any other material subsequent events that could have an effect on the Statutory and Consolidated Financial Statements as at 31 December 2018.

1.3 Business performance

OPERATIONAL PERFORMANCE

PERFORMANCE OF POWER GENERATION ASSETS

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

KPI	Unit	2018	2017	2018 - 2017	%
Net installed capacity – Electricity – Total					
EPPE Group					
Germany	MW	1,157	1,157	-	-%
UK		4,637	4,625	12	-%
Italy		4,284	4,399	(115)	(3%)
Total – EPPE Group		**10,078**	**10,181**	**(103)**	**(1%)**

KPI	Unit	2018	2017	2018 - 2017	%
Net power production – Total					
EPPE Group					
Germany	TWh	3.2	1.0	2.2	220%
UK		7.9	3.7	4.2	114%
Italy		13.3	15.0	(1.7)	(11%)
Total – EPPE Group		**24.4**	**19.7**	**4.7**	**24%**

SUSTAINABILITY PERFORMANCE

EMISSIONS AND ENVIRONMENTAL PROTECTION ACTIVITIES

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

KPI	Unit	2018	2017	2018 - 2017	%
Direct GHG Emissions (Scope 1)					
EPPE Group					
Germany	million tons CO_2 eq.	3.3	1.4	1.9	136%
UK		2.9	2.0	0.9	45%
Italy		6.8	7.9	(1.1)	(14%)
Total – EPPE Group		**13.0**	**11.3**	**1.7**	**15%**

KPI	Unit	2018	2017	2018 - 2017	%
Emissions intensity – Including heat component					
EPPE Group					
Germany	ton CO_2 eq./GWh	949	1,045	(96)	(9%)
UK		368	551	(183)	(33%)
Italy		510	529	(19)	(4%)
Total – EPPE Group		**527**	**568**	**(41)**	**(7%)**

In 2018, the EPPE Group continued to be very active in terms of environmental protection. The companies within the EPPE Group continued to be operated in a manner ensuring their failure-free operation and high efficiency in producing electricity, which has direct impact on the volume of produced emissions.

A number of environmental regulations in the Germany, Italy, United Kingdom, and the European Union regulates the EPPE Group activities. These include regulations governing the discharge and emission of pollutants, the handling of hazardous substances and their disposal, cleaning of contaminated sites and health and safety of employees. For example, EPPE Group is subject to regulations that impose strict limits on emissions of carbon dioxide (CO_2), sulphur oxides (SO_x), nitrogen oxides (NO_x), carbon monoxide (CO) and solid dust particles emissions (SDP).

Although the EPPE 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 EPPE Group. This affects not only the investment activities but also the activities for which EPPE Group seeks to minimise their impact on the environment.

EPPE Group will continue to maintain its compliance with the environmental legislative requirements.

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

In 2018, no reportable damage or harm was caused to the environment during the performance of the EPPE Group business activities.

EMPLOYMENT RELATIONS AND EMPLOYEES

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

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

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

The average number of employees in EPPE Group during 2018 was 3,622 (3,416 in 2017), of which 68 were executives (81 in 2017). The increase in employees is attributable to presenting data on a full year basis of acquired companies in 2017 countered by decrease in UK, associated with a decommissioning programme in EGGBOROUGH and related site closure and scaling down of office use.

KPI	Unit	2018	2017	2018 - 2017	%
Headcount					
EPPE Group					
Czech Republic	#	72	65	7	11%
Germany		2,591	2,434	157	6%
UK		393	414	(21)	(5%)
Italy		566	503	63	13%
Total – EPPE Group		**3,622**	**3,416**	**205**	**6%**

KPI	Unit	2018	2017	2018 - 2017	%
Headcount					
EPPE Group					
Executives	#	68	81	(13)	(16%)
Other Employees		3,554	3,335	219	7%
Total – EPPE Group		**3,622**	**3,416**	**206**	**6%**

CORRUPTION AND BREACHES

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

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

FINANCIAL PERFORMANCE

EPPE achieved strong financial results in the year under the review. Results reflect positive market development on the revenue side as well as cautious approach towards expenses, with further enhancement coming from the impact of acquisitions made in 2017.

SALES

Sales of EPPE Group reached EUR 3,874 million (EUR 2,849 million in 2017). The extensive increase is attributable to Renewable Energy segment. Where significant positive impact on sales had first full year consolidation of acquired Italian biomass assets at the end of the last year and change from conversion project to start of Lynemouth production from biomass. A decrease in sales due to decommissioning programme in UK was compensated by positive impact of first full year consolidation of the UK and in Germany assets acquired last year. Another steep increase reflected extended flows channelled via the in-house trading entity EP Commodities, a.s.

External Sales	Unit	2018	2017	2018 - 2017	%
EPPE Group					
Generation and Mining	million EUR	3,466	2,779	687	25%
Renewable Energy		407	69	338	490%
EPPE Other		-	-	-	
Holding Entities		1	1	-	
Total EPPE Group		**3,874**	**2,849**	**1,026**	**36%**

EBITDA

EBITDA of EPPE Group reached EUR 327 million (EUR 286 million in 2017). The presented EBITDA is defined as profit from operations plus depreciation and amortisation and is further netted for eventual impact of negative goodwill. Apart from this, the EBITDA calculation does not include any further adjustments.

The slight increase is attributable mainly to the positive impact of first full year consolidation of acquired generation assets in the Italy, UK and Germany last year.

EBITDA	Unit	2018	2017	2018 - 2017	%
EPPE Group					
Generation and Mining	million EUR	301	328	(27)	(8%)
Renewable Energy		38	(35)	73	
EPPE Other		-	(1)	1	
Holding Entities		(6)	(6)	-	
Inter-segment eliminations		(6)	-	(6)	
Total EPPE Group		**327**	**286**	**41**	**14%**

CAPEX

CAPEX of EPPE Group reached EUR 179 million (EUR 293 million in 2017). The presented CAPEX is defined as additions to tangible and intangible assets excluding any potential impact of expenses for emissions rights, which might be categorized as CAPEX under the IFRS rules. The 39% decrease in CAPEX is mainly driven by Renewable Energy segment where the LYNEMOUTH biomass conversion project was substantially completed in 2018. While in Generation and Mining sector, the replacing of turbine parts for the 3 gas turbines in UK was under way.

CAPEX	Unit	2018	2017	2018 - 2017	%
EPPE Group					
Generation and Mining	million EUR	113	93	20	22%
Renewable Energy		66	200	(134)	(67%)
EPPE Other		-	-	-	
Holding Entities		-	-	-	
Inter-segment eliminations		-	-	-	
Total EPPE Group		**179**	**293**	**(114)**	**(39%)**

NET FINANCIAL DEBT AND LEVERAGE

Net financial debt stood at EUR 746 million at the end of the year under review (EUR 814 million in 2017). Net financial debt is influenced by the financial resources provided by the parent company of EP Power Europe in the amount of EUR 414 million in 2017 (EUR 678 million in 2017). Excluding those resources, the net financial debt stood at EUR 332 million (EUR 136 million in 2017).

The presented figures is calculated summing up Loans and borrowings, netted for Cash and cash equivalents.

The net financial debt decreased on the back of solid free cash flow of the EPPE Group and despite continued investments into LYNEMOUTH, closure of EGGBOROUGH power plant and certain smaller acquisitions.

At the same time the level of the financial debt other than towards parent has increased as EPPE Group refinanced part of the parent loans by external loans.

Leverage (excluding debts to parent company) stood at 1.0x in 2018 (0.5x in 2017), the increase was mainly given due to increase in financial debt (other than to parent company), which was not yet fully off-set by improved EBITDA. The 2018 EBITDA was negatively influenced by the costs related to the closure of EGGBOROUGH and still does not benefit LYNEMOUTH operations as it was completed only in second half of 2018. The total leverage (including debt to parent company) decreased to 2.3x (from 2.8x in 2017) on the back of lower net debt and better EBITDA.

Net financial debt and Leverage	Unit	2018	2017	2018 - 2017	%
Loans and borrowings	million EUR	1,119	1,002	117	12%
out of which: loans and borrowings provided by EPH		414	678	(264)	(39%)
Cash and cash equivalents		373	188	185	98%
Net financial debt		**746**	**814**	**(68)**	**(8%)**
Net financial debt (excl. loans and borrowings provided by EPH)		**332**	**136**	**196**	**144%**
EBITDA		327	286	41	14%
Leverage		**2.3**	**2.8**	**(0.6)**	**(20%)**
Leverage (excl. loans and borrowings provided by EPH)		**1.0**	**0.5**	**0.5**	**114%**

1.4 Other Information

DESCRIPTION OF THE DIVERSITY POLICY APPLIED TO THE STATUTORY BODY, SUPERVISORY BODY OR OTHER SIMILAR BODY

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

RIGHTS AND OBLIGATIONS ASSOCIATED WITH SHARES

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

LEI CODE

The company EP Power Europe, a.s. was registered with LEI (Legal Entity Identifier) code No. 31570057DWBI3XH9SZ23 CDCP (Centrální depozitář cenných papírů). LEI code of other companies within the EPH Group can be found on http://www.lei-lookup.com/.

BRANCHES

The EPPE Group has no organizational unit or another branch abroad.

RESEARCH AND DEVELOPMENT ACTIVITIES

In 2018, the EPPE Group did not carry out any significant research and development activities and as a result did not incur any material research and development costs.

Combined Review of Operations

ACQUISITION OF OWN SHARES OR OWN OWNERSHIP INTERESTS

During the 2018, EPPE Group did not acquire any own shares or ownership interests within the Group.

RISKS AND RISK MANAGEMENT POLICIES

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

IMPACT OF BREXIT

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

(i) rules concerning power and gas flows between United Kingdom and European Union;

(ii) rules related to state aid issue which impacts various subsidy programmes;

(iii) impact on decarbonisation policy.

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

OUTLOOK FOR 2019

EPPE Group continues to focus on improvements in efficiency and synergies of existing activities and prepares for integration of new acquisitions. Following commissioning of the Lynemouth biomass power plant and expected resumption of capacity market in the UK we expect that contribution of our UK based operation will considerably improve in 2019. In 2017 and 2018 the group substantially invested into programable and contracted renewable power generation capacities in the UK and Italy, which in turn also improves stability of revenues and cash-flow of EPPE Group. Taking into account all this, the Group expects to achieve positive financial results in following years.

EP Power Europe

2 Management Statement

The Board of Directors and the Executive Board have today considered and adopted the Annual Report of EP Power Europe, a.s. (further “the Company”) for the year ended 31 December 2018, which is prepared in accordance with the Czech accounting legislation.

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

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

In our opinion, the both accompanying financial statements give true and fair view of the assets, liabilities, financial position, profit or loss as well as cash flows for the financial year 2018. In addition, the Group’s review of operations includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

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

Prague, 22 May 2019

Mgr. Marek Spurný

Vice-Chairman of the Board of Directors

Mgr. Pavel Horský

Vice-Chairman of the Board of Directors

EP Power Europe

3 Report on Relations

ANNUAL REPORT 2018

Report on Relations

between the controlling entity and the controlled entity 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 Power Europe, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID no.: 278 58 685, pursuant to 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 profit or the settlement of 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 Power Europe, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 278 58 685, recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, insert 21599.

DIRECT CONTROLLING ENTITY

Energetický a průmyslový holding, a.s.
Registered office: Pařížská 130/26, Josefov,
110 00 Praha 1, Czech Republic
ID No.: 283 56 250

INDIRECT CONTROLLING ENTITY

EP Investment S.à.r.l.
Registered office: 39A, Avenue J.F. Kennedy, L – 1855
Luxembourg, Luxembourg
Registration number: B 184488

OTHER CONTROLLED ENTITIES

The companies controlled by the same controlling entities are disclosed in note 35 to the consolidated financial statements of the controlled entity.

III. ROLE OF THE CONTROLLED ENTITY; METHOD AND MEANS OF CONTROL

ROLE OF THE CONTROLLED ENTITY

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

METHOD AND MEANS OF CONTROL

The controlling entities hold a majority share of voting rights in EP Power Europe, 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., ON CORPORATIONS

In 2018, no acts were made at the instigation or in the interest of the controlling entity where such acts concern assets the value of which exceeds 10% of the controlled entity's equity identified from the last financial statements.

V. AGREEMENTS CONCLUDED BETWEEN EP POWER EUROPE, A.S. AND OTHER RELATED ENTITIES

V. 1. 1. IN 2018, THE FOLLOWING LOAN AGREEMENTS WERE IN PLACE

On 4 February 2015, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP UK Investments Ltd as the debtor. On 15 December 2016, the receivable was assigned by virtue of an agreement on assignment of receivable to EP United Kingdom, s.r.o. In 2017, EP Power Europe, a.s. became the legal successor of EP United Kingdom, s.r.o.

On 13 April 2016, a loan agreement including valid amendments was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. (formerly RILENTAR a.s.) as the debtor.

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

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

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

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

On 1 August 2017, a loan agreement was signed by and between EP United Kindgom, s.r.o. as the creditor and EP UK Investments Ltd as the debtor. In 2017, EP Power Europe, a.s. became the legal successor of EP United Kingdom, s.r.o.

On 14 November 2017, a loan agreement including valid amendments was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 14 November 2017, a loan agreement including valid amendments was signed by and between EP Power Europe, a.s. as the creditor and EP UK Investments Ltd as the debtor.

On 29 November 2017, a loan agreement including valid amendments was signed by and between EP Power Europe, a.s. as the debtor and Energetický a průmyslový holding, a.s. as the creditor.

On 6 December 2017, a loan agreement was signed by and between EP Power Europe, a.s. as the debtor and Energetický a průmyslový holding, a.s. as the creditor.

On 17 January 2018, a loan agreement including valid amendments was signed by and between EP Power Europe, a.s. as the debtor and Energetický a průmyslový holding, a.s. as the creditor.

On 18 September 2018, a loan agreement was signed by and between EP Power Europe, a.s. as the debtor and EP Produzione S.p.A. as the creditor.

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

On 1 November 2018, a loan agreement was signed by and between EP Power Europe, a.s. as the creditor and EP New Energy Italia S.r.l. as the debtor.

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

On 20 December 2018, a loan agreement was signed by and between EP Power Europe, a.s. as the creditor and EP UK Investments Ltd as the debtor.

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

V. 1. 2. IN 2018, THE FOLLOWING AGREEMENTS ON THE CONTRIBUTION INTO THE OTHER CAPITAL FUNDS WERE CONCLUDED

On 2 July 2018, an agreement on the contribution into the other capital funds was signed by EP Power Europe, a.s. as the shareholder and NADURENE a.s.

On 1 June 2018, an agreement on the contribution into the other capital funds was signed by EP Power Europe, a.s. as the shareholder and EPPE Germany, a.s.

On 14 November 2018, an agreement on the contribution into the other capital funds was signed by EP Power Europe, a.s. as the shareholder and NADURENE a.s.

On 13 December 2018, an agreement on the contribution into the other capital funds was signed by EP Power Europe, a.s. as the shareholder and EPPE Germany, a.s.

V. 1. 3. OTHER CONTRACTS VALID IN 2018

On 1 December 2017, a framework agreement on the provision of guarantees was signed by and between Energetický a průmyslový holding, a.s. as the guarantor and EP Power Europe, a.s. as the debtor.

On 29 June 2018, an agreement on the provision of guarantees was signed by and between EP Power Europe, a.s. as the guarantor and EP Commodities, a.s.

On 14 September 2018, an agreement on the assignment of a loan contract was signed by and between Energetický a průmyslový holding, a.s. as the assignor and EP Power Europe, a.s. as the assignee, against EP Produzione S.p.A.

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

On 30 November 2018, the board of directors of EP Power Europe, a.s. decided to increase the registered capital of EP UK Investments Ltd.

On 30 November 2018, an agreement on the off-set of receivables was signed by and between EP Power Europe, a.s. and EP UK Investments Ltd.

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

On 30 November 2018, an agreement on the assignment of a loan agreement including valid amendments was signed by and between EP Power Europe, a.s. as the assignor and EP UK Investments Ltd as the assignee, against Lynemouth Power Limited.

V. 1. 4. IN 2018, THE FOLLOWING OPERATING AGREEMENTS WERE IN PLACE

An agreement on providing professional assistance including valid amendments dated 12 April 2016 concluded between EP Power Europe, a.s. (formerly RILENTAR, a.s.) as the interested party and EP Investment Advisors, s.r.o. as the provider.

An agreement on mediation dated 1 September 2016 concluded between EP Power Europe, a.s. as the interested party and EP Investment Advisors, s.r.o. as the provider.

An agreement on the sublease of business premises dated 15 June 2017 concluded between EP Power Europe, a.s. as the sub-lessee and EP Investment Advisors, s.r.o. as the lessee.

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

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

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

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

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

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the interested party and EP Infratructure, a.s. as the provider on 2 January 2018.

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

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the provider and EP Investment Advisors, s.r.o. as the interested party dated 2 January 2018.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the provider and EP Yuzivska B.V. as the interested party on 2 January 2018.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the provider and EP Produzione S.p.A. as the interested party on 2 January 2018.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the provider and Eggborough Power Ltd as the interested party on 2 January 2018.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the provider and Mitteldeutsche Braunkohlengesellschaft mbH as the interested party on 2 January 2018.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the provider and EP UK Investments as the interested party on 2 January 2018.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the provider and EP New Energy Italia S.r.l. as the interested party on 2 January 2018.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the provider and EP Mehrum GmbH as the interested party on 2 January 2018.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the provider and EP Fleet, k.s. as the interested party on 2 January 2018.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the provider and EP Commodities, a.s. as the interested party on 2 January 2018.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the provider and EPPE Italy N.V. as the interested party on 2 January 2018.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the provider and LEAG Holding, a.s. as the interested party on 2 January 2018.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the interested party and PT Real Estate, a.s. as the provider on 2 January 2018.

V. 2. OTHER JURIDICAL ACTS MADE BETWEEN EP POWER EUROPE, A.S. AND OTHER RELATED ENTITIES

Except for the above, no other agreements were concluded by and between EP Power Europe, a.s. and the related entities, and no supplies or considerations were provided between EP Power Europe, a.s. and the related entities.

EP Power Europe, a.s. did not adopt or carry out any other juridical acts or measures in the interest or at the initiative of the related entities.

V. 3. TRANSACTIONS, RECEIVABLES AND PAYABLES OF EP POWER EUROPE, A.S. VIS-À-VIS RELATED ENTITIES

Receivables and payables of EP Power Europe, a.s. from/to related entities as at 31 December 2018 are disclosed in the notes to the financial statements.

VI.

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

- acontracts between related entities;
- supplies and considerations provided to related entities;
- other juridical acts made in the interest of these entities;
- all measures adopted or effected in the interest or at the instigation of these entities.

The board of directors of EP Power Europe, a.s. also declares that EP Power Europe, a.s. has not incurred any damage from acts performed by the controlling entity or entities controlled by the same controlling entity. All transactions between the controlled entity and the controlling entity and entities controlled by the same controlling entity were performed based on the arm's length principle. EP Power Europe, a.s. did not incur any damage or loss nor did it generate any financial advantage or disadvantage from contractual relations or any other relations with related entities.

Prague, 29 March 2019

Mgr. Marek Spurný

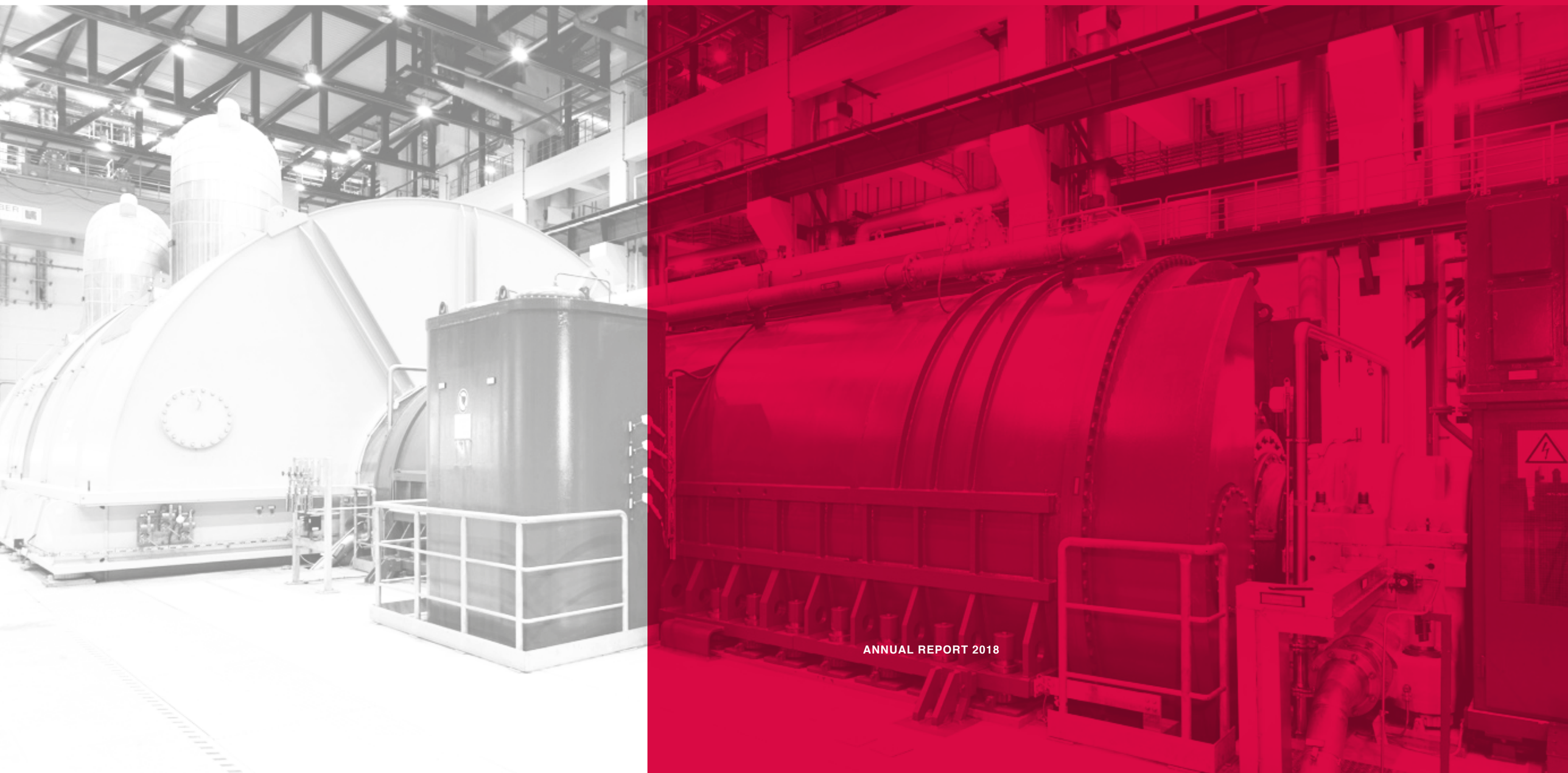
Vice-chairman of the Board of Directors

Mgr. Pavel Horský

Vice-chairman of the Board of Directors

EP Power Europe

4 Consolidated Financial Statements



ANNUAL REPORT 2018

EP Power Europe

Independent Auditor's Report

to the Shareholders of EP Power Europe, a.s.

