EP Power Europe

2019 Annual Report

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Key Power Producer in Europe

Power Generation with Focus on Zero and Low-Carbon Sources

EP Power Europe

Consolidated Annual Report

for the Year 2019

Annual Report 2019

Content

Financial Highlights of the Year

		31/12/2019	31/12/2018	31/12/2017
INCOME STATEMENT				
Sales	EUR million	5,106	3,969	2,849
Gross profit	EUR million	1,325	978	914
Earnings before interest, taxes, depreciation and amortization (EBITDA)[1]	EUR million	427	327	286
Earnings before interest and tax (EBIT)	EUR million	207	103	155
Net financial result	EUR million	(37)	(12)	(31)
Profit before tax	EUR million	305	70	212
Profit for the year	EUR million	274	40	172
BALANCE SHEET				
Balance sheet total	EUR million	6,214	4,574	3,873
Equity total	EUR million	1,516	1,424	954
Net working capital	EUR million	238	209	(210)
Net financial debt[2]	EUR million	814	746	814
Net financial debt[2] (excl. loans and borrowings provided by EPH[5])	EUR million	252	332	136
CASH FLOW STATEMENT				
Cash flow from operating activities	EUR million	662	402	191
Cash flow from investing activities	EUR million	(628)	(512)	(554)
Cash flow from financing activities	EUR million	76	290	238
Change in cash and cash equivalents	EUR million	110	180	(125)
Cash and cash equivalents	EUR million	472	373	188
Capital expenditures (CAPEX)	EUR million	143	179	293
Tax paid	EUR million	17	55	73

		31/12/2019	31/12/2018	31/12/2017
RATIOS				
EBITDA margin[3]	%	8.36%	8.24%	10.04%
Leverage[4]	x	1.9x	2.3x	2.8x
Leverage[4] (excl. loans and borrowings provided by EPH[5])	x	0.6x	1.0x	0.5x
Operating KPIs				
Average number of employees	#	4,225	3,622	3,416
Net installed capacity	MW	11,817	10,078	10,181
Net power production	TWh	30.1	24.4	19.7
Emissions intensity	t CO_2 /GWh	466	527	568

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
5 Energetický a průmyslový holding, a.s. („EPH“) is a parent company of EP Power Europe, a.s.

> EPPE is becoming one of the most important power producers in the EU, providing a stable and flexible supply of power, largely from zero- or low-carbon power plants.

Jan Špringl Vice-Chairman of the Board of Directors and Chief Executive Officer

Introduction by the Vice-Chairman of the Board of Directors

Introduction by the Vice-Chairman of the Board of Directors

Dear shareholders, business partners, colleagues and friends,

2019 was a year of further growth for EP Power Europe, a.s. (“EPPE” or “Group”) with the continued transformation of our portfolio towards a more flexible and climate-friendly asset base. Through several acquisitions, we expanded the Group to achieve an even higher degree of diversification in terms of geographies and fuel types. We continue to successfully implement our key transformational projects. Notably, we have completed and commenced operations at the Lynemouth project – the conversion of a hard coal power plant into a state-of-the-art carbon-neutral biomass power generation unit. This success also positively reflected in our 2019 financials. Sales of the Group reached EUR 5,106 million, a material 29% increase compared to 2018. EBITDA of the Group also increased by 31% to EUR 427 million.

Our focus on zero and low carbon generation is the fundamental ambition of our investments and acquisitions. In 2019, we further expanded our presence in the UK and Irish markets via the acquisition of the Kilroot and Ballylumford power plants in Northern Ireland and the Tynagh power plant in the Republic of Ireland. The portfolio includes two highly flexible gas plants, battery storage and a coal power plant in Kilroot which will be replaced in the coming years by a new, highly efficient gas generation.

In addition, we entered the French market through the acquisition of a diversified power generation portfolio with an overall capacity of more than 2.3 GW, including biomass, wind, and solar capacity. The biomass plant in Provence fits perfectly with our strategy to provide much-needed capacity for security of supply from renewable sources.

In February 2019, we completed the acquisition of Fusine biomass power plant, which complements our biomass portfolio in Italy. Further, we have committed to continue transforming our Italian portfolio. In November, we were successful in the Italian capacity auction with our existing power plants and were awarded a 15-year capacity contract for new generation. This enables us to construct a new highly efficient gas-fired power plant in Tavazzano, which is expected to come online in 2023. In the UK we are also aiming to increase the flexible capacity in our portfolio; we intend to replace the recently decommissioned 2 GW coal plant with a new CCGT at market leading levels of efficiency and flexibility.

As a result of our investment programme and highly diligent operations, we have reduced further our CO_2 footprint per MWh produced – one of our central KPIs – by 12%. The total installed capacity of EPPE reached 11.8 GW in 2019. We are proud that 71% of our installed capacity is either zero or low carbon. We intend to progress our strategy of continuous CO_2 footprint reduction, whilst meeting our financial targets and simultaneously providing flexible capacity to contribute to the security of supply in our respective markets.

Our mission remains to meet the energy needs of the communities and industries of the countries we operate in by delivering reliable, affordable electricity as well as flexible capacity. EPPE is becoming one of the most important power producers in the EU, providing a stable and flexible supply of power, largely from zero- or low-carbon power plants.

We continue to focus on the social and environmental aspects of our operations and keep an open and active dialogue with different stakeholders in the regions where we operate. We carefully consider the environment, social, and economic aspects relevant to our operations and do our utmost to maintain a balanced approach to our decision making, reflecting the needs of the regions, communities, and countries we operate in.

I would like to express my thanks to our employees for their commitment and hard work, and to our investors and business partners who continue to support us in implementing our strategy. Our people are the key asset and strength of our Group. Their skills, expertise and engagement continue to be the cornerstone of our Group’s success. We look forward and remain fully committed to the execution of our strategy in the years to come.

Sincerely,

Jan Špringl
Vice-chairman of the Board of Directors
Chief Executive Officer

1 Combined Review of Operations

LEAG, Germany

> 2019 was a year of further growth with the continued transformation of our portfolio towards a more flexible and climate-friendly asset base.