KPMG Česká republika Audit, s.r.o.
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This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholders of EP Power Europe, a.s.

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of EP Power Europe, a.s. ("the Company") and its subsidiaries ("the Group"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the 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.

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 and Supervisory Board for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the statutory body is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

Statutory Auditor Responsible for the Engagement

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

Prague
24 May 2019

KPMG Česká republika Audit

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

Karel Charvát
Partner
Registration number 2032

EP Power Europe

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	(1)2017
Sales: Energy	6	3,756	2,713
of which: Electricity		*2,554*	*1,746*
Gas		*929*	*696*
Coal		*268*	*267*
Heat		*3*	*2*
Other energy products		*2*	*2*
Sales: Other	6	182	156
Gain (loss) from commodity derivatives for trading with electricity and gas, net		(64)	(20)
Total sales		**3,874**	**2,849**
Cost of sales: Energy	7	(2,785)	(1,870)
Cost of sales: Other	7	(111)	(65)
Total cost of sales		**(2,896)**	**(1,935)**
Subtotal		**978**	**914**
Personnel expenses	8	(271)	(259)
Depreciation and amortisation	15, 16	(224)	(180)
Repairs and maintenance		(54)	(47)
Emission rights, net	9	(134)	(1)(101)
Negative goodwill	5	-	(1)49
Taxes and charges	10	(73)	(59)
Other operating income	11	90	50
Other operating expenses	12	(209)	(212)
Profit (loss) from operations		**103**	**155**
Finance income	13	12	17
Finance expense	13	(50)	(48)
Profit (loss) from financial instruments	13	26	(1)-
Net finance income (expense)		**(12)**	**(31)**
Share of profit (loss) of equity accounted investees, net of tax	17	(21)	88
Profit (loss) before income tax		**70**	**212**
Income tax expenses	14	(30)	(40)
Profit (loss) for the year		**40**	**172**

	Note	2018	(1)2017
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences from foreign operations	14	7	(60)
Foreign currency translation differences from presentation currency	14	(8)	42
Effective portion of changes in fair value of cash-flow hedges, net of tax	14	408	(39)
Fair value reserve included in other comprehensive income, net of tax	14	21	(6)
Other comprehensive income for the year, net of tax		**428**	**(63)**
Total comprehensive income for the year		**468**	**109**
Profit (loss) attributable to:			
Owners of the Company		35	173
Non-controlling interest		5	(1)
Profit (loss) for the year		**40**	**172**
Total comprehensive income attributable to:			
Owners of the Company		462	109
Non-controlling interest		6	-
Total comprehensive income for the year		**468**	**109**
Total basic and diluted earnings per share in EUR	25	**479.36**	**2,369.41**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 5 – Acquisitions and disposals of subsidiaries.

The notes presented on pages 72 to 189 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

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

	Note	2018	(1)2017
Assets			
Property, plant and equipment	15	1,752	1,824
Intangible assets	16	93	88
Goodwill	16	41	41
Equity accounted investees	17	869	512
Restricted cash	22	-	23
Financial instruments and other financial assets	29	64	54
Trade receivables and other assets	20	142	85
Deferred tax assets	18	62	61
Total non-current assets		**3,023**	**2,688**
Inventories	19	177	181
Extracted minerals and mineral products		6	7
Trade receivables and other assets	20	512	466
Financial instruments and other financial assets	29	292	209
Prepayments and other deferrals		37	26
Tax receivables	23	129	101
Restricted cash	22	25	7
Cash and cash equivalents	21	373	188
Total current assets		**1,551**	**1,185**
Total assets		**4,574**	**3,873**
Equity			
Share capital	24	555	555
Other reserves	24	109	(330)
Retained earnings		701	674
Total equity attributable to equity holders		**1,365**	**899**
Non-controlling interest	**26**	**59**	**55**
Total equity		**1,424**	**954**

	Note	2018	(1)2017
Liabilities			
Loans and borrowings	27	520	299
Financial instruments and financial liabilities	29	32	3
Provisions	28	728	779
Deferred tax liabilities	18	35	43
Trade payables and other liabilities	30	93	86
Total non-current liabilities		**1,408**	**1,210**
Trade payables and other liabilities	30	698	721
Loans and borrowings	27	599	703
Financial instruments and financial liabilities	29	132	70
Provisions	28	310	203
Current income tax liability		3	12
Total current liabilities		**1,742**	**1,709**
Total liabilities		**3,150**	**2,919**
Total equity and liabilities		**4,574**	**3,873**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 5 – Acquisitions and disposals of subsidiaries.

The notes presented on pages 72 to 189 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2018

In millions of EUR ("MEUR")

	Attributable to owners of the Company										
	Share capital	Share premium	Reserve for own shares	Other capital funds from capital contributions	Non-distributable reserves	Translation reserve	Fair value reserve	Other capital reserves	Hedging reserve	Retained earnings [1]	Total	Non-controlling interest	Total Equity
Balance as at 1 January 2018[1]	**555**	**-**	**-**	**81**	**5**	**(10)**	**(34)**	**(498)**	**126**	**674**	**899**	**55**	**954**
Adjustment on initial application of IFRS 9 (net of tax)	-	-	-	-	-	-	-	-	-	(4)	(4)	-	**(4)**
Adjusted balance as at 1 January 2018 (A)	**555**	**-**	**-**	**81**	**5**	**(10)**	**(34)**	**(498)**	**126**	**670**	**895**	**55**	**950**
Total comprehensive income for the year:													
Profit or loss (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**35**	**35**	**5**	**40**
Other comprehensive income:													
Foreign currency translation differences for foreign operations	-	-	-	-	-	7	-	-	-	-	7	-	**7**
Foreign currency translation differences from presentation currency	-	-	-	-	-	(9)	-	-	-	-	(9)	1	**(8)**
Fair value reserve included in other comprehensive income, net of tax	-	-	-	-	-	-	21	-	-	-	21	-	**21**
Effective portion of changes in fair value of cash-flow hedges, net of tax	-	-	-	-	-	-	-	-	408	-	408	-	**408**
Total other comprehensive income (C)	**-**	**-**	**-**	**-**	**-**	**(2)**	**21**	**-**	**408**	**-**	**427**	**1**	**428**
Total comprehensive income for the year (D) = (B + C)	**-**	**-**	**-**	**-**	**-**	**(2)**	**21**	**-**	**408**	**35**	**462**	**6**	**468**
Contributions by and distributions to owners:													
Contribution to equity	-	-	-	8	-	-	-	-	-	-	8	-	**8**
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-	(2)	**(2)**
Transfer to non-distributable reserves – creation of legal fund	-	-	-	-	4	-	-	-	-	(4)	-	-	**-**
Total contributions by and distributions to owners (E)	**-**	**-**	**-**	**8**	**4**	**-**	**-**	**-**	**-**	**(4)**	**8**	**(2)**	**6**
Balance as at 31 December 2018 (F) = (A + D + E)	**555**	**-**	**-**	**89**	**9**	**(12)**	**(13)**	**(498)**	**534**	**701**	**1,365**	**59**	**1,424**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 5 – Acquisitions and disposals of subsidiaries.

The notes presented on pages 72 to 189 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

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

	Attributable to owners of the Company										
	Share capital	Share premium	Reserve for own shares	Other capital funds from capital contributions	Non-distributable reserves	Translation reserve	Fair value reserve	Other capital reserves	Hedging reserve	Retained earnings [1]	Total	Non-controlling interest	Total Equity
Balance as at 1 January 2017 (A)	-	-	-	65	-	9	(28)	116	165	506	833	57	890
Total comprehensive income for the year:													
Profit or loss (B)[1]	-	-	-	-	-	-	-	-	-	173	173	(1)	172
Other comprehensive income:													
Foreign currency translation differences for foreign operations	-	-	-	-	-	(57)	-	-	-	-	(57)	(3)	(60)
Foreign currency translation differences from presentation currency	-	-	-	-	-	38	-	-	-	-	38	4	42
Fair value reserve included in other comprehensive income, net of tax	-	-	-	-	-	-	(6)	-	-	-	(6)	-	(6)
Effective portion of changes in fair value of cash-flow hedges, net of tax	-	-	-	-	-	-	-	-	(39)	-	(39)	-	(39)
Total other comprehensive income (C)	-	-	-	-	-	(19)	(6)	-	(39)	-	(64)	1	(63)
Total comprehensive income for the year (D) = (B + C)	-	-	-	-	-	(19)	(6)	-	(39)	173	109	-	109
Contributions by and distributions to owners:													
Increase of share capital	555	-	-	-	-	-	-	-	-	-	555	-	555
Contribution to equity	-	-	-	16	-	-	-	-	-	-	16	-	16
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-	(2)	(2)
Transfer to non-distributable reserves – creation of legal fund	-	-	-	-	5	-	-	-	-	(5)	-	-	-
Total contributions by and distributions to owners (E)	555	-	-	16	5	-	-	-	-	(5)	571	(2)	569
Changes in ownership interests in subsidiaries:													
Effect of acquisition under common control (Note 5)	-	-	-	-	-	-	-	(614)	-	-	(614)	-	(614)
Total changes in ownership interests in subsidiaries (F)	-	-	-	-	-	-	-	(614)	-	-	(614)	-	(614)
Total transactions with owners (G) = (E + F)	555	-	-	16	5	-	-	(614)	-	(5)	(43)	(2)	(45)
Balance as at 31 December 2017[1] (H) = (A + D + G)	555	-	-	81	5	(10)	(34)	(498)	126	674	899	55	954

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 5 – Acquisitions and disposals of subsidiaries.

The notes presented on pages 72 to 189 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	(1)2017
OPERATING ACTIVITIES			
Profit (loss) for the year		40	(1)172
Adjustments for:			
Income taxes	14	30	40
Depreciation and amortisation	15, 16	224	180
Dividend income	13	-	(2)
Impairment losses on property, plant and equipment, intangible assets and financial assets	12, 13	2	-
Non-cash (gain) loss from commodity derivatives for trading with electricity, gas and emission rights, net	6, 9	78	20
(Gain) loss on disposal of property, plant and equipment, investment property and intangible assets	11	12	(6)
Emission rights	9	243	83
Share of (profit) loss of equity accounted investees	17	21	(88)
(Gain) loss on financial instruments	13	(26)	18
Net interest expense	13	23	17
Change in allowance for impairment to trade receivables and other assets, write-offs		16	4
Change in provisions		(69)	24
Negative goodwill	5	-	(1)(49)
Unrealised foreign exchange (gains) losses, net		20	(34)
Operating profit before changes in working capital		**614**	**379**
Change in trade receivables and other assets		(167)	(240)
Change in inventories (including proceeds from sale)		4	(11)
Change in extracted minerals and mineral products		1	(1)
Change in trade payables and other liabilities		126	150
Change in restricted cash		4	(2)
Cash generated from (used in) operations		**582**	**275**
Interest paid		(16)	(11)
Income taxes paid		(55)	(73)
Cash flows generated from (used in) operating activities		**511**	**191**

	Note	2018	(1)2017
INVESTING ACTIVITIES			
Dividends received from associates and joint-ventures		-	2
Change in financial instruments not at fair value		-	(10)
Loans provided to the owners		(407)	(76)
Repayment of loans provided to the owners		93	23
Proceed (outflows) from sale (settlement) of financial instruments		(11)	(56)
Acquisition of property, plant and equipment and intangible assets	15, 16	(179)	(293)
Purchase of emission rights	16	(94)	(4)
Proceeds from sale of emission rights		(48)	10
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		16	7
Acquisition of subsidiaries and special purpose entities, net of cash acquired	5	-	(164)
Interest received		9	7
Cash flows from (used in) investing activities		**(621)**	**(554)**
FINANCING ACTIVITIES			
Proceeds from loans received		779	575
Repayment of borrowings		(487)	(335)
Dividends paid		(2)	(2)
Cash flows from (used in) financing activities		**290**	**238**
Net increase (decrease) in cash and cash equivalents		*180*	*(125)*
Cash and cash equivalents at beginning of the year		**188**	**308**
Effect of exchange rate fluctuations on cash held		5	5
Cash and cash equivalents at end of the year		**373**	**188**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 5 – Acquisitions and disposals of subsidiaries.

The notes presented on pages 72 to 189 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Background

EP Power Europe, a.s. (the "Parent Company" or "the Company" or "EPPE" or "power subholding") is a joint-stock company, with its registered office at Pařížská 130/26, 110 00 Praha 1, Czech Republic. The Company was founded on 13 July 2008 and acquired by Energetický a průmyslový holding, a.s. ("EPH") on 13 April 2016.

The main activities of the EPPE Group are corporate investments in the power generation, coal mining and commodity trading sectors.

On 23 June 2017 the Company's shareholder decided to issue new shares. This issue of shares increased share capital of the Company by EUR 555 million (CZK 14 601 million).

The consolidated financial statements of the Company for the year ended 31 December 2018 comprise the statements of the Parent Company and its subsidiaries (together referred to as the "Group" or "EPPE Group") and the Group's interests in associates and joint ventures. The Group entities are listed in Note 35 – Group entities.

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

In millions of EUR

	Interest in share capital		Voting rights
	MEUR	%	%
Energetický a průmyslový holding, a.s.	555	100.00	100.00
Total	**555**	**100.00**	**100.00**

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

In millions of EUR

	Interest in share capital		Voting rights
	MEUR	%	%
Energetický a průmyslový holding, a.s.	555	100.00	100.00
Total	**555**	**100.00**	**100.00**

The shareholders of Energetický a průmyslový holding, a.s. as at 31 December 2018 were as follows:

In millions of EUR

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

The shareholders of Energetický a průmyslový holding, a.s. as at 31 December 2017 were as follows:

In millions of EUR

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

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

The members of the Board of Directors as at 31 December 2018 were:

- JUDr. Daniel Křetínský (Chairman of the Board of Directors)
- Mgr. Marek Spurný (Vice-chairman of the Board of Directors)
- Mgr. Ing. Tomáš David (Vice-chairman of the Board of Directors)
- Mgr. Pavel Horský (Vice-chairman of the Board of Directors)
- Ing. Jan Špringl (Vice-chairman of the Board of Directors)
- Ing. Jiří Feist (Member of the Board of Directors)
- Ing. Tomáš Novotný (Member of the Board of Directors)
- Leif Timmermann (Member of the Board of Directors)
- Brendan Massam (Member of the Board of Directors)

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

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 22 May 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 profit or loss;
- financial instruments at fair value through other comprehensive income

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

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

C FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Euro ("EUR"). The Company's functional currency is the Czech crown ("CZK"). All financial information presented in Euros has been rounded to the nearest million. The reason for the presentation currency is that by currency, EPPE Group revenues

and operating profit generated in Euro represent a significant share of the total revenues and operating profit.

D USE OF ESTIMATES AND JUDGEMENTS

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

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

I. ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

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

- Notes 5 and 16 – Accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill,
- Note 6 – Revenues,
- Note 28 – Measurement of defined benefit obligations, recognition and measurement of provisions,
- Notes 27, 30 and 33 – Valuation of financial instruments,
- Note 36 – Litigations.

MEASUREMENT OF FAIR VALUES

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

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

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

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

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

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

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

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

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

II. JUDGEMENTS

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

- Notes 5 and 16 – Accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill,
- Note 28 – Measurement of defined benefit obligations, recognition and measurement of provisions,
- Note 29 – Own use exemption application for forward contracts on power and CO_2 emission allowances,
- Note 29 and 33 – Hedge accounting application.

E RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

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

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

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

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

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

The Group's identified following main sources of Revenue in scope of IFRS 15 (for complete source of Group's revenues refer to Note 6 – Sales):

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

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

Revenues are measured using transaction prices allocated to those goods transferred, reflecting the volume supplied, including the estimated volume supplied between last invoice date and end of the period. Sales transactions usually do not contain significant financing component.

- *Coal mining and sale of coal*

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

- *Grid balancing services*

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

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

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

IFRS 9 Financial Instruments

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

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

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

In millions of EUR

	Impact of adopting IFRS 9 on opening balance
Retained earnings	
Recognition of expected credit losses under IFRS 9	(4)
Impact at 1 January 2018	(4)
Non-controlling interests	
Recognition of expected credit losses under IFRS 9	-
Impact at 1 January 2018	-

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	495	(1)	494
Advance payments	54	-	54
Loans to other than credit institutions	203	-	203
Financial assets accounted for by equity accounted investees	512	(3)	509
Total	**1,264**	**(4)**	**1,260**

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

I. Classification and measurement of financial assets and financial liabilities

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

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

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

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

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

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

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

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

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

All investments in equity instruments and contracts on those instruments must be measured at fair value. However, in limited circumstances, cost may be an appropriate estimate of fair value. That may

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

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

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

II. Impairment of financial assets

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

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

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

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

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

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

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

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

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

(d) other material events occur which require individual assessment (e.g., development of external ratings of sovereign credit risk).

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

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

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

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

(d) the probability of default of the borrower increases by 100% compared to the previous rating (not relevant condition in ECL model for intercorporate loans and receivables); or

(e) other material events occur which require individual assessment (e.g. development of external ratings of sovereign credit risk).

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

Presentation of loss allowances

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

Impact of the new impairment model

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

III. Hedge accounting

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

IFRIC 22 Foreign Currency Translations and Advance Consideration

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

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

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

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

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

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

Amendments to IAS 40 – Transfers of Investment Property

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

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

II. STANDARDS NOT YET EFFECTIVE

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

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

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

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

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

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

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

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

The first-time application of the standard will lead to an increase in both property, plant and equipment (accounting for the rights of use) and financial liabilities (recognition of the corresponding lease liabilities) in the balance sheet. The impact of the transition on the amount of leasing liabilities and rights of use for continuing activities at the time of first-time application is expected to be EUR 5 million to EUR 20 million. As a result of this change in the balance sheet, net financial debt will increase slightly. Effect on retained earnings is expected to be immaterial.

In the future, instead of other operating expenses, depreciation of right-of-use assets and interest expenses will be recognised in income statement from the accretion of lease liabilities (unless they relate to expenses from short-term and low-value leases). This will lead to improved annual EBITDA which is expected to be higher by EUR 2 million to EUR 6 million.

This revised presentation of lease payments arising from operating leases will result in improved cash flows from operating activities and a deterioration in cash flow from financing activities. 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 (not adopted by EU yet))

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 (not adopted by EU yet))

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 (not adopted by EU yet))

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 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 lection to measure at FVTPL an investment in an associate or a joint venture that is held by an entity that is a venture capital organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition).

The amendments will probably 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 EPPE Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

A CHANGES IN PRESENTATION OF INCOME STATEMENT

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

2017 comparative information have been restated to include the above mentioned modifications. For details of the restatement refer to Appendix 2.

B BASIS OF CONSOLIDATION

I. SUBSIDIARIES

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

II. EQUITY ACCOUNTED INVESTEES

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

III. ACCOUNTING FOR BUSINESS COMBINATIONS

The Group acquired its subsidiaries in two ways:

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

IV. NON-CONTROLLING INTERESTS

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

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

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

V. TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

VI. UNIFICATION OF ACCOUNTING POLICIES

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

VII. PRICING DIFFERENCES

The Group accounted for pricing differences which arose from the acquisition of subsidiaries from Energetický a průmyslový holding, a.s. As these acquired entities and its subsidiaries and associates 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 consideration paid by the EPPE Group and carrying values of net assets of the acquiree and original goodwill carried forward as at the date of acquisition by the EPPE Group were recorded to consolidated equity as pricing differences. Pricing differences are presented in Other capital reserves in equity. Note 5 – Acquisitions and disposals of subsidiaries, joint ventures and associates summarises the effects of all common control transactions in both periods.

VIII. DISPOSAL OF SUBSIDIARIES AND EQUITY ACCOUNTED INVESTEES

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

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

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

C FOREIGN CURRENCY

I. FOREIGN CURRENCY TRANSACTIONS

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Euro, which is the Group's presentation currency. Company's functional

currency is Czech crown. Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate at the transaction date.

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

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

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

A summary of the main foreign exchange rates applicable for the reporting period is presented in Note 33 – 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.

D NON-DERIVATIVE FINANCIAL ASSETS

I. CLASSIFICATION

POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

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

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

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

POLICY APPLICABLE FROM 1 JANUARY 2018

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

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

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

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

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

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

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

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

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

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

II. RECOGNITION

POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

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

POLICY APPLICABLE FROM 1 JANUARY 2018

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

III. MEASUREMENT

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

POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

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

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

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

POLICY APPLICABLE FROM 1 JANUARY 2018

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

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

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

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

IV. DE-RECOGNITION

A financial asset is derecognised when the contractual rights to the cash flows from the asset expire, or when the rights to receive the contractual cash flows are transferred in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets

that is created or retained by the Group is recognised as a separate asset or liability.

V. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

E NON-DERIVATIVE FINANCIAL LIABILITIES

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

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

F DERIVATIVE FINANCIAL INSTRUMENTS

POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

POLICY APPLICABLE FROM 1 JANUARY 2018

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

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

OTHER NON-TRADING DERIVATIVES

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

SEPARABLE EMBEDDED DERIVATIVES

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

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

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

CASH FLOW HEDGES AND FAIR VALUE HEDGES

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

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

From the inception of the hedge, the Group maintains a formal documentation of the hedging relationship and the Group's risk management objective and strategy

for undertaking the hedge. The Group also periodically assesses the hedging instrument's effectiveness in offsetting exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

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

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

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

TRANSACTIONS WITH EMISSION RIGHTS AND ENERGY

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

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

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

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

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

G CASH AND CASH EQUIVALENTS

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

H INVENTORIES

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

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

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

I IMPAIRMENT

I. NON-FINANCIAL ASSETS

The carrying amounts of the Group's assets, other than inventories (refer to accounting policy (h) – Inventories) and deferred tax assets (refer to accounting policy (o) – 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)

POLICY APPLICABLE BEFORE 1 JANUARY 2018

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

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

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

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

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

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

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

POLICY APPLICABLE AFTER 1 JANUARY 2018

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

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

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

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

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

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

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

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

(d) other material events occur which require individual assessment (e.g., development of external ratings of sovereign credit risk).

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

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

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

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

(d) the probability of default of the borrower increases by 100% compared to the previous rating (not relevant condition in ECL model for intercorporate loans and receivables); or

(e) other material events occur which require individual assessment (e.g. development of external ratings of sovereign credit risk).

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

PRESENTATION OF LOSS ALLOWANCES

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

III. EQUITY ACCOUNTED INVESTEES

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

J PROPERTY, PLANT AND EQUIPMENT

I. OWNED ASSETS

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

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

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

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

II. LEASED ASSETS

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

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

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

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

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

III. 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.

IV. 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:

- Buildings and structures 7–45 years
- Machinery, electric generators, gas producers, turbines and boilers 7–30 years
- Mines and mine property 15–30 years
- Machinery and equipment 4–30 years
- Fixtures, fittings and others 3–20 years

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

K INTANGIBLE ASSETS

I. GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

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

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

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

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

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

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

II. RESEARCH AND DEVELOPMENT

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

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

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

III. EMISSION RIGHTS

RECOGNITION AND MEASUREMENT

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

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

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

IMPAIRMENT OF EMISSION RIGHTS

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

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

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

RECOGNITION OF GRANTS

A grant is initially recognised as deferred income and recognised in profit on a systematic basis over the compliance period, which is the relevant calendar year, regardless of whether the allowance received continues to be held by the entity. The pattern for the systematic recognition of the deferred income in profit is assessed based on estimated pollutants emitted in the current month, taking into account the estimated coverage of the estimated total annually emitted pollutants by allocated

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

RECOGNITION, MEASUREMENT OF PROVISION

A provision is recognised regularly during the year based on the estimated number of tonnes of CO_2 emitted.

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

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

IV. SOFTWARE AND OTHER INTANGIBLE ASSETS

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

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

V. AMORTISATION

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

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

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

L PROVISIONS

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

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

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

I. EMPLOYEE BENEFITS

LONG-TERM EMPLOYEE BENEFITS

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

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

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

Pension plans

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

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

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

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

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

SHORT-TERM EMPLOYEE BENEFITS

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

II. WARRANTIES

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

III. PROVISION FOR LAWSUITS AND LITIGATIONS

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

IV. PROVISION FOR EMISSION RIGHTS

A provision for emission rights is recognised regularly during the year based on the estimated number of tonnes of CO_2 emitted. It is measured at the best estimate of the expenditure required to settle the present obligation at the reporting date.

V. RESTRUCTURING

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

VI. ASSET RETIREMENT OBLIGATION AND PROVISION FOR ENVIRONMENTAL REMEDIATION

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

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

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

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

Rehabilitation provisions are recognised for the following restoration activities:

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

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

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

VII. ONEROUS CONTRACTS

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

M REVENUE

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

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

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

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

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

Other revenues represent revenues from non-energy activities.

REVENUES FROM SALE OF ELECTRICITY, HEAT AND GAS

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

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

REVENUES FROM SALE OF COAL

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

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

All these conditions are generally satisfied when the product is delivered to the destination specified by the customer and as such, the title passes to the customer. Sales revenue is commonly subject to adjustments based on an inspection of the product by the customer. Where there are agreed differences in volume or quality of delivered products, this is reflected as reduction or increase (usually for better qualities of coal) in sales revenue recognised on the sale transaction.

ENERGY TRADING

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

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

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

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

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

The Group's identified following main sources of Revenue in scope of IFRS 15 (for complete source of Group's revenues refer to Note 6 – Sales):

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

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

Revenues are measured using transaction prices allocated to those goods transferred, reflecting the volume supplied, including the estimated volume supplied between last invoice date and end of the period. Sales transactions usually do not contain significant financing component.

- *Coal mining and sale of coal*

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

- *Grid balancing services*

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

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

III. DERIVATIVES WHERE THE UNDERLYING ASSET IS A COMMODITY

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

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

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

IV. GOVERNMENT GRANTS

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

V. RENTAL INCOME

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

N FINANCE INCOME AND COSTS

I. FINANCE INCOME

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

II. FINANCE COSTS

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

III. BORROWING COSTS

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset, from the time of acquisition or from the beginning of construction or production until entry into service, are capitalised and subsequently amortised alongside the related asset. In the case of a specific financing arrangement, the respective borrowing costs for that arrangement are used. For non-specific financing arrangements, borrowing costs to be capitalised are determined based on a weighted average of the borrowing costs.

O INCOME TAXES

Income taxes comprise current and deferred tax. Income taxes are recognised in profit or loss, except to the extent that they relate to a business combination or to items recognised directly in equity or in other comprehensive income.

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

Deferred tax is measured using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No deferred tax is recognised on the following temporary differences: temporary differences arising

from the initial recognition of assets or liabilities that is not a business combination and that affects neither accounting nor taxable profit or loss, and temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. No deferred tax is recognised on the initial recognition of goodwill.

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

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

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses, tax credits and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

P DIVIDENDS

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

Q NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

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

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

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

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

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

4. Determination of fair values

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

A PROPERTY, PLANT AND EQUIPMENT

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

B INTANGIBLE ASSETS

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

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

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

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

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

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, gas and emission rights contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between

the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

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

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

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

5. Acquisitions and disposals of subsidiaries, joint ventures and associates

On 15 December 2016 EPPE acquired from EPH 100% share in EP United Kingdom, s.r.o. (“EP UK”) for EUR 33 million and 100% share in EP Commodities (“EPC”) for EUR 27 million, on 9 February 2017 acquired a 100% share in EPPE Italy, N.V. (former Czech Gas Holding N.V.)(“EPPE Italy”) for EUR 481 million and on 15 December 2017 acquired through its subsidiary EPPE Germany, a.s., 90% share in JTSD – Braunkohlebergbau GmbH (“JTSD”) for EUR 133 million.

For the purpose of preparation of these consolidated financial statements, the entities acquired as part of acquisition of shares in EP UK, EPC, EPPE Italy and JTSD are presented in the consolidated financial statements of the Company from the original date of acquisition under the scope of IFRS 3 by the parent company Energetický a průmyslový holding, a.s. From the view of the EPPE 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 EPPE Group is presented as a decrease of Other capital reserves in Equity.

A ACQUISITIONS

I. 31 DECEMBER 2018

There was no material acquisition of business in 2018.

II. 31 DECEMBER 2017

In millions of EUR

	Date of acquisition	Purchase price	Cash paid	Purchase price liability	Equity interest acquired %	Equity interest after acquisition %
New subsidiaries						
EP SHB Limited and EP Langage Limited	31/08/2017	86	(86)	-	100	100
Kraftwerk Mehrum GmbH (KWM)	1/11/2017	1	(1)	-	100	100
EP New Energy Italia S.R.L., and its subsidiaries (EPNEI Group)	15/12/2017	121	(100)	(1)(21)	100	100
Total		**208**	**(187)**	**(21)**	**-**	**-**

(1) As at 31 December 2017, EUR 21 million of the purchase price liability was not yet settled.

EP LANGAGE LIMITED AND EP SHB LIMITED

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

KRAFTWERK MEHRUM GMBH

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

EPNEI GROUP

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

B EFFECT OF ACQUISITIONS

I. 31 DECEMBER 2018

There was no material acquisition of business in 2018.

II. 31 DECEMBER 2017

SUBSIDIARIES

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

In millions of EUR

	Carrying amount[1]	Fair value adjustment provisional	2017 Total provisional[1]	Adjustments to purchase price allocation	2017 Total final[1]
Property, plant, equipment, land, buildings	477	(3)	474	-	474
Intangible assets	11	-	11	-	11
Trade receivables and other assets	98	-	98	-	98
Financial instruments – assets	1	-	1	-	1
Inventories	68	-	68	-	68
Cash and cash equivalents	23	-	23	-	23
Deferred tax asset	1	5	6	(5)	1
Provisions	(35)	(19)	(54)	-	(54)
Deferred tax liabilities	(11)	1	(10)	-	(10)
Loans and borrowings	(333)	(1)	(334)	-	(334)
Financial instruments – liabilities	(3)	-	(3)	-	(3)
Trade payables and other liabilities	(54)	-	(54)	-	(54)
Net identifiable assets and liabilities	**243**	**(17)**	**226**	**(5)**	**221**
Non-controlling interest			-	-	-
Goodwill on acquisitions of a subsidiary			36	-	36
Negative goodwill on acquisition of new subsidiaries			(54)	5	(49)
Cost of acquisition			**208**	**-**	**208**
Consideration paid, satisfied in cash (A)			187	-	187
Purchase price liability			21	-	21
Total consideration transferred			**208**	**-**	**208**
Less: Cash acquired (B)			23	-	23
Net cash inflow (outflow) (C) = (B – A)			**(164)**	**-**	**(164)**

(1) Represents values at 100% share.

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

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

For details on major acquisitions please refer also to Appendix 1 – Business combinations.

III. RATIONALE FOR ACQUISITIONS

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

- The subsidiaries' businesses are complementary to EPPE's portfolio;
- Potential for synergic effects;
- The subsidiaries have an advantageous position within the market;
- Subject industries are expected to grow in the future;
- Further vertical integration of the Trading segment with the Generation segment, i.e. securing coal and gas supplies for own coal and gas fired plants.

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

The Group's view is that there is long-term strategic value in these investments due to the development of the market and this resulted in historical goodwill in the total amount of EUR 41 million. For the development of historical goodwill, please refer to Note 16 – Intangible assets (including goodwill).

In 2017, the Group recognised goodwill of EUR 36 million from the acquisition of EPNEI Group and negative goodwill of EUR 49 million from the acquisition Kraftwerk Mehrum GmbH, EP SHB LIMITED and EP LANGAGE LIMITED.

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

The Group reconsidered the identification and measurement of all identified assets and liabilities acquired in these business combinations; consistent results were obtained in respect of negative goodwill.

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

In millions of EUR

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

In millions of EUR

	2017 Total
Revenue of the acquirees recognised since the acquisition date	212
Profit (loss) of the acquirees recognised since the acquisition date	24

The following table provides information on the estimated revenues and profit or loss that would have been included in the consolidated statement of comprehensive income, if the acquisition had occurred at the beginning of the reporting period (i.e. as at 1 January 2018 or as at 1 January 2017); this financial information was derived from the statutory or IFRS financial statements of the acquired entities.

In millions of EUR

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

In millions of EUR

	2017 Total
Revenue of the acquirees recognised in the year ended 31 December 2017*	535
Profit (loss) of the acquires recognised in the year ended 31 December 2017*	14

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

For details on major acquisitions please refer also to Appendix 1 – Business combinations.

C BUSINESS COMBINATIONS – ACQUISITION ACCOUNTING 2018 AND 2017

The acquiree's identifiable assets, liabilities and contingent liabilities were recognised and measured at their fair values at the acquisition date by the parent company Energetický a průmyslový holding, a.s. (except for acquisitions under common control, which are carried in net book values); in line with the above, the established fair values were subsequently reported in the consolidated financial statements of the Company. Allocation of the total purchase price among the net assets acquired for financial statement reporting purposes was performed with the support of professional advisors.

The valuation analysis is based on historical and prospective information prevailing as at the date of the business combination (which also involves certain estimates and approximations such as business plan forecasts, useful life of assets, and the weighted average cost of capital components). Any prospective information that may impact the future value of the acquired assets is based on management's expectations of the competitive and economic environments that will prevail at the time.

The results of the valuation analyses are also used for determining the amortisation and depreciation periods of the values allocated to specific intangible and tangible fixed assets.

Purchase price allocation was performed for all business combinations within the scope of IFRS 3.

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

In millions of EUR

	Property, plant and equipment	Provisions	Deferred tax asset/ (liability)	Loans and borrowings	Total net effect on financial position
Subsidiary					
EP SHB LIMITED and EP LANGAGE LIMITED	(3)	(1)	(1)1	(1)	**(4)**
Kraftwerk Mehrum GmbH	1	(18)	-	-	**(17)**
EP New Energy Italia S.R.L. and its subsidiaries	(1)	-	-	-	**(1)**
	(3)	**(19)**	**1**	**(1)**	**(22)**

(1) Represents decrease in deferred tax liability.

D DISPOSAL OF INVESTMENTS

I. 31 DECEMBER 2018

During the year 2018, the Group did not dispose any of its investments.

II. 31 DECEMBER 2017

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

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

6. Sales

In millions of EUR

	2018	2017
Sales: Energy		
of which: Electricity	2,554	1,746
Gas	929	696
Coal	268	267
Heat	3	2
Other	2	2
Total Energy	**3,756**	**2,713**
Sales: Other	**182**	**156**
Total revenues from customers	**3,938**	**2,869**
Gain (loss) from commodity derivatives for trading with electricity and gas, net	**(64)**	**(20)**
Total	**3,874**	**2,849**

Other sales are represented mainly by sales of lignite dust, briquettes, gypsum, reimbursements of transportation and disposal costs, sewage sludge incineration and restoration services to third parties.

7. Cost of sales

In millions of EUR

	2018	2017
Cost of Sales: Energy		
Cost of sold gas and other energy products	1,145	739
Consumption of coal and other material	1,055	869
Cost of sold electricity	477	141
Consumption of energy	23	6
Other cost of sales	85	115
Total Energy	**2,785**	**1,870**
Cost of Sales: Other		
Other cost of goods sold	50	43
Other cost of sales	48	11
Consumption of material	9	5
Consumption of energy	6	4
Changes in WIP, semi-finished products and finished goods	(2)	2
Total Other	**111**	**65**
Total	**2,896**	**1,935**

Cost of sales presented in the above table contains only cost of purchased energy and purchased materials consumed in producing energy output, it does not contain directly attributable overheads (particularly personnel expenses, depreciation and amortisation, repairs and maintenance, emission rights, taxes and charges etc.).

8. Personnel expenses

In millions of EUR

	2018	2017
Wages and salaries	184	172
Compulsory social security contributions	51	48
Expenses and revenues related to employee benefits (IAS 19)	23	29
Other social expenses	13	10
Total	**271**	**259**

The average number of employees during 2018 was 3,622 (2017: 3,416), of which 68 were executives (2017: 81).

9. Emission rights

In millions of EUR

	2018	(1)2017
Profit (loss) from sale of emission rights	(48)	(10)
Creation of provision for emission rights	*(195)*	*(73)*
Gain (loss) from commodity derivatives for trading with emission rights, net	*109*	*(18)*
Use of provision for emission rights	*76*	*54*
Consumption of emission rights	(76)	(54)
Total	**(134)**	**(101)**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 5 – Acquisitions and disposals of subsidiaries. The comparative information has been restated as described in Note 3(a). The change in fair value of commodity derivatives with emission rights previously included in line item "Profit (loss) from financial instruments" was reclassified to line item "Emission rights, net".

The Ministries of the Environment of the Czech Republic, Germany, Italy and United Kingdom set a limit on the amount of a pollutant that can be emitted. Companies are granted emission allowances and are required to hold an equivalent number of allowances which represent the right to emit a specific amount of pollutant. The total amount of allowances and credits cannot exceed the cap, limiting total emissions to that level. Companies that need to increase their emission allowance must buy credits from those who pollute less or from other market participants. The transfer of allowances is referred to as a trade.

The companies that participate in the emission rights programme are JTSD – Braunkohlebergbau GmbH, Helmstedter Revier GmbH, Kraftwerk Mehrum GmbH, LYNEMOUTH POWER LIMITED, EP UK INVESTMENTS LTD and its selected subsidiaries, Fiume Santo S.P.A., Centro Energia Ferrara S.R.L. and EP Produzione S.P.A.

10. Taxes and charges

In millions of EUR

	2018	2017
Carbon price support(1)	56	41
Electricity tax	8	7
Property tax and real estate transfer tax	5	8
Other taxes and charges expenses (revenues)	4	3
Total	**73**	**59**

(1) Carbon Price Support (CPS) is the rate of climate change levy that applies to fossil fuel used for electricity generation in the United Kingdom.

11. Other operating income

In millions of EUR

	2018	2017
Consulting fees	21	6
Tolling fee	15	-
Profit from disposal of tangible and intangible assets	13	6
Compensation from insurance companies	8	16
Contractual penalties	7	-
Inventories surplus	6	1
Ecological tax reimbursement	5	5
Profit from sale of material	2	4
Rental income	2	1
Revenues from written off liabilities	-	3
Other	11	8
Total	**90**	**50**

12. Other operating expenses

In millions of EUR

	2018	2017
Office equipment and other material	51	45
Consulting expenses	34	32
Outsourcing and other administration fees	25	22
Impairment losses	17	4
Of which relates to: Trade receivables and other assets	*15*	*3*
Property, plant and equipment and intangible assets	*2*	-
Inventories	-	*1*
Rent expenses	16	12
Re-transmission fee[1]	10	9
Insurance expenses	9	10
Information technologies costs	6	6
Environmental expenses	6	1
Transport expenses	3	3
Training, courses, conferences	3	2
Security services	3	2
Contractual penalties	3	-
Gifts and sponsorship	2	2
Advertising expenses	2	1
Communication expenses	1	1
Shortages and damages	1	1
Administrative expenses	-	2
Own work capitalised to fixed assets[2]	(4)	(6)
Change in provisions, net	(13)	43
Other	34	20
Total	**209**	**212**

(1) Re-transmission fee is National Grid's recovery of costs of installing and maintaining the transmission system in England, Wales and offshore. The amount paid is based on geographical location and size of generation.

(2) Own work capitalized includes also expenses presented within line items other than Other operating expenses.

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

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

RECOGNISED IN PROFIT OR LOSS

In millions of EUR

	2018	(1)2017
Interest income	11	14
Dividend income	-	2
Other finance income	1	1
Finance income	**12**	**17**
Interest expense incl. various financing and refinancing related fees	(26)	(20)
Fees and commissions expense for other services	(15)	(1)
Interest expense from unwind of provision discounting	(8)	(11)
Net foreign exchange loss	(1)	(8)
Fees and commissions expense for guarantees	-	(8)
Finance expense	**(50)**	**(48)**
Profit (loss) from financial assets at FVTPL(2)	25	-
Profit (loss) from hedging derivatives	6	8
Profit (loss) from interest rate derivatives for trading	1	-
Profit (loss) from financial assets at FVOCI	(2)	-
Profit (loss) from commodity derivatives for trading	(3)	(9)
Profit (loss) from other derivatives for trading	-	1
Profit (loss) from financial instruments	**26**	**-**
Net finance income (expense) recognised in profit or loss	**(12)**	**(31)**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 5 – Acquisitions and disposals of subsidiaries. The comparative information has been restated as described in Note 3(a). The change in fair value of commodity derivatives with emission rights previously included in line item "Profit (loss) from financial instruments" was reclassified to line item "Emission rights, net".

(2) Net gain of EUR 25 million reported in Profit/loss from financial instruments results from an acquisition, a subsequent sale and revaluation of an indirect minority shareholding in MÁTRAI ERŐMŰ ZRT. ÉVES BESZÁMOLÓ ("ME"). While EPPE entered into the transaction originally with aim to have a joint control over ME and acquired a 36.3% indirect stake in ME (through 50% stake in joint venture MATRA ENERGY HOLDING Zrt.), subsequently after transaction closing EPPE decided to sell most of its shareholding to its joint venture partner. As of balance sheet date, EPPE holds a 11% indirect share in ME, which is recorded in Financial instruments and other financial assets.