1.1 Market development

MACROECONOMIC DEVELOPMENTS

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

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

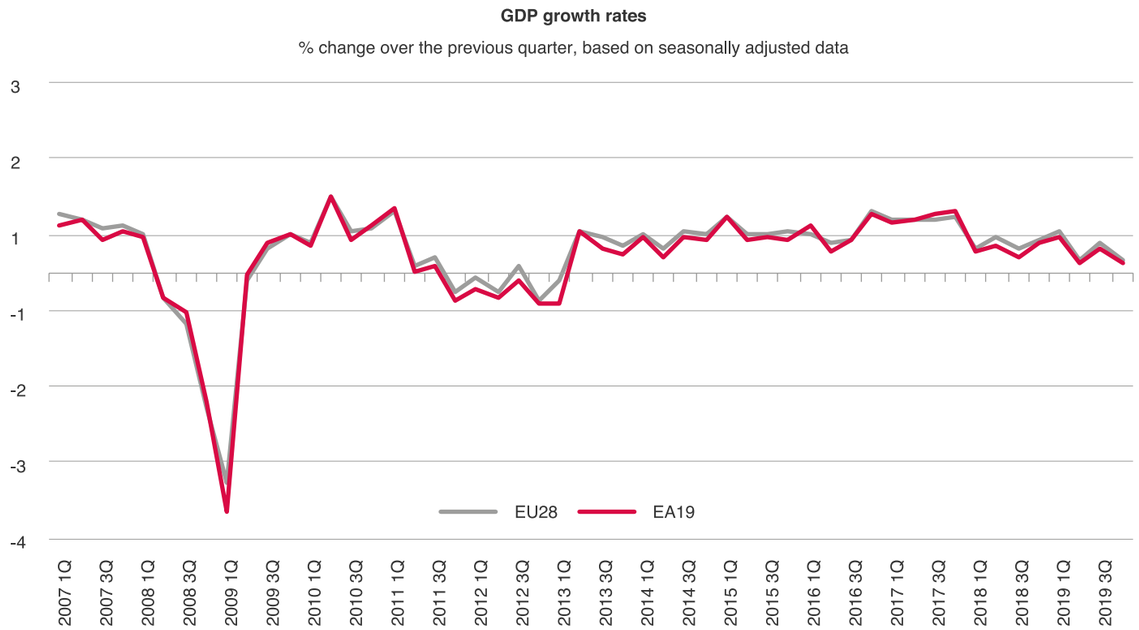


Figure 1.1: GDP growth rate in the EU. Source: Eurostat.

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

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

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

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

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

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

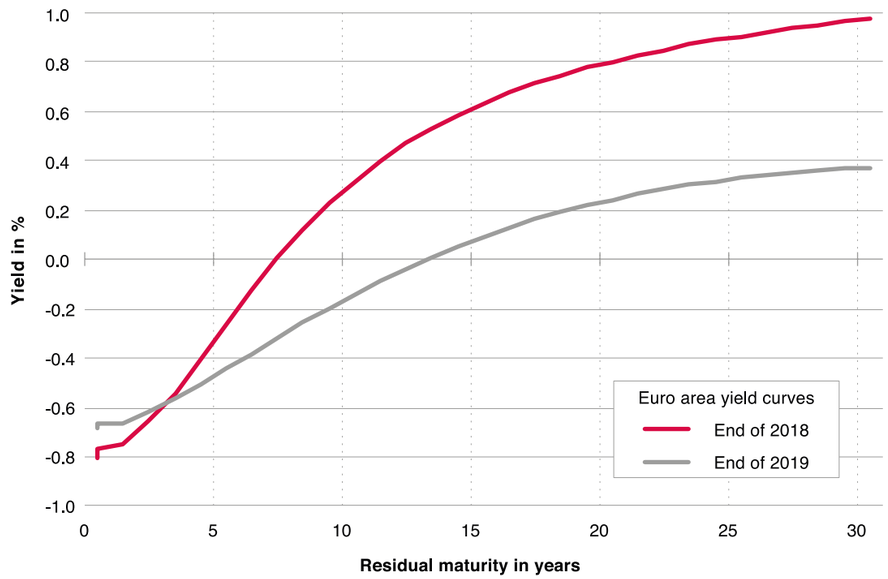


Figure 1.2: Euro area yield curves. Source: ECB.

ENERGY DEVELOPMENTS

ELECTRICITY CONSUMPTION

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

Since 2010, the combined EU electricity consumption has exhibited the opposite trend as the GDP growth which increased by 14% (+1.4% year-over-year in 2019). Regional differences remained high, with the states of Central and Eastern Europe increasing their demand while most of the western countries consuming less. The highest demand growth occurred in Malta (+19%), Lithuania (+14%)

and Poland (+11%) whereas UK (-10%), Luxembourg (-8%) and Germany (-7%) marked down the most significant decennial decrease. Contributing to the fact that electricity consumption diverges from the GDP is also the reducing role of industrial production in the EU economy. Despite the overall GDP growth, industrial production declined, which also translated into lower power demand. On the other hand, consumption becomes more driven by environment-friendly efforts observed in the increase of sales of electric cars (+50%) and heat pumps, for example.