14. Income tax expenses

INCOME TAXES RECOGNISED IN PROFIT OR LOSS

In millions of EUR

	2018	2017
Current taxes:		
Current year	(47)	(55)
Adjustment for prior periods	4	(4)
Total current taxes	**(43)**	**(59)**
Deferred taxes:		
Origination and reversal of temporary differences	13	19
Total deferred taxes	**13**	**19**
Total income taxes (expense) benefit recognised in profit or loss	**(30)**	**(40)**

Deferred taxes are calculated using currently enacted tax rates expected to apply when the asset is realised or the liability settled. According to Czech legislation the corporate income tax rate is 19% for fiscal years 2018 and 2017. The German federal income tax rate range for 2018 is 28.66% – 30.00% (2017: 28.66% – 30.00%). Italian income tax rate for fiscal year 2018 is 24% (2017: 24%) and British income tax rate for fiscal year 2018 is 19% (2017: 19%).

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	7	-	7
Foreign currency translation differences from presentation currency	(8)	-	(8)
Effective portion of changes in fair value of cash-flow hedges(1)	412	(4)	408
Fair value reserve included in other comprehensive income	22	(1)	21
Total	**433**	**(5)**	**428**

(1) Deferred tax recognized in other comprehensive income of equity accounted investees is not shown in the table as it is not relevant to the financial statements of the Group.

In millions of EUR

	2017		
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	(60)	-	(60)
Foreign currency translation differences from presentation currency	42	-	42
Effective portion of changes in fair value of cash-flow hedges[1]	(47)	8	(39)
Fair value reserve included in other comprehensive income	(6)	-	(6)
Total	**(71)**	**8**	**(63)**

(1) Deferred tax recognized in other comprehensive income of equity accounted investees is not shown in the table as it is not relevant to the financial statements of the Group.

The foreign currency translation differences related to non-controlling interest are presented under other comprehensive income attributable to non-controlling interest.

RECONCILIATION OF THE EFFECTIVE TAX RATE

In millions of EUR

		2018		[1]2017
	%		%	
Profit before tax		70		212
Income tax using the Company's domestic rate (19%)	19.0%	13	19.0%	40
Effect of tax rates in foreign jurisdictions	12.8%	9	7.5%	16
Non-deductible expenses[2]	17.0%	12	2.4%	5
Other non-taxable income[3]	(5.7%)	(4)	(15.1%)	(32)
Change in tax rate	(1.4%)	(1)	-	-
Tax incentives	(1.4%)	(1)	-	-
Current year losses for which no deferred tax asset was recognised	14.3%	10	3.3%	7
Recognition of previously unrecognised tax losses	(7.1%)	(5)	-	-
Withholding tax, income tax adjustments for prior periods	(4.3%)	(3)	1.9%	4
Income taxes recognised in profit or loss	**43.2%**	**30**	**19.0%**	**40**

(1) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 5 – Acquisitions and disposals of subsidiaries.
(2) The basis consists mainly of share of loss of equity accounted investees of EUR 21 million and interest expense of EUR 14 million.
(3) The basis consists mainly of interest income of EUR 4 million and revaluation of investment in Mátrai Erőmű ZRt. of EUR 7 million (2017: share of profit of equity accounted investees of EUR 88 million and negative goodwill of EUR 49 million).

15. Property, plant and equipment

In millions of EUR

	Land and buildings	Technical equipment, plant and machinery	Other equipment, fixtures and fittings	Under construction	Total
Cost					
Balance at 1 January 2018	**320**	**1,868**	**4**	**389**	**2,581**
Effects of movements in foreign exchange rates	-	(8)	-	1	**(7)**
Additions	15	143	-	17	**175**
Disposals	(19)	(16)	-	(5)	**(40)**
Transfers	2	374	-	(376)	**-**
Balance at 31 December 2018	**318**	**2,361**	**4**	**26**	**2,709**
Depreciation and impairment losses					
Balance at 1 January 2018	**(69)**	**(687)**	**(1)**	**-**	**(757)**
Effects of movements in foreign exchange rates	-	2	-	-	**2**
Depreciation charge for the year	(13)	(199)	-	-	**(212)**
Disposals	6	6	-	-	**12**
Impairment losses recognised in profit or loss	(1)	(1)	-	-	**(2)**
Balance at 31 December 2018	**(77)**	**(879)**	**(1)**	**-**	**(957)**
Carrying amounts					
At 1 January 2018	**251**	**1,181**	**3**	**389**	**1,824**
At 31 December 2018	**241**	**1,482**	**3**	**26**	**1,752**

In millions of EUR

	Land and buildings	Technical equipment, plant and machinery	Other equipment, fixtures and fittings	Under construction	Total
Cost					
Balance at 1 January 2017	**268**	**1,321**	**2**	**227**	**1,818**
Effects of movements in foreign exchange rates	-	14	-	(11)	**3**
Additions	8	68	1	211	**288**
Additions through business combinations[1]	38	434	1	1	**474**
Disposals	-	(2)	-	-	**(2)**
Transfers	6	33	-	(39)	**-**
Balance at 31 December 2017	**320**	**1,868**	**4**	**389**	**2,581**
Depreciation and impairment losses					
Balance at 1 January 2017	**(58)**	**(532)**	**-**	**-**	**(590)**
Effects of movements in foreign exchange rates	1	-	(1)	-	**-**
Depreciation charge for the year	(12)	(156)	-	-	**(168)**
Disposals	-	1	-	-	**1**
Balance at 31 December 2017	**(69)**	**(687)**	**(1)**	**-**	**(757)**
Carrying amounts					
At 1 January 2017	**210**	**789**	**2**	**227**	**1,228**
At 31 December 2017	**251**	**1,181**	**3**	**389**	**1,824**

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

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

As at 31 December 2018, property, plant and equipment with carrying value of EUR 913 million (2017: EUR 893 million) is subject to pledges to secure bank loans.

16. Intangible assets (including goodwill)

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2018	**68**	**16**	**11**	**130**	**3**	**228**
Effect of movements in foreign exchange rates	-	-	-	-	-	**-**
Additions	-	4	94	-	-	**98**
Disposals	-	(1)	(81)	-	-	**(82)**
Balance at 31 December 2018	**68**	**19**	**24**	**130**	**3**	**244**
Amortisation and impairment losses						
Balance at 1 January 2018	**(27)**	**(9)**	**-**	**(63)**	**-**	**(99)**
Effect of movements in foreign exchange rates	-	-	-	-	-	**-**
Amortisation for the year	-	(3)	-	(9)	-	**(12)**
Disposals	-	1	-	-	-	**1**
Balance at 31 December 2018	**(27)**	**(11)**	**-**	**(72)**	**-**	**(110)**
Carrying amount						
At 1 January 2018	**41**	**7**	**11**	**67**	**3**	**129**
At 31 December 2018	**41**	**8**	**24**	**58**	**3**	**134**

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2017	**32**	**11**	**57**	**131**	**3**	**234**
Effect of movements in foreign exchange rates	-	-	(1)	(1)	-	**(2)**
Additions	-	5	4	-	-	**9**
Disposals	-	-	(60)	-	-	**(60)**
Additions through business combinations[1]	36	-	11	-	-	**47**
Balance at 31 December 2017	**68**	**16**	**11**	**130**	**3**	**228**
Amortisation and impairment losses						
Balance at 1 January 2017	**(27)**	**(6)**	**-**	**(54)**	**-**	**(87)**
Effect of movements in foreign exchange rates	-	-	-	-	-	**-**
Amortisation for the year	-	(3)	-	(9)	-	**(12)**
Balance at 31 December 2017	**(27)**	**(9)**	**-**	**(63)**	**-**	**(99)**
Carrying amount						
At 1 January 2017	**5**	**5**	**57**	**77**	**3**	**147**
At 31 December 2017	**41**	**7**	**11**	**67**	**3**	**129**

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

In 2018, EPPE Group purchased emission allowances of EUR 94 million (2017: EUR 4 million). No emission allowances were allocated to the Group by the Ministry of the Environment of the Czech Republic.

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

Other intangible assets comprise valuable rights.

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

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

IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL

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

The aggregate carrying amounts of goodwill allocated to single cash generating units are as follows (no intangible assets with indefinite useful lives were identified):

In millions of EUR

	31 December 2018	31 December 2017
Biomasse Crotone S.P.A.	20	20
Biomasse Italia S.P.A.	16	16
Helmstedter Revier GmbH	5	5
Total goodwill	**41**	**41**

In 2018, the balance of goodwill has not changed. In 2017, the balance of goodwill increased by EUR 36 million as a result of acquisition of EPNEI Group.

GOODWILL AND IMPAIRMENT TESTING

In compliance with IAS 36, the Group annually conducts impairment testing of goodwill. As at the acquisition date goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the CGU, to which the goodwill relates, on the basis of a value in use that reflects estimated future discounted cash flows. Value in use is derived from management forecasts of future cash flows updated since the date of acquisition. The discount rates applied to the cash flow projections are calculated as the weighted average cost of capital (WACC) of each CGU.

The calculation of the recoverable amounts for CGUs containing goodwill was based on the following key assumptions:

Cash-flows were projected based on past experience, actual operating results and the one-year business plan followed by an additional four years of modelled projections followed by projected results based on an estimated growth factor plus a terminal value if relevant. Cash flows for a terminal period were extrapolated using a constant growth rate of 2% (2017: 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 discount rate was 7.21% (2017: range from 5.31% to 7.33%).

The 2018 year testing showed no need for impairment as no CGU with the recoverable value lower than the carrying value including goodwill was identified (2017: no need for impairment).

17. Equity accounted investees

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

In millions of EUR

Associates and joint ventures	Country	Ownership 31 December 2018 %	Carrying amount 31 December 2018
LEAG Group[1]	*(2)*	50.00	717
Kraftwerk Schkopau GbR	Germany	[3]41.90	71
Ergosud S.P.A.	Italy	50.00	57
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	[3]50.00	20
Fernwärme GmbH Hohenmölsen – Webau	Germany	[3]48.96	4
Total		**-**	**869**

In millions of EUR

Associates and joint ventures	Country	Ownership 31 December 2017 %	Carrying amount 31 December 2017
LEAG Group[1]	*(2)*	50.00	359
Kraftwerk Schkopau GbR	Germany	[3]41.90	76
Ergosud S.P.A.	Italy	50.00	52
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	[3]50.00	21
Fernwärme GmbH Hohenmölsen – Webau	Germany	[3]48.96	4
Total		**-**	**512**

(1) Comprising LEAG Holding, a.s.; Lausitz Energie Verwaltungs GmbH; Lausitz Energie Kraftwerke AG; Kraftwerk Schwarze Pumpe GmbH; Lausitz Energie Bergbau AG; GMB GmbH and Transport- und Speditionsgesellschaft Schwarze Pumpe mbH.
(2) Country of incorporation varies, for details refer to Note 35 – Group entities.
(3) Represents ownership interest held by immediate parent companies Saale Energie GmbH and Mitteldeutsche Braunkohlengesellschaft mbH.

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

In millions of EUR

Associates and joint ventures	Country	Ownership 31 December 2018 %	Share of profit (loss) 2018
Ergosud S.P.A.	Italy	50.00	5
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	[3]50.00	2
LEAG Group	*(1)*	*(2)*	(26)
Kraftwerk Schkopau GbR	Germany	[3]41.90	(2)
Total		**-**	**(21)**

In millions of EUR

Associates and joint ventures	Country	Ownership 31 December 2017 %	Share of profit (loss) 2017
LEAG Group	*(1)*	*(2)*	82
Ergosud S.P.A.	Italy	50.00	5
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	[3]50.00	2
Kraftwerk Schkopau GbR	Germany	[3]41.90	(1)
Total		**-**	**88**

(1) Country of incorporation varies, for details refer to Note 35 – Group entities.
(2) Ownership percentage varies, for details refer to Note 35 – Group entities.
(3) Represents ownership interest held by immediate parent companies Saale Energie GmbH and Mitteldeutsche Braunkohlengesellschaft mbH.

The table below provides summary financial information for joint venture LEAG, presented at 100% as at 31 December 2018 and 2017 and for the years then ended.

In millions of EUR

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

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

In millions of EUR

Associates and joint ventures	Revenue	Profit (loss)	Other comprehensive income	Total comprehensive income	Assets	Liabilities	Equity
Kraftwerk Schkopau GbR[1]	36	6	-	6	221	112	109
Kraftwerk Schkopau Betriebsgesellschaft GmbH[1]	108	-	-	-	22	21	1
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH[1]	57	5	-	5	56	28	28
Fernwärme GmbH Hohenmölsen – Webau[1]	5	-	-	-	14	5	9
Ergosud S.P.A.	44	10	-	10	282	167	115
Total	**250**	**21**	**-**	**21**	**595**	**333**	**262**

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

In millions of EUR

Associates and joint ventures	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Kraftwerk Schkopau GbR[1]	9	212	110	2
Kraftwerk Schkopau Betriebsgesellschaft GmbH[1]	-	22	-	21
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH[1]	28	28	18	10
Fernwärme GmbH Hohenmölsen – Webau[1]	14	-	1	4
Ergosud S.P.A.	203	79	141	26
Total	**254**	**341**	**270**	**63**

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

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

In millions of EUR

Associates and joint ventures	Revenue	Profit (loss)	Other comprehensive income	Total comprehensive income	Assets	Liabilities	Equity
Kraftwerk Schkopau GbR[1]	40	7	-	7	230	121	109
Kraftwerk Schkopau Betriebsgesellschaft GmbH[1]	104	-	-	-	10	10	-
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH[1]	53	5	-	5	58	30	28
Fernwärme GmbH Hohenmölsen – Webau[1]	5	-	-	-	14	5	9
Ergosud S.P.A.	67	9	-	9	300	195	105
Total	**269**	**21**	**-**	**21**	**612**	**361**	**251**

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

In millions of EUR

Associates and joint ventures	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Kraftwerk Schkopau GbR[1]	13	217	115	6
Kraftwerk Schkopau Betriebsgesellschaft GmbH[1]	-	10	-	10
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH[1]	30	28	16	14
Fernwärme GmbH Hohenmölsen – Webau[1]	13	1	1	4
Ergosud S.P.A.	218	82	160	35
Total	**274**	**338**	**292**	**69**

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

18. 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

Temporary difference related to:	31 December 2018 Assets	31 December 2018 Liabilities	31 December 2018 Net	31 December 2017 Assets	31 December 2017 Liabilities	31 December 2017 Net
Property, plant and equipment	32	(69)	(37)	33	(83)	(50)
Intangible assets	12	(14)	(2)	17	(18)	(1)
Investment securities at amortised cost	-	(3)	(3)	-	(4)	(4)
Inventories	3	-	3	3	-	3
Provisions	88	-	88	83	(2)	81
Loans and borrowings	2	-	2	3	-	3
Tax losses	13	-	13	21	-	21
Derivatives	-	(28)	(28)	-	(25)	(25)
Other items	-	(9)	(9)	-	(10)	(10)
Subtotal	**150**	**(123)**	**27**	**160**	**(142)**	**18**
Set-off tax	(88)	88	-	(99)	99	-
Total	**62**	**(35)**	**27**	**61**	**(43)**	**18**

MOVEMENTS IN DEFERRED TAX DURING THE YEAR

In millions of EUR

Balances related to:	Balance at 1 January 2018	Recognised in profit or loss	Recognised in other compre-hensive income	Effect of movements in foreign exchange rate	Balance at 31 December 2018
Property, plant and equipment	(50)	14	-	1	(37)
Intangible assets	(1)	(1)	-	-	(2)
Investment securities at amortised cost	(4)	1	-	-	(3)
Inventories	3	-	-	-	3
Provisions	81	6	(1)	-	88
Trade receivables and other assets	-	-	-	-	-
Loans and borrowings	3	(1)	-	-	2
Tax losses	21	(7)	-	(1)	13
Derivatives	(25)	-	(4)	1	(28)
Other	(10)	1	-	-	(9)
Total	**18**	**13**	**(5)**	**1**	**27**

In millions of EUR

Balances related to:	Balance at 1 January 2017[1]	Recognised in profit or loss	Recognised in other compre-hensive income	Acquired in business combina-tions[2][3]	Effect of movements in foreign exchange rate	Balance at 31 December 2017[3]
Property, plant and equipment	(44)	(2)	-	(4)	-	(50)
Intangible assets	(2)	1	-	-	-	(1)
Investment securities at amortised cost	-	(4)	-	-	-	(4)
Inventories	3	-	-	-	-	3
Provisions	69	13	(1)	-	-	81
Loans and borrowings	3	-	-	-	-	3
Tax losses	11	10	-	-	-	21
Derivatives	(34)	-	9	-	-	(25)
Other	(6)	1	-	(5)	-	(10)
Total	**-**	**19**	**8**	**(9)**	**-**	**18**

(1) Opening balances as at 1 January 2017 were restated; deferred tax asset of EUR 9 million originally presented as related to Intangible asset was reclassified as related to Property,
plant and equipment.
(2) The purchase of EP LANGAGE LIMITED, EP SHB LIMITED, Kraftwerk Mehrum GmbH and EPNEI Group.
(3) Restated 2017 comparative information include modifications described in Note 3 – Significant accounting policies and Note 5 – Acquisitions and disposals of subsidiaries.

UNRECOGNISED DEFERRED TAX ASSETS

A deferred tax asset has not been recognised in respect of the following items:

In millions of EUR

	31 December 2018	31 December 2017
Tax losses carried forward	6	6
Total	**6**	**6**

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

In millions of EUR

	31 December 2018	31 December 2017
EPPE Germany a.s.	3	3
EPPE Italy N.V.	3	3
Total	**6**	**6**

Considering the nature of revenues and expenses, the companies do not expect significant taxable profit growth, so no deferred tax asset was recognised. If sufficient taxable profit were to be achieved in 2018, then the associated tax income (savings) would be up to EUR 1 million (2017: EUR 2 million).

A deferred tax asset is recognised for the carry-forward of unused tax losses only to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. An estimate of the expiry of tax losses is shown below:

In millions of EUR

	2019	2020	2021	2022	After 2023	Total
Tax losses	-	-	3	-	3	**6**

Tax losses expire over a period of 5 years in the Czech Republic 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.

19. Inventories

In millions of EUR

	31 December 2018	31 December 2017
Raw material and supplies	63	50
Spare parts	50	51
Fossil fuel	31	56
Overburden	24	22
Finished goods and merchandise	5	-
Work in progress	4	2
Total	**177**	**181**

As at 31 December 2018, inventories in the amount of EUR 40 million were subject to pledges (2017: EUR 35 million).

20. Trade receivables and other assets

In millions of EUR

	31 December 2018	31 December 2017
Trade receivables	536	455
Advance payments	100	54
Estimated receivables	8	13
Other accrued income	5	-
Other receivables and assets	24	32
Allowance for bad debts	(19)	(3)
Total	**654**	**551**
Non-current	142	85
Current	512	466
Total	**654**	**551**

In 2018, no receivables were written-off through profit or loss (2017: EUR 0 million).

As at 31 December 2018, trade receivables with a carrying value of EUR 125 million are subject to pledges (2017: EUR 175 million).

As at 31 December 2018, trade receivables and other assets amounting EUR 650 million are not past due (2017: EUR 551 million), remaining balance of EUR 4 million is overdue (2017: EUR 0 million).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables excluding construction work in progress is disclosed in Note 33 – Risk management policies and disclosures

21. Cash and cash equivalents

In millions of EUR

	31 December 2018	31 December 2017
Current accounts with banks	373	188
Total	**373**	**188**

As at 31 December 2018, cash equivalents of EUR 116 million are subject to pledges (2017: EUR 52 million). As such, the pledged cash is readily available to the EPPE Group and does not represent restricted cash.

22. Restricted cash

As at 31 December 2018, the balance of restricted cash is represented mainly by EUR 21 million (2017: EUR 23 million) representing security given by EGGBOROUGH POWER LIMITED ("EPL") to the pension fund, this is expected to remain in place until risk on the schemes funding deficit is eliminated. It may be partly used for early retirement obligations during 2019. EUR 2 million is represented by collateralised cash with National Grid relating to grid connection charges and EUR 2 million represented by collateral with National Grid relating to balancing mechanism (deposited with Elexon) by EP UK INVESTMENTS LTD (2017: EUR 2 million represented by collateralised cash with National Grid and EUR 5 million cash on clearing account in relation to funds received from the EPEX power exchange by EP UK INVESTMENTS LTD).

23. Tax receivables

In millions of EUR

	31 December 2018	31 December 2017
Value added tax receivables	88	84
Current income tax receivables	32	8
Withholding tax receivables	1	-
Other tax receivables	8	9
Total	**129**	**101**

24. Equity

SHARE CAPITAL AND SHARE PREMIUM

The authorised, issued and fully paid share capital as at 31 December 2018 consisted of 73,014 ordinary shares with a par value of CZK 200 thousand each (2017: 73,014 shares).

The shareholders are entitled to receive dividends and to one vote per 200 thousand CZK share at meetings of the Company's shareholders.

31 DECEMBER 2018

	Number of shares	Ownership %	Voting rights %
Energetický a průmyslový holding, a.s.	73,014	100.00	100.00
Total		**100.00**	**100.00**

31 DECEMBER 2017

	Number of shares	Ownership %	Voting rights %
Energetický a průmyslový holding, a.s.	73,014	100.00	100.00
Total		**100.00**	**100.00**

The reconciliation of the number of shares outstanding at the beginning and at the end of the year is provided as follows:

	Number of shares 2018
Shares outstanding at the beginning of the year	73,014
Shares outstanding at the end of the year	**73,014**

	Number of shares 2017
Shares outstanding at the beginning of the year	10
Issued ordinary shares at 23 June 2017	73,004
Shares outstanding at the end of the year	**73,014**

Reserves recognised in equity comprise the following items:

In millions of EUR

	31 December 2018	31 December 2017
Hedging reserve	534	126
Other capital funds from capital contributions	89	81
Non-distributable reserves	9	5
Translation reserve	(12)	(10)
Fair value reserve	(13)	(34)
Other capital reserves	(498)	(498)
Total	**109**	**(330)**

OTHER CAPITAL RESERVES

As stated in section 3 (b) VII – Pricing differences, the Group accounted for pricing differences which arose from the acquisition of subsidiaries from Energetický a průmyslový holding, a.s. As these acquired entities and its subsidiaries and associates 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 consideration paid by the EPPE Group and carrying values of net assets of the acquiree and original goodwill carried forward as at the date of acquisition by the EPPE Group were recorded to consolidated equity as pricing differences. Pricing differences are presented in Other capital reserves in Equity. Note 5 – Acquisitions and disposals of subsidiaries, joint ventures and associates summarises the effects of all common control transactions in both periods.

NON-DISTRIBUTABLE RESERVES

The legal reserve of EUR 9 million was reported as at 31 December 2018 (2017: EUR 5 million).

TRANSLATION RESERVE

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations of the Group and translation of the consolidated financial statements to presentation currency.

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 29 – Financial instruments and Note 33 – Risk management policies and disclosure).

During the year the Group recycled EUR 13 million from hedging reserves to profit or loss (2017: EUR 0 million).

25. Earnings per share

BASIC EARNINGS PER SHARE

Basic earnings per share in EUR per 1 share of CZK 200,000 nominal value equal 479.36 (2017: 2,369.41).

The calculation of basic earnings per share as at 31 December 2018 was based on a profit attributable to ordinary shareholders of EUR 35 million (2017: EUR 178 million), and a weighted average number of ordinary shares outstanding of 73,014 (2017: 73,014).

On 23 June 2017 the company issued 73,004 ordinary shares with a par value of CZK 200,000 each. Receivable from the shares issued was offset against consideration payable by EP Power Europe, a.s. for the shares in EP UK, EPC and EPPE Italy, which were acquired under common control. As such, the transaction does not represent increase in available resources and is reflected retrospectively in the calculation of weighted number of shares and earnings per share.

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2018

In millions of shares

	Nominal	Weighted
Issued ordinary shares at the beginning of the year	73,014	73,014
Total	**73,014**	**73,014**

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2017

In millions of shares

	Nominal	Weighted
Issued ordinary shares at the beginning of the year	10	10
Issued shares on 23 June 2017 (1 share/CZK 200,000) – common control transaction[1]	73,004	73,004
Total	**73,014**	**73,014**

(1) The transaction does not represent increase in available resources, therefore it is reflected retrospectively in the calculation of weighted number of shares and earnings per share.

DILUTIVE EARNINGS PER SHARE

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

26. Non-controlling interest

31 DECEMBER 2018

In millions of EUR

	EP Produzione Centrale Livorno Ferraris S.P.A.	JTSD – Braunkohle-bergbau GmbH, its subsidiaries and associates	Other individually immaterial subsidiaries	Total
Non-controlling percentage	**25.00%**	**10.00%**		
Business activity	Production of electricity and heat	Coal mining and production of electricity		
Country[1]	Italy	Germany		
Carrying amount of NCI at 31 December 2018	**45**	**6**	**8**	**59**
Profit (loss) attributable to non-controlling interest	**1**	**1**	**3**	**5**
Dividends declared	**(2)**	**-**	**-**	**(2)**
Statement of financial position information[1]				
Total assets	238	813		
of which: non-current	*151*	*598*		
current	*87*	*215*		
Total liabilities	60	715		
of which: non-current	*15*	*471*		
current	*45*	*244*		
Net assets	**178**	**98**		
Statement of comprehensive income information[1]				
Total revenues	260	456		
of which: dividends received	-	-		
Profit after tax	5	11		
Total comprehensive income for the year[1]	**5**	**11**		
Net cash inflows (outflows)[1]	**15**	**(15)**		

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

31 DECEMBER 2017

In millions of EUR

	EP Produzione Centrale Livorno Ferraris S.P.A.	JTSD – Braunkohle-bergbau GmbH, its subsidiaries and associates	Other individually immaterial subsidiaries	Total
Non-controlling percentage	**25.00%**	**10.00%**		
Business activity	Production of electricity and heat	Coal mining and production of electricity		
Country[1]	Italy	Germany		
Carrying amount of NCI at 31 December 2017	**45**	**5**	**5**	**55**
Profit (loss) attributable to non-controlling interest	**1**	**-**	**(2)**	**(1)**
Dividends declared	**(1)**	**-**	**(1)**	**(2)**
Statement of financial position information[1]				
Total assets	233	795		
of which: non-current	*161*	*592*		
current	*72*	*203*		
Total liabilities	53	707		
of which: non-current	*17*	*469*		
current	*36*	*238*		
Net assets	**180**	**88**		
Statement of comprehensive income information[1]				
Total revenues	245	459		
of which: dividends received	-	-		
Profit (loss) after tax	3	1		
Total comprehensive income for the year[1]	**3**	**1**		
Net cash inflows (outflows)[1]	**11**	**(20)**		

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

27. Loans and borrowings

In millions of EUR

	31 December 2018	31 December 2017
Loans payable to credit institutions	643	321
Loans payable to other than credit institutions	420	681
of which loans payable to sole shareholder	*413*	*675*
Revolving credit facility	56	-
Total	**1,119**	**1,002**
Non-current	520	299
Current	**599**	**703**
Total	**1,119**	**1,002**

The weighted average interest rate on loans for 2018 was 1.66% (2017: 1.32%).

OTHER LOANS AND BORROWINGS

TERMS AND DEBT REPAYMENT SCHEDULE

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

In millions of EUR

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/18	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	GBP	variable*	2023	267	25	242	-
Secured bank loan	EUR	variable*	2025	208	62	145	1
Unsecured bank	EUR	variable*	2020	168	43	125	-
Unsecured loan	GBP	fixed	2019	368	368	-	-
Unsecured loan	EUR	fixed	2021	37	30	7	-
Unsecured loan	CZK	fixed	2019	15	15	-	-
Revolving credit facility	GBP	variable	2019	56	56	-	-
Total interest-bearing liabilities				**1,119**	**599**	**519**	**1**

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

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

In millions of EUR

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/17	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	EUR	variable*	2023	305	62	231	12
Unsecured bank loan	EUR	variable*	2018	16	16	-	-
Unsecured loan	GBP	fixed	2018	583	583	-	-
Unsecured loan	EUR	fixed	2024	92	36	42	14
Unsecured loan	CZK	fixed	2018	6	6	-	-
Total interest-bearing liabilities				**1,002**	**703**	**273**	**26**

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

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 2018	31 December 2017	31 December 2017
	Carrying amount	Fair value	Carrying amount	Fair value
Loans payable to credit institutions	643	646	321	322
Loans payable to other than credit institutions	420	420	681	686
Revolving credit facility	56	56	-	-
Total	**1,119**	**1,122**	**1,002**	**1,008**

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	-	13
Financing activities	174	25
Total	**174**	**38**

Non-cash financing activities include the set-off of loan received by EP Power Europe, a.s. of EUR 174 million from Energetický a průmyslový holding, a.s. against a loan receivable due from Energetický a průmyslový holding, a.s. assumed by EP Power Europe, a.s. from another company in the Group.

For the year 2017 non-cash investing activities include loans provided by EP Produzione S.P.A. of EUR 9 million and EPPE Italy N.V. of EUR 3 million to Energetický a průmyslový holding, a.s. which were set- off against trade payables.

Non-cash financing activities include loan provided by EP Power Europe, a.s. to Energetický a průmyslový holding, a.s. of EUR 25 million which was set-off against loan received from Energetický a průmyslový holding, a.s.

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

In millions of EUR

	Loans from credit institutions	Loans from other than credit institutions	Share capital / premium	Reserves	Retained earnings	Non-controlling interest	Total
Balance at 1 January 2018	**321**	**681**	**555**	**(330)**	**670**	**55**	**1,952**
Changes from financing cash flows							
Transfer to non-distributable reserves – creation of legal fund	-	-	-	4	(4)	-	**-**
Contribution to equity from shareholders	-	*(8)	-	8	-	-	**-**
Proceeds from loans and borrowings	322	457	-	-	-	-	**779**
Repayment of borrowings	-	(487)	-	-	-	-	**(487)**
Dividend paid	-	-	-	-	-	(2)	**(2)**
Total change from financing cash flows	**322**	**(38)**	**-**	**12**	**(4)**	**(2)**	**290**
Total effect of changes in foreign exchange rates	-	(3)	-	14	-	-	**11**
Other changes							
Liability related							
Interest expense	-	26	-	-	-	-	**26**
Interest paid	-	(16)	-	-	-	-	**(16)**
Set-off with loans provided	-	(174)	-	-	-	-	**(174)**
Total liability-related other changes	**-**	**(164)**	**-**	**-**	**-**	**-**	**(164)**
Total equity-related other changes	**-**	**-**	**-**	**413**	**35**	**6**	**454**
Balance at 31 December 2018	**643**	**476**	**555**	**109**	**701**	**59**	**2,543**

* This balance relates to non-cash contribution caused by prolongation of interest-free loan received by EP Power Europe, a.s. from Energetický a průmyslový holding, a.s.

In millions of EUR

	Loans from credit institutions	Loans from other than credit institutions	Share capital / premium	Reserves	Retained earnings	Non-controlling interest	Total
Balance at 1 January 2017	**326**	**110**	**-**	**327**	**506**	**57**	**1,326**
Changes from financing cash flows							
Transfer to non-distributable reserves – creation of legal fund	-	-	-	5	(5)	-	**-**
Contribution to equity from shareholders	-	*(16)	555	(539)	-	-	**-**
Proceeds from loans and borrowings	-	575	-	-	-	-	**575**
Repayment of borrowings	(332)	(3)	-	-	-	-	**(335)**
Dividend paid	-	-	-	-	-	(2)	**(2)**
Total change from financing cash flows	**(332)**	**556**	**555**	**(534)**	**(5)**	**(2)**	**238**
Changes arising from obtaining or losing of control of subsidiaries	334	-	-	-	49	-	**383**
Total effect of changes in foreign exchange rates	(7)	31	-	(30)	-	-	**(6)**
Other changes							
Liability related							
Interest expense	9	11	-	-	-	-	**20**
Interest paid	(9)	(2)	-	-	-	-	**(11)**
Set-off with loans provided	-	(25)	-	-	-	-	**(25)**
Liability from dividends not paid	-	-	-	-	-	-	**-**
Total liability-related other changes	**-**	**(16)**	**-**	**-**	**-**	**-**	**(16)**
Total equity-related other changes	**-**	**-**	**-**	**(93)**	**129**	**2**	**38**
Balance at 31 December 2017	**321**	**681**	**555**	**(330)**	**679**	**57**	**1,963**

* This balance relates to non-cash contribution caused by prolongation of interest-free loan received by EP Power Europe, a.s. from Energetický a průmyslový holding, a.s.

28. Provisions

In millions of EUR

	Employee benefits	Provision for emission rights	Onerous contracts	Provision for lawsuits and litigations	Provision for restoration and decom-missioning[1]	Other	Total
Balance at 1 January 2018	**116**	**90**	**33**	**20**	**713**	**10**	**982**
Provisions made during the year	28	195	1	1	61	8	**294**
Provisions used during the year	(37)	(76)	-	-	(35)	(5)	**(153)**
Provisions reversed during the year	(16)	-	(22)	(4)	(49)	-	**(91)**
Unwinding of discount*	-	-	-	-	8	-	**8**
Effects of movements in foreign exchange rate	1	(1)	(1)	(1)	1	(1)	**(2)**
Balance at 31 December 2018	**92**	**208**	**11**	**16**	**699**	**12**	**1,038**
Non-current	*60*	*-*	*11*	*-*	*657*	*-*	*728*
Current	*32*	*208*	*-*	*16*	*42*	*12*	*310*

* Unwinding of discount is included in interest expense.

(1) As at 31 December 2018, the balance in amount of EUR 429 million represents mining related provisions recorded by JTSD – Braunkohlebergbau GmbH and Helmstedter Revier GmbH. The balance in amount of EUR 202 million represents asset retirement costs recorded by EP Produzione S.P.A. and Fiume Santo S.P.A. Remaining balance of EUR 68 million represents other decommissioning provisions.

In millions of EUR

	Employee benefits	Provision for emission rights	Onerous contracts	Provision for lawsuits and litigations	Provision for restoration and decom-missioning[3]	Other	Total
Balance at 1 January 2017	**129**	**54**	**58**	**14**	**619**	**5**	**879**
Provisions made during the year	23	73	2	8	75	7	**188**
Provisions used during the year	(40)	(54)	-	-	(28)	(3)	**(125)**
Provisions reversed during the year	(2)	-	(9)	(2)	(7)	-	**(20)**
Acquisitions through business combinations[1]	6	18	-	-	30	-	**54**
Transfer[2]	-	-	(18)	-	18	-	**-**
Unwinding of discount*	-	-	-	-	11	-	**11**
Effects of movements in foreign exchange rate	-	(1)	-	-	(5)	1	**(5)**
Balance at 31 December 2017	**116**	**90**	**33**	**20**	**713**	**10**	**982**
Non-current	*78*	*-*	*33*	*-*	*667*	*1*	*779*
Current	*38*	*90*	*-*	*20*	*46*	*9*	*203*

* Unwinding of discount is included in interest expense.

(1) The purchase of EP SHB LIMITED, EP LANGAGE LIMITED, Kraftwerk Mehrum GmbH and EPNEI Group.

(2) Transfer by Fiume Santo S.P.A. and EP Produzione S.P.A. due to the change of the purpose of the provision.

(3) As at 31 December 2017, the balance in amount of EUR 393 million represents mining related provisions recorded by JTSD – Braunkohlebergbau GmbH and Helmstedter Revier GmbH. Remaining balance of EUR 320 million represents other decommissioning provisions.

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

EMPLOYEE BENEFITS

The Group recorded a significant amount as provision for long-term employee benefits related to its employees. Valuations of these provisions are sensitive to assumptions used in the calculations, such as future salary and benefit levels, discount rates, employee leaving rate, late retirement rate, mortality and life expectancy. The management considered various estimated factors and how these estimates would impact the recognised provision. As a result of this analysis, no significant variances to the recorded provision are expected.

The provision for employee benefits in the amount of EUR 92 million (2017: EUR 116 million) was recorded by Mitteldeutsche Braunkohlengesellschaft GmbH, Helmstedter Revier GmbH, EGGBOROUGH POWER LIMITED, EP Produzione Centrale Livorno Ferraris S.P.A., EP Produzione S.P.A., Fiume Santo S.P.A. and Kraftwerk Mehrum GmbH.

I. MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT GMBH

The provision recorded by Mitteldeutsche Braunkohlengesellschaft GmbH amounts to EUR 19 million (2017: EUR 21 million), of which EUR 3 million (2017: EUR 4 million) represents a defined benefit pension scheme. The remaining balance of EUR 16 million (2017: EUR 17 million) represents other unfunded employee benefits paid for work and life jubilees and anniversaries.

The schedules below summarise information about the defined benefit obligations and plan assets.

In millions of EUR

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

MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

In millions of EUR

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

In millions of EUR

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

MOVEMENT IN FAIR VALUE OF PLAN ASSETS

In millions of EUR

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

In millions of EUR

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

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

AS AT 31 DECEMBER 2018

In %

	Plan A	Plan B	Plan C
Discount rate	0.71	1.00	2.05
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	0.00	0.00	0.00
Post retirement pension increase	0.00	0.00	0.00
Mortality & disability	*(1)*	*(1)*	*(1)*

(1) Assumptions regarding future mortality are based on published statistics and mortality tables RT2018G.

AS AT 31 DECEMBER 2017

In %

	Plan A	Plan B	Plan C
Discount rate	0.52	0.66	1.87
Expected return on assets	0.00	0.00	*N/A*
Annual rate of increase in salaries	0.00	0.00	0.00
Post retirement pension increase	0.00	0.00	0.00
Mortality & disability	*(1)*	*(1)*	*(1)*

(1) Assumptions regarding future mortality are based on published statistics and mortality tables 2005G.

II. HELMSTEDTER REVIER GMBH

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

In millions of EUR

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

MOVEMENTS IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

In millions of EUR

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

In millions of EUR

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

MOVEMENT IN FAIR VALUE OF PLAN ASSETS

In millions of EUR

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

In millions of EUR

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

EXPENSE RECOGNISED IN PROFIT AND LOSS

In millions of EUR

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

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

AS AT 31 DECEMBER 2018

In %

	Plan A	Plan B	Early Retirement
Discount rate	1.73	1.73	0.85
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	0.00	0.00	0.00
Post retirement pension increase	1.75	1.75	0.00
Mortality & disability	*(1)*	*(1)*	*(1)*

(1) Assumptions regarding future mortality are based on published statistics and mortality tables RT2018G.

AS AT 31 DECEMBER 2017

In %

	Plan A	Plan B	Early Retirement
Discount rate	1.44	1.44	0.00
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	0.00	0.00	1.50
Post retirement pension increase	1.75	1.75	0.00
Mortality & disability	*(1)*	*(1)*	*(1)*

(1) Assumptions regarding future mortality are based on published statistics and mortality tables 2005G.

PROVISION FOR EMISSION RIGHTS

Provision for emission rights is recognised regularly during the year based on the estimated number of tonnes of CO_2 emitted. It is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

PROVISION FOR LAWSUITS

A provision of EUR 16 million was recorded by JTSD – Braunkohlebergbau GmbH (2017: EUR 20 million recorded by JTSD – Braunkohlebergbau GmbH).

For more details refer to Note 36 – Litigations and claims.

As disclosed in Note 36 – Litigations and claims, there are other legal proceedings in which the Group is involved and for which the possibility of an outflow of resources was assessed as remote as at the date of the preparation of these consolidated financial statements, and therefore no provision was recorded as at 31 December 2018 and 31 December 2017.

PROVISION FOR RESTORATION AND DECOMMISSIONING

The provision of EUR 698 million (2017: EUR 713 million) was primarily recorded by JTSD – Braunkohlebergbau GmbH (EUR 322 million; 2017: EUR 288 million), EP Produzione S.P.A. (EUR 118 million; 2017: EUR 124 million), Helmstedter Revier GmbH (EUR 107 million; 2017: EUR 105 million), Fiume Santo S.P.A. (EUR 84 million; 2017: EUR 91 million), EGGBOROUGH POWER LIMITED (EUR 14 million; 2017: EUR 60 million), Kraftwerk Mehrum GmbH (EUR 17 million, 2017: EUR 17 million) and LYNEMOUTH POWER LIMITED (EUR 11 million; 2017: EUR 8 million).

According to the German Federal Mining Law, a mining company is obliged to re-cultivate/reclaim all the land used for mining purposes after discontinuation of mining operations. The requirements to be met for this purpose are set forth in a comprehensive framework operations plan and compliance is monitored by the mining authorities.

The following expense items are considered:

- Dewatering and flooding expenses
- Creation and stability of slope systems
- Soil preparation and treatment for subsequent agricultural and forest use
- Removal of all technical plants and equipment

Estimates are reviewed by an external expert/engineering office to ensure that mining provisions have been properly created. These external experts determine the value of all expense items listed above on the basis of usual market prices. In 2018, quantities and values were adjusted based on the latest knowledge. Consequently, the provisions were recalculated for IFRS accounting purposes on the basis of the new settlement values. An annual inflation rate of 0.84% (2017: 0.82%) was used to calculate the provision for adjustments based on the current price basis and a discount rate of 1.68% (2017: 2.00%) in case of JTSD - Braunkohlebergbau GmbH and annual inflation rate of 0.84% (2017: 0.82%) was used to calculate the provision for adjustments based on the current price basis and a discount rate of 0.0% (2017: 0.0%) in case of Helmstedter Revier GmbH. For determination of the discount rate Helmstedter Revier GmbH applies German bonds that remained negative for 2018. As a result the Company decided to apply 0%.

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

At the reporting date, a change of 1% in the inflation rate would have increased or decreased the provision for restoration recognised by JTSD – Braunkohlebergbau GmbH by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of EUR

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

At the reporting date, a change of 1% in the discount rate would have increased or decreased the provision for restoration recognised by JTSD – Braunkohlebergbau GmbH by the amounts shown in the table below. Due to 0% discount rate announced by Helmstedter Revier GmbH, the company is excluded from the analysis. This analysis assumes that all other variables remain constant.

In millions of EUR

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

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

Asset retirement costs (ARO provision) in amount of EUR 176 million (EUR 107 million for EP Produzione S.P.A. and EUR 69 million for Fiume Santo S.P.A.; 2017: EUR 189 million, of which EUR 113 million for EP Produzione S.P.A. and EUR 75 million for Fiume Santo S.P.A.) represents a liability related to the eventual retirement of tangible assets. The provision is calculated as a present value of estimated future expenditures related to the fixed assets retirement.

Provision for health and safety risk in amount of EUR 7 million (2017: EUR 7 million) recorded by EP Produzione S.P.A. that represents potential liabilities to personnel arising from exposure to asbestos fibers.

Provision for restoration of land totalling EUR 18 million (2017: EUR 19 million) in region of Tavazzano, Ostiglia and Fiume Santo where the power plants are situated.