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

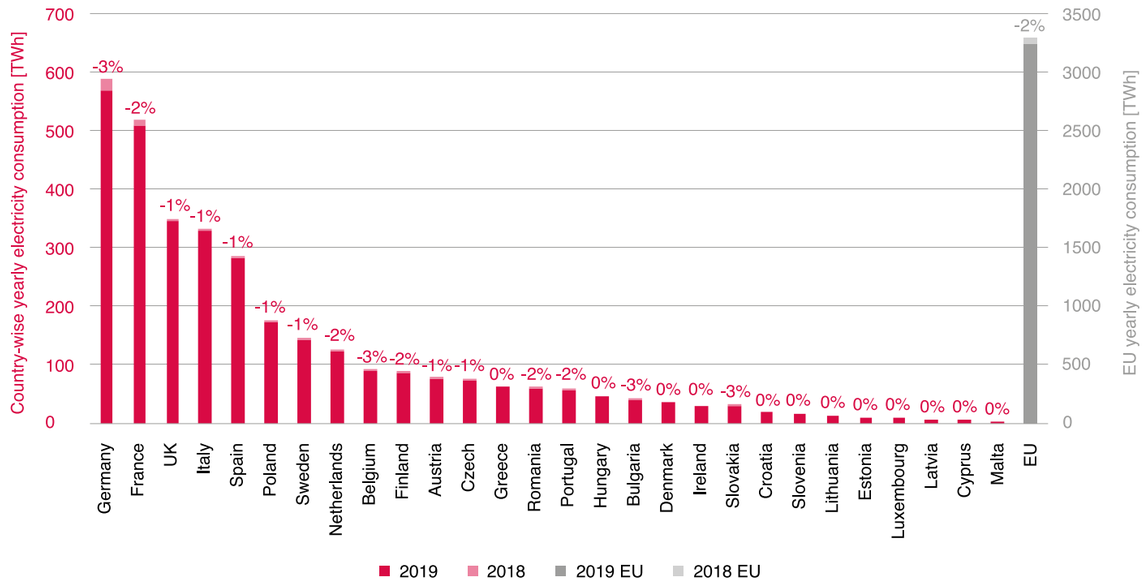


Figure 1.3: Electricity consumption in the EU. Source: Agora Energiewende, change year-on -year rounded.

CONVENTIONAL ELECTRICITY PRODUCTION

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

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

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

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

RENEWABLE ELECTRICITY PRODUCTION

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

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

European solar power plants generated 9.5 TWh more electricity than in 2018, achieving a slightly larger share in the power mix, above 4%. Almost three quarters of the increase were achieved in the Netherlands (+3 TWh), Spain (+2 TWh) and France (+2 TWh). The differences in the geographical distribution of solar generation remain high, with the lowest production linked with the northern countries (Sweden, Finland, Poland, Ireland) but also some of the sunlit: Slovenia, Hungary and Croatia produce