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

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

At the reporting date, a change of 1 % in the inflation rate would have increased or decreased the provision for restoration recognised by EP Produzione S.P.A. and Fiume Santo S.P.A. by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of EUR

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

At the reporting date, a change of 1 % in the discount rate would have increased or decreased the provision for restoration recognised by EP Produzione S.P.A. and Fiume Santo S.P.A. by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of EUR

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

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

As at 31 December 2018, Kraftwerk Mehrum GmbH recognised provision for Asset retirement obligation ("ARO provision") in the amount of EUR 17 million (2017: EUR 17 million). The ARO provision is calculated as a present value of estimated future expenditures related to the fixed assets retirement.

LYNEMOUTH POWER LIMITED estimated the provision for decontamination and restoration and long-term asset retirement using the existing technology and current prices adjusted for expected future inflation and discounted using a discount rate that reflects the current market assessment of the time value of money – risk free rate.

Provisions for restoration and decommissioning recognised by EGGBOROUGH POWER LIMITED, Kraftwerk Mehrum GmbH and LYNEMOUTH POWER LIMITED have not been included in stress testing as the change in provisions due to a change in parameters would have insignificant impact on the Group's financial statements.

29. Financial instruments

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

In millions of EUR

	31 December 2018	31 December 2017
Assets carried at amortised cost		
Loans to other than credit institutions	211	203
Total	**211**	**203**
Assets carried at fair value		
Hedging: *of which*	4	26
Other derivatives fair value hedge	*4*	*8*
Commodity derivatives fair value hedge	-	*18*
Risk management purpose: *of which*	126	24
Commodity derivatives reported as trading	*126*	*24*
Equity instruments at fair value through PL: *of which*	10	-
Shares at fair value through PL	*10*	-
Equity instruments at fair value through OCI: *of which*	5	(1)10
Shares and interim certificates at fair value through OCI	*5*	*10*
Total	**145**	**60**
Non-current	64	54
Current	292	209
Total	**356**	**263**

(1) According to IFRS 9 this balance was restated as of 31 December 2018 from Shares available for sale to Equity instruments at fair value through OCI.

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL LIABILITIES

In millions of EUR

	31 December 2018	31 December 2017
Liabilities carried at fair value		
Hedging: *of which*	13	47
Currency forwards cash flow hedge	*13*	*47*
Risk management purpose: *of which*	151	26
Commodity derivatives reported as trading	*151*	*26*
Total	**164**	**73**
Non-current	32	3
Current	132	70
Total	**164**	**73**

The weighted average interest rate on loans to other than credit institutions for 2018 was 3.31% (2017: 4.03%).

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

In millions of EUR

	31 December 2018	31 December 2018	31 December 2018	31 December 2018
	Nominal amount buy	Nominal amount sell	Positive fair value	Negative fair value
Hedging: *of which*	212	213	4	(13)
Other derivatives fair value hedge	*96*	*97*	*4*	*-*
Currency forwards cash flow hedge	*116*	*116*	*-*	*(13)*
Risk management purpose: *of which*	1,990	2,005	126	(151)
Commodity derivatives reported as trading	*1,990*	*2,005*	*126*	*(151)*
Total	**2,202**	**2,218**	**130**	**(164)**

In millions of EUR

	31 December 2017	31 December 2017	31 December 2017	31 December 2017
	Nominal amount buy	Nominal amount sell	Positive fair value	Negative fair value
Hedging: *of which*	192	191	26	(47)
Commodity derivatives fair value hedge	*83*	*83*	*18*	*-*
Other derivatives fair value hedge	*66*	*65*	*8*	*-*
Currency forwards cash flow hedge	*43*	*43*	*-*	*(47)*
Risk management purpose: *of which*	1,552	1,567	24	(26)
Commodity derivatives reported as trading	*1,552*	*1,567*	*24*	*(26)*
Total	**1,744**	**1,758**	**50**	**(73)**

Commodity derivatives are recognised in respect of contracts for purchase and sale of electricity, which are denominated in CZK and EUR, where the contractual condition of derivatives does not meet the “own use exemption” as noted in IFRS 9.2.4.

Sensitivity analysis relating to the fair values of financial instruments is included in the Note 33 – Risk management policies and disclosures.

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

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

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

In millions of EUR

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:				
Hedging: *of which*	-	4	-	**4**
Other derivatives fair value hedge	-	*4*	-	***4***
Risk management purpose: *of which*	-	126	-	**126**
Commodity derivatives reported as trading	-	*126*	-	***126***
Equity instruments at fair value through PL: *of which*	-	-	10	**10**
Shares at fair value through PL	-	-	*10*	***10***
Equity instruments at fair value through OCI: *of which*	-	-	5	**5**
Shares and interim certificates at fair value t hrough OCI	-	-	*5*	***5***
Total	**-**	**130**	**15**	**145**
Financial liabilities carried at fair value:				
Hedging: *of which*	-	13	-	**13**
Currency forwards cash flow hedge	-	*13*	-	*13*
Risk management purpose: *of which*	-	151	-	**151**
Commodity derivatives reported as trading	-	*151*	-	***151***
Total	**-**	**164**	**-**	**164**

In millions of EUR

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:				
Hedging: *of which*	-	26	-	**26**
Commodity derivatives fair value hedge	-	*18*	-	***18***
Other derivatives fair value hedge	-	*8*	-	***8***
Risk management purpose: *of which*	-	24	-	**24**
Commodity derivatives reported as trading	-	*24*	-	***24***
Equity instruments at fair value through OCI: *of which*	-	-	10	**10**
Shares and interim certificates at fair value through OCI (1)	-	-	*10*	***10***
Total	**-**	**50**	**10**	**60**
Financial liabilities carried at fair value:				
Hedging: *of which*	-	47	-	**47**
Currency forwards cash flow hedge	-	*47*	-	***47***
Risk management purpose: *of which*	-	26	-	**26**
Commodity derivatives reported as trading	-	*26*	-	***26***
Total	**-**	**73**	**-**	**73**

(1) According to IFRS 9 this balance was restated as of 31 December 2018 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
Financial assets		
Loans to other than credit institutions	211	244
Total	**211**	**244**

In millions of EUR

	Carrying value	Fair value
	31 December 2017	31 December 2017
Financial assets		
Loans to other than credit institutions	203	234
Total	**203**	**234**

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).

The fair value of trade receivables and other assets and trade payables is equal to their carrying amount.

TRANSACTIONS WITH EMISSION RIGHTS

The following information pertains to contracts on delivery or sale of emission rights. These contracts do not meet the IFRS 9 criteria for derivatives (refer to Note 3(f) – Derivative financial instruments – Transactions with emission rights and energy) and are reported as off-balance sheet items, not derivatives. The management carefully assessed conditions of the contracts and concluded that all contracts are intended to be settled via physical delivery needed for consumption or physically delivered quantities shall be sold as part of its ordinary business, therefore the contracts are not reported as derivatives.

FORWARD OPERATIONS

As at 31 December 2018, the EPPE Group is contractually obliged to purchase 3,156,900 pieces (2017: 1,168,000 pieces) of emission rights at an average price 6.863 EUR/piece (2017: 5.784 EUR/piece).

30. Trade payables and other liabilities

In millions of EUR

	31 December 2018	31 December 2017
Trade payables	416	380
Accrued expenses	109	149
Advance payments received	87	7
Estimated payables	43	13
Payroll liabilities	29	37
Other tax liabilities	9	28
Uninvoiced supplies	9	5
Liabilities from acquisition of subsidiaries – common control transaction[1]	-	133
Liabilities to partners and associations	-	2
Other liabilities	89	53
Total	**791**	**807**
Non-current	*93*	*86*
Current	*698*	*721*
Total	**791**	**807**

(1) The balance is fully represented by the liability for the acquisition of 90% interest in JTSD – Braunkohlebergbau GmbH.

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

As at 31 December 2018 and 31 December 2017, no liabilities to social and health insurance or tax authorities were overdue.

Estimated payables are recognised based on contractual conditions or invoices received after the balance sheet date but before the financial statements are published.

The Group's exposure to currency and liquidity risk related to trade payables and other liabilities is disclosed in Note 33 – Risk management policies and disclosures.

31. Financial commitments and contingencies

OFF BALANCE SHEET LIABILITIES

In millions of EUR

	31 December 2018	31 December 2017
Granted pledges – securities	384	297
Commitments	382	7
Other granted pledges	1,215	1,178
Total	**1,981**	**1,482**

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

COMMITMENTS

In 2018, Mitteldeutsche Braunkohlengesellschaft mbH ("MIBRAG") concluded agreements with Saxony's Upper Mining Authority ("SOBA"), the City of Freiberg and the State Office of Geology and Mining ("LAGB"), Haale (Saale), to ensure that the expenses for restoring open-cast mines are covered.

The concluded agreements provide for the establishment of a special fund designed to financially shore up future liquidity requirements, which is to be set up successively by transferring certain assets to developed companies, which are still to be founded by MIBRAG. The special fund including the income generated by this fund will be pledged "insolvency-proof" as security to the States of Saxony and Saxony-Anhalt. A total of EUR 358 million is to be accrued by the special purpose vehicles by 2034 (Profen) and 2037 (Schleenhain). This amount is reduced by the income generated by the fund during the allocation phase. Subsequently, the accrued funds will be continuously reduced as the rehabilitation obligations are successively met.

Remaining commitment of EUR 22 million (2017: EUR 7 million) is represented by contracts for future purchase of emission rights recognized by JTSD – Braunkohlebergbau GmbH.

OTHER GRANTED PLEDGES

In millions of EUR

	31 December 2018	31 December 2017
Property, plant and equipment	913	893
Cash and cash equivalents[1]	137	75
Trade receivables	125	175
Inventories	40	35
Total	**1,215**	**1,178**

(1) Pledged cash and cash equivalents include pledged restricted cash of EUR 21 million (2017: EUR 23 million).

Other granted pledges include net book value of property, plant and equipment, cash and cash equivalents, trade receivables and inventories pledged by EP SHB Limited, EP Langage Limited and Lynemouth Power Limited. Total value of assets pledged by each of these companies is limited by value of net assets less loan payable to EP UK Finance Limited.

32. Operating leases

During the year ended 31 December 2018, EUR 17 million (2017: EUR 12 million) was recognised as an expense in profit or loss in respect of operating leases.

During the year ended 31 December 2018, EUR 2 million (2017: EUR 1 million) was recognised as income in profit or loss in respect of operating leases

33. Risk management policies and disclosures

This section provides details of the Group's exposure to financial and operational risks and the way it manages such risk. The most important types of financial risks to which the Group is exposed are credit risk, liquidity risk, interest rate, commodity price risk, foreign exchange risk, concentration risk and regulatory risk.

As part of its operations, the Group is exposed to different market risks, notably the risk of changes in interest rates, exchange rates and commodity prices. To minimise this exposure, the Group enters into derivatives contracts to mitigate or manage the risks associated with individual transactions and overall exposures, using instruments available on the market.

A CREDIT RISK

I. EXPOSURE TO CREDIT RISK

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and loans and advances.

The Group has established a credit policy under which each new customer requesting products/services over a certain limit (which is based on the size and nature of the particular business) is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions

are offered. The Group uses credit databases for analysis of creditworthiness of new customers and after deemed creditworthy they are also subject to Risk committee approval. The Group's policy is also to require suitable collateral to be provided by customers such as a bank guarantee or a parent company guarantee. The exposure to credit risk is monitored on an ongoing basis.

ADDITIONAL ASPECTS MITIGATING CREDIT RISK

The Group operates mainly as an energy and power generation company, and thus has a specific customer structure. Increasing proportion of the revenues is generated from the regulated and/or state controlled entities (especially in relation to the green energy production and services provided to grids; refer to Note 3(m) – Revenues for description of grid services), which represent a comparatively low credit risk. At the same time substantial volume of the transactions is done with large clients with solid credit standing and/or are realized through exchanges, which provides for further risk mitigation.

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

The Group establishes an allowance for impairment that represents its estimate of 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 and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

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

CREDIT RISK BY TYPE OF COUNTERPARTY

AS AT 31 DECEMBER 2018

In millions of EUR

	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Individuals	Other	Total
Assets							
Cash and cash equivalents	-	-	-	373	-	-	**373**
Restricted cash	4	-	-	21	-	-	**25**
Trade receivables and other assets	602	23	1	-	28	-	**654**
Financial instruments and other financial assets	174	-	165	16	1	-	**356**
Total	**780**	**23**	**166**	**410**	**29**	**-**	**1,408**

AS AT 31 DECEMBER 2017

In millions of EUR

	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Individuals	Other	Total
Assets							
Cash and cash equivalents	7	-	-	181	-	-	**188**
Restricted cash	7	-	-	23	-	-	**30**
Trade receivables and other assets	510	1	1	1	16	22	**551**
Financial instruments and other financial assets	91	-	158	12	2	-	**263**
Total	**615**	**1**	**159**	**217**	**18**	**22**	**1,032**

CREDIT RISK BY LOCATION OF DEBTOR

AS AT 31 DECEMBER 2018

In millions of EUR

	Czech Republic	Italy	Germany	United Kingdom	Other	Total
Assets						
Cash and cash equivalents	5	214	24	128	2	**373**
Restricted cash	-	-	-	25	-	**25**
Trade receivables and other assets	27	248	132	160	87	**654**
Financial instruments and other financial assets	236	13	77	18	12	**356**
Total	**268**	**475**	**233**	**331**	**101**	**1,408**

AS AT 31 DECEMBER 2017

In millions of EUR

	Czech Republic	Italy	Germany	United Kingdom	Other	Total
Assets						
Cash and cash equivalents	28	88	41	30	1	**188**
Restricted cash	-	-	-	30	-	**30**
Trade receivables and other assets	15	233	128	119	56	**551**
Financial instruments and other financial assets	176	6	45	33	3	**263**
Total	**219**	**327**	**214**	**212**	**60**	**1,032**

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

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
Balance at 31 December 2017 – IAS39	**(1)**	**-**	**(2)**	**-**	**(3)**
Impact of adopting IFRS 9[(1)]	(1)	-	-	-	**(1)**
Restated balance at 1 January 2018	**(2)**	**-**	**(2)**	**-**	**(4)**
Impairment losses recognised during the year	(16)	-	-	-	**(16)**
Reversal of impairment losses during the year	1	-	-	-	**1**
Balance at 31 December 2018	**(17)**	**-**	**(2)**	**-**	**(19)**

(1) Excluding impact of adopting IFRS 9 recognised by equity accounted investees in the amount of EUR 3 million.

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
Balance at 31 December 2017 – IAS39	**-**	**-**	**(3)**	**(3)**
Impact of adopting IFRS 9[(1)]	-	-	(1)	**(1)**
Restated balance at 1 January 2018	**-**	**-**	**(4)**	**(4)**
Impairment losses recognised during the year	-	-	(16)	**(16)**
Reversals of impairment losses recognised during the year	-	-	1	**1**
Balance at 31 December 2018	**-**	**-**	**(19)**	**(19)**

(1) Excluding impact of adopting IFRS 9 recognised by equity accounted investees in the amount of EUR 3 million.

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

CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

AS AT 31 DECEMBER 2018

In millions of EUR

	Loans to other than credit institutions	Other short-term deposits (intended for investing activities)	Trade receivables and other assets	Total
Before maturity (net)	211	-	650	**861**
After maturity (net)	-	-	4	**4**
Total	**211**	**-**	**654**	**865**
A – Assets (gross)				
- before maturity	211	-	669	**880**
- after maturity <30 days	-	-	4	**4**
- after maturity 31–180 days	-	-	-	**-**
- after maturity 181–365 days	-	-	-	**-**
- after maturity >365 days	-	-	-	**-**
Total assets (gross)	**211**	**-**	**673**	**884**
B – Loss allowance for assets				
- before maturity	-	-	(19)	**(19)**
- after maturity <30 days	-	-	-	**-**
- after maturity 31–180 days	-	-	-	**-**
- after maturity 181–365 days	-	-	-	**-**
- after maturity >365 days	-	-	-	**-**
Total loss allowance	**-**	**-**	**(19)**	**(19)**
Total assets (net)	**211**	**-**	**654**	**865**

CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

AS AT 31 DECEMBER 2017

In millions of EUR

	Loans to other than credit institutions	Other short-term deposits (intended for investing activities)	Trade receivables and other assets	Total
Before maturity (net)	203	-	551	**754**
After maturity (net)	-	-	-	**-**
Total	**203**	**-**	**551**	**754**
A – Assets for which a provision has been created				
- Gross	-	-	3	**3**
- specific loss allowance	-	-	(2)	**(2)**
- collective loss allowance	-	-	(1)	**(1)**
Net	**-**	**-**	**-**	**-**
B – Assets for which a provision has not been created (overdue but not impaired)				
- after maturity <30 days	-	-	-	**-**
- after maturity 31–180 days	-	-	-	**-**
- after maturity 181–365 days	-	-	-	**-**
- after maturity >365 days	-	-	-	**-**
Net	**-**	**-**	**-**	**-**

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

In millions of EUR

	Loans to other than credit institutions	Other own term deposits (intended for investing activities)	Trade receivables and other assets	Total
Balance at 1 January 2017	-	-	**-**	**-**
Impairment losses recognised during the year	-	-	(3)	**(3)**
Balance at 31 December 2017	**-**	**-**	**(3)**	**(3)**

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

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

B LIQUIDITY RISK

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

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

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

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

MATURITIES OF FINANCIAL LIABILITIES

AS AT 31 DECEMBER 2018

In millions of EUR

	Carrying amount	Contractual cash flows[1]	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
Liabilities							
Loans and borrowings	**1,119**	1,207	331	280	595	1	-
Trade payables and other liabilities	[2]**704**	699	362	224	50	37	26
Financial instruments and financial liabilities	**164**	176	43	101	32	-	-
out of which Derivatives – inflow	-	*1,127*	*363*	*564*	*200*	-	-
outflow	***(164)***	*(1,255)*	*(398)*	*(637)*	*(220)*	-	-
Total	**1,987**	**2,082**	**736**	**605**	**677**	**38**	**26**

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.
(2) Advances received in amount of EUR 87 million are excluded from the carrying amount as these items will cause no future cash outflow.

AS AT 31 DECEMBER 2017

In millions of EUR

	Carrying amount	Contractual cash flows[1]	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
Liabilities							
Loans and borrowings	**1,002**	1,014	-	707	295	12	-
Trade payables and other liabilities	[2]**800**	800	391	300	52	34	23
Financial instruments and financial liabilities	**73**	73	22	1	8	42	-
out of which Derivatives – inflow		*300*	*245*	*9*	*8*	*38*	-
outflow	***(73)***	*(317)*	*(259)*	*(9)*	*(10)*	*(39)*	-
Total	**1,875**	**1,887**	**413**	**1,008**	**355**	**88**	**23**

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.
(2) Advances received in amount of EUR 7 million are excluded from the carrying amount as these items will cause no future cash outflow.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or in significantly different amounts.

C INTEREST RATE RISK

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities will mature or re-price at different times or in differing amounts. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped together in the "maturity undefined" category.

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

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

Financial information relating to interest bearing and non-interest bearing assets and liabilities and their contractual maturity or re-pricing dates as at 31 December 2018 is as follows:

In millions of EUR

	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
Assets					
Cash and cash equivalents	373	-	-	-	**373**
Restricted cash	22	-	-	3	**25**
Trade receivables and other assets	-	-	-	654	**654**
Financial instruments and other financial assets	167	-	43	146	**356**
out of which Derivatives – inflow	-	-	-	*1,075*	***1,073***
outflow	-	-	-	*(963)*	***(963)***
Total	**562**	**-**	**43**	**803**	**1,408**
Liabilities					
Loans and borrowings	1,112	7	-	-	**1,119**
Trade payables and other liabilities	-	-	-	791	**791**
Financial instruments and financial liabilities	-	-	-	164	**164**
out of which Derivatives – inflow	-	-	-	*1,127*	***1,127***
outflow	-	-	-	*(1,255)*	***(1,255)***
Total	**1,112**	**7**	**-**	**955**	**2,074**
Net interest rate risk position	**(550)**	**(7)**	**43**	**(152)**	**(666)**

Notional amounts of financial instruments are included in Note 29 – Financial instruments.

Interest rate risk exposure as at 31 December 2017 is as follows:

In millions of EUR

	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
Assets					
Cash and cash equivalents	188	-	-	-	**188**
Restricted cash	30	-	-	-	**30**
Trade receivables and other assets	-	-	-	551	**551**
Financial instruments and other financial assets	179	-	43	41	**263**
out of which Derivatives – inflow	-	-	-	*1,444*	***1,444***
outflow	-	-	-	*(1,441)*	***(1,441)***
Total	**397**	**-**	**43**	**592**	**1,032**
Liabilities					
Loans and borrowings	725	275	2	**-**	**1,002**
Trade payables and other liabilities	144	-	-	663	**807**
Financial instruments and financial liabilities	-	-	-	73	**73**
out of which Derivatives – inflow	-	-	-	*300*	***(300)***
outflow	-	-	-	*(317)*	***(317)***
Total	**869**	**275**	**2**	**736**	**1,882**
Net interest rate risk position	**(472)**	**(275)**	**41**	**(144)**	**(850)**

Notional amounts of financial instruments are included in Note 29 – Financial instruments.

SENSITIVITY ANALYSIS

The Group performs stress testing using a standardised market interest rate shock, for financial assets and liabilities to be repriced up to 1 year time, i.e. an immediate decrease/increase in interest rates by 1% along the whole yield curve is applied to the interest rate positions of the portfolio.

At the reporting date, a change of 1% in market interest rates would have increased or decreased profit by the amounts shown in the table below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

In millions of EUR

	2018 Profit (loss)	2017 Profit (loss)
Decrease in interest rates by 1%	3	-
Increase in interest rates by 1%	(6)	(1)

The analysis stated above does not cover the impact of change in interest rate to fair value derivatives.

D FOREIGN EXCHANGE RISK

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

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

Various types of derivatives are used to reduce the exchange rate risk on foreign currency assets, liabilities and expected future cash flows. These include forward exchange contracts, most with a maturity of less than one year.

These contracts are also normally agreed with a notional amount and expiry date equal to that of the underlying financial liability or the expected future cash flows, so that any change in the fair value and/or future cash flows of these contracts stemming from a potential appreciation or depreciation of the Czech crown against other currencies is fully offset by a corresponding change in the fair value and/or the expected future cash flows of the underlying position.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances on the level of individual companies within the Group.

As of 31 December 2018, the exposure to foreign exchange risk translated to millions of EUR was as follows:

In millions of EUR

	CZK	EUR	GBP	Other	Total
Assets					
Cash and cash equivalents	1	242	128	2	**373**
Restricted cash	-	-	25	-	**25**
Trade receivables and other assets	1	528	123	2	**654**
Financial instruments and other financial assets	7	337	12	-	**356**
	9	**1,107**	**288**	**4**	**1,408**
Off-balance sheet assets					
Receivables from derivative operations	-	1,835	367	-	**2,202**
	-	**1,835**	**367**	**-**	**2,202**
Liabilities					
Loans and borrowings	13	414	692	-	**1,119**
Trade payables and other liabilities	29	575	186	1	**791**
Financial instruments and financial liabilities	-	149	15	-	**164**
	42	**1,138**	**893**	**1**	**2,074**
Off-balance sheet liabilities					
Commitments	-	382	-	-	**382**
Payables related to derivative operations	-	1,850	368	-	**2,218**
	-	**2,232**	**368**	**-**	**2,600**
Net FX risk position	**(33)**	**(31)**	**(605)**	**3**	**(666)**

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 29 – Financial instruments for more details).

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

In millions of EUR

	CZK	EUR	GBP	Total
Assets				
Cash and cash equivalents	1	157	30	**188**
Restricted cash	-	-	30	**30**
Trade receivables and other assets	32	392	127	**551**
Financial instruments and other financial assets	3	227	33	**263**
	36	**776**	**220**	**1,032**
Off-balance sheet assets				
Receivables from derivative operations	-	1,307	437	**1,744**
	-	**1,307**	**437**	**1,744**
Liabilities				
Loans and borrowings	6	413	583	**1,002**
Trade payables and other liabilities	4	587	216	**807**
Financial instruments and financial liabilities	-	5	68	**73**
	10	**1,005**	**867**	**1,882**
Off-balance sheet liabilities				
Commitments	-	7	-	**7**
Payables related to derivative operations	-	1,306	452	**1,758**
	-	**1,313**	**452**	**1,765**
Net FX risk position	**26**	**(229)**	**(647)**	**(850)**

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 29 – Financial instruments for more details).

The following significant exchange rates applied during the period:

CZK

	31 December 2018	31 December 2018	31 December 2017	31 December 2017
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
EUR 1	25.643	25.725	26.330	25.540
GBP 1	28.990	28.762	30.058	28.786

SENSITIVITY ANALYSIS

A strengthening (weakening) of the Czech crown, as indicated below, against the EUR and GBP at the reporting date would have impacted profit (loss) 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. The analysis disregards any impact on other comprehensive income.

Effect in millions of EUR

	2018 Profit (loss)	2017 Profit (loss)
EUR (5% strengthening)	3	13
GBP (5% strengthening)	18	29

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.

F CAPITAL MANAGEMENT

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group's debt to adjusted capital ratio at the end of the reporting period was as follows:

In millions of EUR

	31 December 2018	31 December 2017
Total liabilities	3,150	2,919
Less: cash and cash equivalents	373	188
Net debt	**2,777**	**2,731**
Total equity attributable to equity holders of the Company	1,365	899
Less: amounts accumulated in equity relating to cash flow hedges	534	126
Adjusted capital	**831**	**773**
Debt to adjusted capital	**3.34**	**3.53**

G HEDGE ACCOUNTING

The positive revaluation from effective portion of changes in fair value of cash flow hedge reserve of EUR 408 million as at 31 December 2018 (2017: negative revaluation of EUR 39 million) represents primarily derivative agreements to hedge on a foreign exchange rate concluded by LYNEMOUTH POWER LIMITED and derivative agreements to hedge emission rights price recorded by equity accounted investees.

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

	Currency forwards – cash flow hedge[1]	Equity accounted investees – cash flow hedge	Total
Balance at 1 January 2018	**126**	**-**	**126**
Utilization of cash flow hedges	(15)	-	(15)
Deferred tax – cash flow hedges utilization	2	-	2
Revaluation of cash flow hedges	45	546	591
Deferred tax – cash flow hedges revaluation	(6)	(164)	(170)
Balance at 31 December 2018	**152**	**382**	**534**

(1) As at 31 December 2018 cash flow hedge reserve related to currency forwards includes revaluation of both currency forwards that are recognised on balance sheet as at 31 December 2018 and currency forwards that were already derecognised in prior periods. The Group concluded that the future hedged cash flows are still highly probable, therefore the revaluation is retained in equity until the hedged forecast transaction occurs.

CASH FLOW HEDGES – HEDGE OF FOREIGN CURRENCY RISK WITH FINANCIAL DERIVATIVES

The Group applies hedge accounting for hedging instruments designed to hedge the foreign currency risk cash-flows from biomass purchases denominated in foreign currencies (USD and CAD). The hedging instruments are foreign currency forwards concluded with third parties. The hedged items are proportions of expected cash outflows in USD and CAD that are expected to occur and impact profit or loss in periods of 2018 to 2027. As a result of the hedge relationship, on the Group consolidated level, the Group reported a change in foreign currency cash flow hedge reserve of EUR 26 million (2017: negative EUR 39 million). For risk management policies refer to Note 29(d) and (e) – Risk management policies and disclosures.

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

In millions of EUR

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

CASH FLOW HEDGES – EQUITY ACCOUNTED INVESTEES

The joint venture LEAG group applies hedge accounting for commodity hedging instruments designed to hedge cash-flows to purchase emission rights. The hedging instruments are commodity derivatives designed to hedge purchase price for future purchases of emission rights. As a result of the hedge relationship, on the Group consolidated level, the Group reported a change in a cash flow hedge reserve of EUR 382 million. As the hedge accounting is applied by equity accounted investees, the hedging derivatives are not recognised on Group's consolidated statement of financial position.

34. Related parties

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

A BALANCES WITH RELATED PARTIES

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[1]	-	-	-	-
Companies controlled by ultimate shareholders	245	476	188	836
Associates and joint ventures	52	83	45	1
Key management personnel of the entity or its parent	-	-	-	-
Other related parties	-	-	-	-
Total	**297**	**559**	**233**	**837**

(1) Daniel Křetínský represents the ultimate shareholder.

B TRANSACTIONS WITH RELATED PARTIES

The summary of transactions with related parties during the year ended 31 December 2018 and 31 December 2017 was as follows:

In millions of EUR

	Revenues 2018	Expenses 2018	Revenues 2017	Expenses 2017
Ultimate shareholder[1]	-	-	-	-
Companies controlled by ultimate shareholders	163	(280)	101	(126)
Associates and joint ventures	121	(120)	5	-
Key management personnel of the entity or its parent	-	-	-	-
Other related parties	-	-	-	-
Total	**284**	**(400)**	**106**	**(126)**

(1) Daniel Křetínský represents the ultimate shareholder.

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

TRANSACTIONS WITH THE KEY MANAGEMENT PERSONNEL

For the financial years ended 31 December 2018 and 2017 the EPPE Group's key management personnel is represented by members of the Board of Directors of the following major entities: EP Power Europe, a.s., EGGBOROUGH POWER LIMITED, LYNEMOUTH POWER LIMITED, EP SHB Limited, EP Langage Limited, EP Commodities, a.s., EP Produzione S.P.A. Group, EPNEI Group, JTSD – Braunkohlebergbau GmbH Group, EP Germany GmbH Group and Kraftwerk Mehrum GmbH.

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

In millions of EUR

	2018	2017
Nr. of personnel	20	14
Compensation, fees and rewards	5	4
Compulsory social security contributions	1	1
Total	**6**	**5**

Other remuneration of Group management (management of all components within the Group) is included in Note 8 – Personnel expenses.

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

35. 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 Power Europe, a.s.*	Czech Republic	-	-	-	-	-	-
EPPE Germany, a.s.*	Czech Republic	100	Direct	100	Direct	Full	Full
Lausitz Energie Kraftwerke AG	Germany	10	Direct	10	Direct	Equity	Equity
Lausitz Energie Bergbau AG	Germany	10	Direct	10	Direct	Equity	Equity
LEAG Holding, a.s.*	Czech Republic	50	Direct	50	Direct	Equity	Equity
Lausitz Energie Verwaltungs GmbH	Germany	100	Direct	100	Direct	Equity	Equity
Lausitz Energie Kraftwerke AG	Germany	80	Direct	80	Direct	Equity	Equity
Kraftwerk Schwarze Pumpe GmbH	Germany	100	Direct	100	Direct	Equity	Equity
Lausitz Energie Bergbau AG	Germany	80	Direct	80	Direct	Equity	Equity
GMB GmbH	Germany	100	Direct	100	Direct	Equity	Equity
Transport- und Speditionsgesellschaft Schwarze Pumpe mbH	Germany	100	Direct	100	Direct	Equity	Equity
Lausitz Energie Erneuerbare Verwaltungs GmbH	Germany	100	Direct	-	-	Equity	-
EP Mehrum GmbH	Germany	100	Direct	100	-	Full	Full
Kraftwerk Mehrum GmbH	Germany	100	Direct	100	-	Full	Full
JTSD – Braunkohlebergbau GmbH	Germany	90	Direct	90	Direct	Full	Full
Mitteldeutsche Braunkohlengesellschaft mbH	Germany	100	Direct	100	Direct	Full	Full
MIBRAG Consulting International GmbH (former Montan Bildungs- und Entwicklungsgesellschaft mbH)	Germany	100	Direct	100	Direct	Full	Full
GALA-MIBRAG-Service GmbH	Germany	100	Direct	100	Direct	Full	Full
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50	Direct	50	Direct	Equity	Equity
Fernwärme GmbH Hohenmölsen – Webau	Germany	48.96	Direct	48.96	Direct	Equity	Equity
Ingenieurbüro für Grundwasser GmbH	Germany	25	Direct	25	Direct	Equity	Equity
Bohr & Brunnenbau GmbH	Germany	100	Direct	100	Direct	Full	Full
Helmstedter Revier GmbH (Buschhaus)	Germany	100	Direct	100	Direct	Full	Full
Norddeutsche Geselschaft zur Ablagerung von Mineralstoffen mbH (NORGAM mbH)	Germany	51	Direct	51	Direct	Full	Full
Terrakomp GmbH	Germany	100	Direct	100	Direct	Full	Full
MIBRAG Neue Energie GmbH	Germany	100	Direct	100	Direct	Full	Full
EP Germany GmbH*	Germany	100	Direct	100	Direct	Full	Full
Saale Energie GmbH	Germany	100	Direct	100	Direct	Full	Full
Kraftwerk Schkopau GbR	Germany	41.90	Direct	41.90	Direct	Equity	Equity
Kraftwerk Schkopau Betriebsgesellschaft mbH	Germany	44.40	Direct	44.40	Direct	Equity	Equity

		31 December 2018		31 December 2017		2018	2017
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso-lidation method	Conso-lidation method
EP UK INVESTMENTS LTD	United Kingdom	100	Direct	100	Direct	Full	Full
EGGBOROUGH POWER LIMITED	United Kingdom	100	Direct	100	Direct	Full	Full
LYNEMOUTH POWER LIMITED	United Kingdom	100	Direct	100	Direct	Full	Full
EP UK Power Development Ltd(1)	United Kingdom	100	Direct	100	Direct	Full	Full
EP SHB LIMITED	United Kingdom	100	Direct	100	Direct	Full	Full
Humberland Limited(1)	United Kingdom	100	Direct	-	-	At cost	-
EP LANGAGE LIMITED	United Kingdom	100	Direct	100	Direct	Full	Full
EP UK Finance Limited	United Kingdom	100	Direct	-	-	Full	-
RVA GROUP LIMITED(1)	United Kingdom	100	Direct	100	Direct	At cost	At cost
RVA CONSULTING ENGINEERS LIMITED(1)	United Kingdom	100	Direct	100	Direct	At cost	At cost
RVA ENGINEERING SOLUTIONS LIMITED(1)	United Kingdom	100	Direct	100	Direct	At cost	At cost
ENERGY SCANNER LIMITED*(1)	United Kingdom	100	Direct	100	Direct	Full	Full
EP INVEST LIMITED(1)	United Kingdom	100	Direct	100	Direct	Full	Full
EP Commodities, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EPPE Italy N.V.*	Netherlands	100	Direct	100	Direct	Full	Full
EP Produzione S.P.A.	Italy	100	Direct	100	Direct	Full	Full
Fiume Santo S.P.A.	Italy	100	Direct	100	Direct	Full	Full
EP Produzione Centrale Livorno Ferraris S.P.A.	Italy	75	Direct	75	Direct	Full	Full
Centro Energia Ferrara S.R.L.	Italy	58.35	Direct	58.35	Direct	Full	Full
Centro Energia Teverola S.R.L.	Italy	58.35	Direct	58.35	Direct	Full	Full
Ergosud S.P.A.	Italy	50	Direct	50	Direct	Equity	Equity
NADURENE a.s.*	Italy	100	Direct	100	Direct	Full	Full
EP New Energy Italia S.R.L.	Italy	100	Direct	100	Direct	Full	Full
Biomasse Crotone S.P.A.	Italy	100	Direct	100	Direct	Full	Full
Biomasse Italia S.P.A.	Italy	100	Direct	100	Direct	Full	Full
Fores Italia S.R.L.	Italy	50	Direct	50	Direct	At cost	At cost
Biomasse Servizi S.R.L.	Italy	100	Direct	-	-	Full	-
MÁTRA ENERGY HOLDING Zrt.*	Hungary	15	-	50	Direct	-	At cost
Mátrai Erőmű ZRt.(2)	Hungary	72.66	-	-	-	-	-
EP Yuzivska B.V.	Netherlands	100	Direct	-	-	At cost	-

* Holding entity

(1) This company is exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts, by virtue of section 479A.

(2) In 2018, the Group recorded an acquisition and a subsequent sale of an indirect minority shareholding in MÁTRAI ERŐMŰ ZRT. ÉVES BESZÁMOLÓ ("ME"). While EPPE entered into the transaction originally with aim to have a joint control over ME and acquired a 36.3% indirect stake in ME (through 50% stake in joint venture MATRA ENERGY HOLDING Zrt.), subsequently after transaction closing EPPE decided to sell most of its shareholding to its joint venture partner. As of balance sheet date, EPPE holds a 11% indirect share in ME, which is recorded in Financial instruments and other financial assets.

The structure above is listed by ownership of companies at the different levels within the Group.

36. Litigations and claims

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT MBH

MIBRAG is involved in an ongoing dispute filed by 50Hertz Transmission GmbH ("50Hertz") in Germany since 2011. 50Hertz operates an upstream transmission grid and seeks retroactive payment from MIBRAG for costs under the burden-sharing mechanism related to the promotion of renewable energies (the so-called EEG surcharge) between August 2004 and December 2008 under the German Renewable Energies Act (Erneuerbare Energien Gesetz).

The 50Hertz's request for detailed data on the basis of which the calculation of the relevant electricity quantities could be calculated was granted by the highest court in 2015. MIBRAG is of the opinion that, for a substantial portion of the acceptance of supply obligation which 50Hertz is seeking to enforce, evidence can be presented that the claims are barred by the statute of limitations.

Based on MIBRAG's analysis, a provision of EUR 15.5 million in total is recorded in the financial statements (EUR 4.0 million release in 2018). Provision covers both the economic risk for MIBRAG with respect to this legal dispute as well as the costs of the proceedings, on the basis of the information available at the time of preparation of financial statements.

EP PRODUZIONE S.P.A AND FIUME SANTO S.P.A.

Over the last few months of the year 2018, EP Produzione and Fiume Santo were subject to a tax audit carried out by the Revenue Agency for the 2015 and 2016 tax years. Assisted by their external consultants, the companies are providing the information deemed necessary to present, before the relevant courts, the clarifications which may result in a positive outcome in respect of the tax findings raised by the Revenue Agency.

37. Subsequent events

A MAJOR ACQUISITIONS

ACQUISITION OF A BIOMASS POWER PLANT FUSINE

On 7 February 2019, EPPE Group is getting stronger in the biomass sector. Through the subsidiary EP New Energy Italia the Group completed the acquisition of the biomass power plant in Fusine, province of Sondrio, with an installed capacity of 7 MW from the Holcim Italia Group (100%).

ACQUISITION OF KILROOT AND BALLYLUMFORD POWER STATIONS

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

B OTHER SUBSEQUENT EVENTS

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

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

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

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.

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

APPENDICES*:

Appendix 1 – Business combinations

Appendix 2 – Restated Consolidated statement of comprehensive income

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

Date:	Signature of the authorised representative	
22 May 2019	Mgr. Marerk Spurný Vice-Chairman of the board of directors	Mgr. Pavel Horský Vice-Chairman of the board of directors

Appendix 1 – Business combinations

The following tables provide further information on the amounts recognised for assets acquired and liabilities assumed as at the acquisition date for individually significant business combinations through step acquisitions and acquisitions.

EFFECT OF ACQUISITIONS

I. 31 DECEMBER 2017

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of EP SHB LIMITED and EP LANGAGE LIMITED are provided in the following table.

In millions of EUR

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

(1) Represents values at 100% share.

In millions of EUR

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

In millions of EUR

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

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

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

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

In millions of EUR

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

(1) Represents values at 100% share.

In millions of EUR

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

In millions of EUR

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

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

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

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

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of EP New Energy Italia S.R.L. and its subsidiaries Biomasse Crotone S.P.A, Biomasse Italia S.P.A. are provided in the following table.

In millions of EUR

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

(1) Represents values at 100% share.

In millions of EUR

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

In millions of EUR

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

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

Appendix 2 – Restated Consolidated statement of comprehensive income

FOR THE YEAR ENDED 31 DECEMBER 2018

In millions of EUR ("MEUR")

	2017 as reported	Changes in presentation of income statement	Adjustments to purchase price allocation	Restated 2017
Sales: Energy	2,713	-	-	2,713
of which: Electricity	1,746	-	-	1,746
Gas	696	-	-	696
Coal	267	-	-	267
Heat	2	-	-	2
Other energy products	2	-	-	2
Sales: Other	156	-	-	156
Gain (loss) from commodity derivatives for trading with electricity and gas, net	(20)	-	-	(20)
Total sales	**2,849**	**-**	**-**	**2,849**
Cost of sales: Energy	(1,870)	-	-	(1,870)
Cost of sales: Other	(65)	-	-	(65)
Total cost of sales	**(1,935)**	**-**	**-**	**(1,935)**
Subtotal	**914**	**-**	**-**	**914**
Personnel expenses	(259)	-	-	(259)
Depreciation and amortisation	(180)	-	-	(180)
Repairs and maintenance	(47)	-	-	(47)
Emission rights, net	(83)	(18)	-	(101)
Negative goodwill	54	-	(5)	49
Taxes and charges	(59)	-	-	(59)
Other operating income	50	-	-	50
Other operating expenses	(212)	-	-	(212)
Profit (loss) from operations	**178**	**(18)**	**(5)**	**155**
Finance income	17	-	-	17
Finance expense	(48)	-	-	(48)
Profit (loss) from financial instruments	(18)	18	-	-
Net finance income (expense)	**(49)**	**18**	**-**	**(31)**
Share of profit (loss) of equity accounted investees, net of tax	88	-	-	88
Profit (loss) before income tax	**217**	**-**	**(5)**	**212**

	2017 as reported	Changes in presentation of income statement	Adjustments to purchase price allocation	Restated 2017
Income tax expenses	(40)	-	-	(40)
Profit (loss) for the year	**177**	**-**	**(5)**	**172**
Items that are or may be reclassified subsequently to profit or loss:				
Foreign currency translation differences from foreign operations	(60)	-	-	(60)
Foreign currency translation differences from presentation currency	42	-	-	42
Effective portion of changes in fair value of cash-flow hedges, net of tax	(39)	-	-	(39)
Fair value reserve included in other comprehensive income, net of tax	(6)	-	-	(6)
Other comprehensive income for the year, net of tax	**(63)**	**-**	**-**	**(63)**
Total comprehensive income for the year	**114**	**-**	**(5)**	**109**
Profit (loss) attributable to:				
Owners of the Company	178	-	(5)	173
Non-controlling interest	(1)	-	-	(1)
Profit (loss) for the year	**177**	**-**	**(5)**	**172**
Total comprehensive income attributable to:				
Owners of the Company	114	-	(5)	109
Non-controlling interest	-	-	-	-
Total comprehensive income for the year	**114**	**-**	**(5)**	**109**
Total basic and diluted earnings per share in EUR	**2,437.89**			**2,369.41**

EP Power Europe

5 Statutory Financial Statements

ANNUAL REPORT 2018

EP Power Europe

Independent Auditor's Report

to the Shareholders of EP Power Europe, a.s.

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

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

Independent Auditor's Report to the Shareholders of EP Power Europe, a.s.

Opinion

We have audited the accompanying financial statements of EP Power Europe, a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2018, and the income statement, the statement of changes in equity for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

As described in Note 2.8. to the financial statements, EP Power Europe, a.s. has not prepared an annual report as at 31 December 2018, as it plans to include the respective information in a consolidated annual report. Consequently, this auditor's report does not include out statement on the other information.

Responsibilities of the Statutory Body, Supervisory Board for the Financial Statements

The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the statutory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Supervisory Board is responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Statutory Auditor Responsible for the Engagement

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

Prague
24 May 2019

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

Karel Charvát
Partner
Registration number 2032

EP Power Europe

Statutory Financial Statements

Year ended 31 December 2018

Balance Sheet

EP Power Europe, a.s.
Corporate ID 278 58 685

FULL VERSION

Pařížská 130/26
Josefov
110 00 Praha 1

As of 31 December 2018
(in CZK thousand)

		31.12.2018			31.12.2017
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	**37 330 700**	**118**	**37 330 582**	**38 668 734**
B.	**Fixed assets**	**24 564 649**	**118**	**24 564 531**	**21 366 200**
B.I.	***Intangible fixed assets***	**1 188**	**90**	**1 098**	**1 096**
B.I.2.	*Valuable rights*	**1 188**	**90**	**1 098**	**1 096**
B.I.2.2.	Other valuable rights	1 188	90	1 098	1 096
B.II.	***Tangible fixed assets***	**103**	**28**	**75**	**45**
B.II.2.	Tangible movable assets and sets of tangible movable assets	103	28	75	**45**
B.III.	***Non-current financial assets***	**24 563 358**		**24 563 358**	**21 365 059**
B.III.1.	Equity investments – controlled or controlling entity	24 485 411		24 485 411	21 301 209
B.III.3.	Equity investments in associates				63 850
B.III.5.	Other non-current securities and investments	77 947		77 947	
C.	**Current assets**	**12 766 012**		**12 766 012**	**17 303 499**
C.I.	***Inventories***	**68 061**		**68 061**	**40 853**
C.I.2.	Work in progress and semifinished goods	68 061		68 061	40 853
C.II.	***Receivables***	**12 673 310**		**12 673 310**	**17 242 484**
C.II.1.	Long-term receivables	**2 064 921**		**2 064 921**	**7 095 498**
C.II.1.2.	Receivables – controlled or controlling entity	2 064 921		2 064 921	7 095 498
C.II.2.	***Short-term receivables***	**10 608 389**		**10 608 389**	**10 146 986**
C.II.2.1.	Trade receivables	101 372		101 372	33 832
C.II.2.2.	Receivables – controlled or controlling entity	10 502 788		10 502 788	10 112 836
C.II.2.4.	*Receivables – other*	**4 229**		**4 229**	**318**
C.II.2.4.3.	State – tax receivables	3 328		3 328	2
C.II.2.4.4.	Short-term prepayments made	830		830	281
C.II.2.4.5.	Estimated receivables	6		6	
C.II.2.4.6.	Sundry receivables	65		65	35
C.IV.	***Cash***	**24 641**		**24 641**	**20 162**
C.IV.1.	Cash on hand				11
C.IV.2.	Cash at bank	24 641		24 641	20 151
D.	**Other assets**	**39**		**39**	**-965**
D.1.	Deferred expenses	39		39	261
D.3.	Accrued income				-1 226

		31.12.2018	31.12.2017
	TOTAL LIABILITIES & EQUITY	**37 330 582**	**38 668 734**
A.	**Equity**	**17 385 421**	**17 204 267**
A.I.	***Share capital***	**14 602 800**	**14 602 800**
A.I.1.	Share capital	14 602 800	14 602 800
A.II.	***Share premium and capital funds***	**2 675 476**	**2 719 069**
A.II.2.	*Capital funds*	**2 675 476**	**2 719 069**
A.II.2.1.	Other capital funds	3 098 942	3 098 942
A.II.2.2.	Gains or losses from the revaluation of assets and liabilities (+/-)	-423 466	-379 873
A.IV.	***Retained earnings (+/-)***	**-117 602**	**-9 965**
A.IV.1.	Accumulated profits or accumulated loss brought forward (+/-)	-117 602	-9 965
A.V.	***Profit or loss for the current period (+/-)***	**224 747**	**-107 637**
B.+C.	**Liabilities**	**19 945 161**	**21 463 693**
B.	**Reserves**	**4 761**	**5 584**
B.2.	Income tax reserve	2 977	3 800
B.4.	Other reserves	1 784	1 784
C.	**Payables**	**19 940 400**	**21 458 109**
C.I.	***Long-term payables***	**8 287 180**	**6 770 043**
C.I.6.	Payables – controlled or controlling entity	8 287 180	6 770 043
C.II.	***Short-term payables***	**11 653 220**	**14 688 066**
C.II.4.	Trade payables	64 813	49 186
C.II.6.	Payables – controlled or controlling entity	11 553 069	14 622 292
C.II.8.	*Other payables*	**35 338**	**16 588**
C.II.8.1.	Payables to partners		182
C.II.8.3.	Payables to employees	4 682	4 316
C.II.8.4.	Social security and health insurance payables	1 034	1 122
C.II.8.5.	State – tax payables and subsidies	1 106	6 939
C.II.8.6.	Estimated payables	28 516	4 029
D.	**Other liabilities**		**774**
D.1.	Accrued expenses		774

Profit and Loss Account

EP Power Europe, a.s.
Corporate ID 278 58 685

STRUCTURED BY THE NATURE OF EXPENSE METHOD

Pařížská 130/26
Josefov
110 00 Praha 1

Year ended
31.12.2018
(in CZK thousand)

		Year ended 31.12.2018	Year ended 31.12.2017
I.	Sales of products and services	99 332	28 745
A.	Purchased consumables and services	143 872	107 553
A.2.	Consumed material and energy	441	483
A.3.	Services	143 431	107 070
B.	Change in internally produced inventory (+/-)	-11 842	-40 853
D.	Staff costs	119 627	78 722
D.1.	Payroll costs	101 005	65 488
D.2.	Social security and health insurance costs and other charges	18 622	13 234
D.2.1.	Social security and health insurance costs	18 613	13 211
D.2.2.	Other charges	9	23
E.	Adjustments to values in operating activities	83	34
E.1.	Adjustments to values of intangible and tangible fixed assets	83	34
E.1.1.	Adjustments to values of intangible and tangible fixed assets – permanent	83	34
III.	Other operating income	9 392 511	32
III.3.	Sundry operating income	9 392 511	32
F.	Other operating expenses	9 391 953	2 678
F.3.	Taxes and charges	18	12
F.4.	Reserves relating to operating activities and complex deferred expenses		1 784
F.5.	Sundry operating expenses	9 391 935	882
*	**Operating profit or loss (+/-)**	**-151 850**	**-119 357**
IV.	Income from non-current financial assets – equity investments	644 750	
IV.1.	Income from equity investments – controlled or controlling entity	644 750	
G.	Costs of equity investments sold	179 613	
VI.	Interest income and similar income	289 170	90 744
VI.1.	Interest income and similar income – controlled or controlling entity	289 170	90 744
J.	Interest expenses and similar expenses	361 482	83 620
J.1.	Interest expenses and similar expenses – controlled or controlling entity	361 482	83 620
VII.	Other financial income	222 848	855 347
K.	Other financial expenses	233 585	846 951
*	**Financial profit or loss (+/-)**	**382 088**	**15 520**
**	**Profit or loss before tax (+/-)**	**230 238**	**-103 837**
L.	Income tax	5 491	3 800
L.1.	Due income tax	5 491	3 800
**	**Profit or loss net of tax (+/-)**	**224 747**	**-107 637**
***	**Profit or loss for the current period (+/-)**	**224 747**	**-107 637**
*	Net turnover for the current period	10 648 611	974 868

Statement of Changes in Equity

EP Power Europe, a.s.
Corporate ID 278 58 685

Pařížská 130/26
Josefov
110 00 Praha 1

Year ended
31.12.2018
(in CZK thousand)

	Share capital	Gains or losses from the revaluation of assets	Capital funds	Accumulated losses brought forward	Profit or loss for the current period	Total equity
Balance at 1 May 2017	**2 000**	**-50 128**	**3 098 942**	**-46 279**		**3 004 535**
Increase in share capital	14 600 800					14 600 800
Effect of the merge @ 11.12.2017 (dissolution EP United Kingdom, s.r.o.)				36 314		36 314
Gains or losses from the revaluation of assets		-329 745				-329 745
Loss for the current period					-107 637	-107 637
Balance at 31 December 2017	**14 602 800**	**-379 873**	**3 098 942**	**-9 965**	**-107 637**	**17 204 267**
Distribution of profit or loss				-107 637	107 637	
Gains or losses from the revaluation of assets		-43 593				-43 593
Profit for the current period					224 747	224 747
Balance at 31 December 2018	**14 602 800**	**-423 466**	**3 098 942**	**-117 602**	**224 747**	**17 385 421**

Notes to the Czech Statutory Financial Statements for Year 2018

Translated from the Czech Original

COMPANY NAME:	EP Power Europe, a.s.
REGISTERED OFFICE:	Pařížská 130/26, Josefov, 110 00 Praha 1
LEGAL FORM:	Joint Stock Company
CORPORATE ID:	278 58 685

1. General Information

1.1 INCORPORATION AND DESCRIPTION OF THE COMPANY

EP Power Europe, a.s. (the "Company", "EPPE") was incorporated as a joint-stock company by being recorded in the Commercial Registered maintained by the Regional Court in Ostrava on 16 September 2008. On 25 May 2016, the file number was transferred to the Municipal Court in Prague.

EPPE is a energy utility specialising in the generation of electric power, brown coal mining, renewable resources and trading.

The following table shows legal entities with an equity interest and the amount of their equity interest:

Shareholder	Share of registered capital (in %)
Energetický a průmyslový holding, a.s.	100%
Total	**100%**

1.2 BOARD OF DIRECTORS AND SUPERVISORY BOARD AS AT THE BALANCE SHEET DATE

	Position	Name
Board of Directors	Chairman	Daniel Křetínský
	Vice-chairman	Marek Spurný
	Vice-chairman	Tomáš David
	Vice-chairman	Pavel Horský
	Vice-chairman	Jan Špringl
	Member	Jiří Feist
	Member	Tomáš Novotný
	Member	Leif Timmermann
	Member	Brendan Massam
Supervisory Board	Member	Ivan Jakabovič
	Member	Martin Fedor
	Member	Miloš Badida

2. Accounting Policies

The Company's accounts are maintained and the financial statements have been prepared in compliance with Act No. 563/1991 Coll., on Accounting ("the Act on Accounting") as amended and the Decree of the Ministry of Finance of the Czech Republic No. 500/2002 Coll., implementing certain provisions of the Act on Accounting as amended for entities which are entrepreneurs using double-entry bookkeeping and the Czech accounting standards for entrepreneurs as amended.

The Company's accounts are based on general accounting principles, in particular the historical cost principle (unless stated otherwise), the accrual (matching) principle, the prudence principle and the going concern assumption.

The Company's financial statements are prepared for the accounting period from 1 January 2018 to 31 December 2018 ("2018"). The project of merger by acquisition between EP Power Europe, a.s., the successor company, and EP United Kingdom, s.r.o., the dissolving company, was recorded on 11 December 2017. The decisive date of the merger was set as 1 May 2017. The Company's financial statements for the previous period have been prepared as at the balance sheet date of 31 December 2017 for the financial year from 1 May 2017 to 31 December 2017 ("2017" or "the Accounting Period").

The financial information in these financial statements is presented in thousands of Czech crowns (TCZK), unless stated otherwise.

2.1 NON-CURRENT FINANCIAL ASSETS

Non-current financial assets comprise equity investments in subsidiaries and associated companies and held-to-maturity available-for-sale securities maturing in more than one year.

Securities and equity investments are initially measured at cost, which includes expenses directly related to the acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

As at the date of acquisition of securities and equity investments, these non-current financial assets are classified based on their nature as equity investments – controlled entity and equity investments in associates or available-for-sale securities and ownership interests.

Financial assets maturing in or intended to be held for more than one year are reported as non-current; financial assets maturing in or intended to be held for less than one year are reported as current.

Ownership interests in the companies whose financial flows and operating processes the Company can manage with the aim to benefit from their activity are classified as equity investments – controlled entity. Ownership interests in the companies whose financial flows and operating processes the Company can influence significantly with the aim to benefit from their activity are classified as equity investments in associates. Ownership interests that do not fall within any of the above categories are classified as other non-current ownership interests.

VALUATION OF FINANCIAL ASSETS AS AT THE DATE OF FINANCIAL STATEMENTS

As at the balance sheet date, equity investments are measured at cost and in case of a temporary impairment of a relevant investment, an adjustment is created.

If securities are held in foreign currencies, they are translated as at the balance sheet date using the current rates of exchange announced by the Czech National Bank against gains or losses from the revaluation of assets and liabilities in equity.

2.2 INVENTORY

Work in progress is measured at the cost of producing the inventory, which primarily consists of own costs, material, labour costs and other operational costs based on the state of completion. Decrease in work in progress is measured by actual own costs.

2.3 RECEIVABLES

Receivables are initially measured at nominal value, which is subsequently reduced by relevant adjustments for doubtful and unrecoverable amounts. Receivables acquired for a consideration or by contribution are measured at acquisition cost less adjustments for doubtful and unrecoverable amounts.

2.4 PAYABLES

Payables are recognised at nominal value.

2.5 PROVISIONS

A provision for corporate income tax is established based on corporate income tax calculation made as at the reporting date.

An income tax provision is established as the financial statements are prepared before the tax liability is determined. In the subsequent accounting period, the Company releases this provision and records the actual tax liability determined.

In the balance sheet, the income tax provision is reduced by income tax prepayments, the net payable (if any) is recorded in the Income tax reserve, and the net receivable (if any) is recorded in State – tax receivables.

2.6 LOANS RECEIVED

Short-term and long-term loans are initially recorded at their nominal value upon receipt. Upon the preparation of the financial statements the loan balances are increased by unpaid interest charged by banks or other parties. A part of long-term loans due within one year from the balance sheet date is classified as short-term loan.

2.7 FOREIGN CURRENCY TRANSLATION

The Company applies the Czech National Bank official rate effective on the date of acquisition of an asset or the occurrence of a liability to foreign currency transactions.

Realised foreign exchange gains and losses are recognised in the income statement. As at the balance sheet date, foreign currency assets and liabilities are translated at the prevailing Czech National Bank official rates and all foreign exchange differences arising from gains or losses from assets and liabilities were recorded in financial revenues or financial expenses (apart from equity investments; see Note 2.1).

2.8 RECOGNITION OF EXPENSES AND REVENUES

Revenues and expenses are recognised on an accrual basis, i.e. in the period to which they relate in terms of substance and timing. In compliance with the principle of prudence, provisions and adjustments are created to cover all risks, losses and impairment known as at the balance sheet date and are debited to expenses.

Dividend income is recognised on the date that the right to receive the payment is established.

2.9 USE OF ESTIMATES

The preparation of the financial statements requires the management to use estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported revenues and expenses in the given period. The Company management determined the estimates and assumptions on the basis of relevant information available to the management. Nonetheless, given the nature of the estimates, the actual figures might differ from the estimates.

2.10 CONSOLIDATION

The Company prepares its consolidated financial statements in accordance with the International Financial Reporting Standards adopted by the EU. The Czech translation of the consolidated financial statements, along with the consolidated annual report, will be published in the Commercial Register.

The consolidated financial statements for 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 consolidated financial statements for the widest group of entities for 2017 were prepared by Energetický a průmyslový holding, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic.

2.11 CHANGES IN ACCOUNTING POLICIES COMPARED TO THE PREVIOUS ACCOUNTING PERIOD

In the Accounting Period for which the financial statements have been prepared, the Company made no changes to its accounting policies.

3. Additional information

3.1 NON-CURRENT FINANCIAL ASSETS

EQUITY INVESTMENTS – CONTROLLED ENTITY

(in TCZK)

Company name	Amount of ownership interest	Value of ownership interest as at 31/12/2018	Value of ownership interest as at 31/12/2017
Equity investments – controlled entity			
EPPE Germany, a.s.	100 %	3 745 550	3 724 000
EP Commodities, a.s.	100 %	734 694	734 694
EP UK Investments Ltd	100 %	6 148 168	3 083 271
NADURENE a.s.	100 %	870 387	772 632
Energy Scanner Limited	100 %	-	-
EPPE Italy N.V.			
(formerly Czech Gas Holding N.V.)	100 %	12 986 612	12 986 612
Equity investments in joint ventures			
MÁTRA ENERGY HOLDING Zártkörűen Működő Részvénytársaság	50%	-	63 850
Other equity investments			
MÁTRA ENERGY HOLDING Zártkörűen Működő Részvénytársaság	15%	77 947	-
Total		**24 563 358**	**21 365 059**

Registered offices of the Company as at 31 December 2018 were as follows:

EPPE Germany, a.s.	Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
EP Commodities, a.s.	Klimentská 1216/46, Nové Město, 110 00 Praha 1, Czech Republic
EP UK Investments Ltd	Berger House, 36-38, Berkeley Square, London, UK
NADURENE a.s.	Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
Energy Scanner Limited	Berger House, 36-38, Berkeley Square, London, UK
EPPE Italy N.V.	Schiphol Boulevard 477, Tower C-4, 1118 BK Schiphol, Netherlands
MÁTRA ENERGY HOLDING Zártkörűen Működő Részvénytársaság	Budafoki út 52, 1117 Budapest, Hungary

IN 2018 THE FOLLOWING CHANGES WERE MADE IN NON-CURRENT FINANCIAL ASSETS:

On 3 May 2018, the Company sold a 35% share in MÁTRA ENERGY HOLDING Zrt.

On 1 June and 13 of December 2018, a contribution of TCZK 21 550 was made into the other capital funds of EPPE Germany, a.s.

On 2 July 2018 and 14 November 2018, a contribution of TCZK 98 799 was made into the other capital funds of NADURENE, a.s.

On 30 November 2018, the value of the investment in EP UK Investments Ltd was increased by TCZK 3 107 888.

3.2 INVENTORY

Work in progress includes own costs of provided consultation services for unfinished projects. Unfinished projects are held on balance sheet until they are closed and invoiced to counterparty.

3.3 LONG-TERM RECEIVABLES

31 December 2018

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2018 (in TCZK)
EP New Energy Italia S.R.L.	2 064 921	-
Total	**2 064 921**	

31 December 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)
Lynemouth Power Limited	5 339 803	70 055
EP New Energy Italia S.R.L.	1 685 640	-
Total	**7 025 443**	**70 055**

On 30 November 2018, the receivable for Lynemouth Power Limited was assigned to EP UK Investments Ltd. This receivable was further partly set-off against a liability from increase share capital of EP UK Investments Ltd (see Note 3.1.).

3.4 SHORT-TERM RECEIVABLES

31 December 2018

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2018 (in TCZK)
EP New Energy Italia S.R.L.	180 075	4 090
EP UK Investments Ltd	10 304 338	14 285
Total	**10 484 413**	**18 375**

31 December 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)
EP New Energy Italia S.R.L.	178 780	3 218
EP UK Investments Ltd	9 897 964	32 874
Total	**10 076 744**	**36 092**

3.5 EQUITY

As at 31 December 2018, EP Power Europe, a.s. had the total of 73 014 ordinary certificated registered shares at TCZK 200 per share; the Company's registered capital thus amounted to TCZK 14 602 800.

No own shares were acquired during the 2018 reporting period.

3.6 LONG-TERM PAYABLES

31 December 2018

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2018 (in TCZK)
EP Produzione S.p.A.	8 287 180	-
Total	**8 287 180**	**-**

31 December 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)
Energetický a průmyslový holding, a.s.	6 770 043	-
Total	**6 770 043**	**-**

3.7 SHORT-TERM PAYABLES

31 December 2018

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2018 (in TCZK)
Energetický a průmyslový holding, a.s.	10 663 530	14 012
EP Commodities, a.s.	709 271	35 460
EP Produzione S.p.A.	-	111 131
Total	**11 372 801**	**160 603**

31 December 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)
Energetický a průmyslový holding, a.s.	10 475 529	73 513
EP Commodities, a.s.	621 722	8 007
Total	**11 097 251**	**81 520**

Payables – controlled or controlling entity also include a payable of TCZK 19 665 to EPPE Germany, a.s. relating to an unpaid contribution into the other capital funds.

In 2017 EPPE assumed a payable of TCZK 3 404 226 relating to the purchase price of JTSD between EPH and EPPE Germany, a.s.

None of the trade payables is due in more than five years as at the balance sheet date.

Social security and health insurance liabilities are not overdue.

3.8 EMPLOYEES, EXECUTIVES AND STATUTORY BODIES

The average number of the Company's employees during the reporting period was 31 (as at 31 December 2017: 21).

The members of the Company's Board of Directors, Supervisory Board or executives did not receive as a result of performing their duties in 2018 and 2017 any advantages (advances, earnest money, loans etc.).

3.9 SIGNIFICANT OFF-BALANCE SHEET TRANSACTIONS

From its parent company, the Company received a commitment to receive a loan of TCZK 683 715.

The Company reports off-balance sheet liability from guarantees provided to group companies totalling TCZK 2 517 453.

4. Significant subsequent events

No events have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2018.

On 15 May 2019 the Company incorporated a new subsidiary, EP Sophievska BV.

Prepared on: 22 May 2019

Mgr. Pavel Horský
Vice-Chairman of the Board of Directors

Mgr. Marek Spurný
Vice-Chairman of the Board of Directors

www.eppowereurope.cz