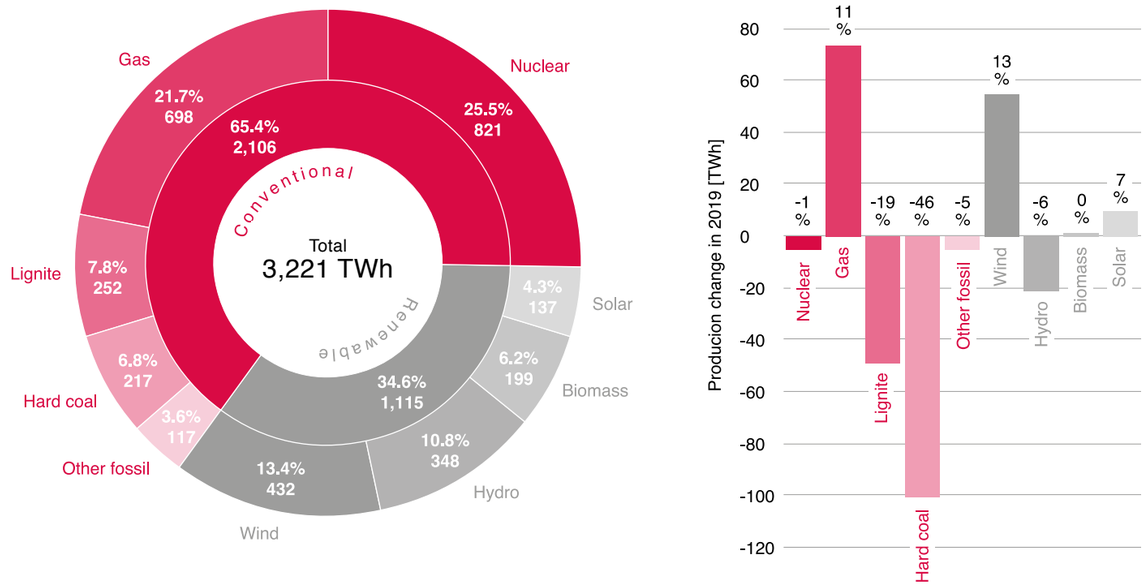


Figure 1.4: Left: shares of individual means of power generation in the electricity mix of the EU in TWh.
Right: annual change in the generated amount of power per production type. Source: Agora Energiewende.

only around 1% of their electricity from photovoltaics. On the other hand, the solar share in the power generation of Malta, Italy, Germany and Greece exceeded 8%. Last year's installations of 16.7 GW (+104%) were the highest since 2010 in the EU, benefiting mainly from low costs of solar power. The leaders in new additions were Spain (+4.7 GW) and Germany (+4 GW).

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

POWER PRICES

In most European countries, year-averaged prices of electricity dropped in 2019. The fall is the result of a variety of factors: lower prices of coal (API2 average year-ahead down by 21%) and gas (TTF average month-ahead down by 34%), higher carbon allowances prices (+58%) and increased production from cheaper renewable sources (+4%). Higher CO_2 emission allowances prices sped up the coal-to-gas switching. In 2018, running costs of new gas power plants (efficiency 58%) were on

par with old coal plants while old and less efficient (50%) gas plants were hardly competitive. However, gas plants became increasingly more profitable during 2019 when the running costs of old plants (<40 EUR/MWh) decreased below the less efficient coal sites (35%), with the new gas plants being even more advantageous than the new coal plants (45%).

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

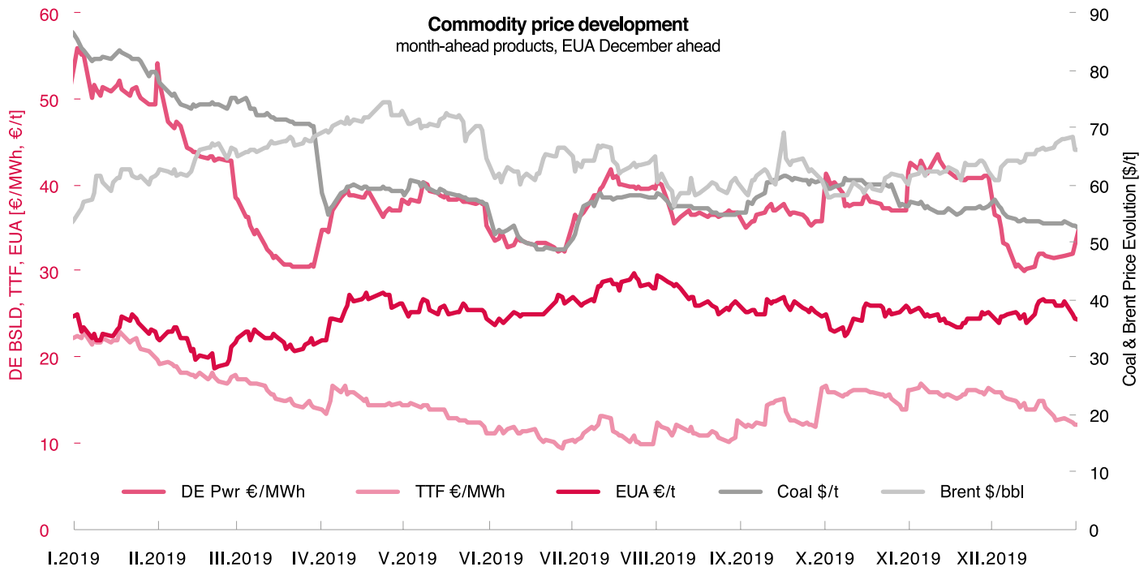


Figure 1.5: Prices development for most relevant commodities in Europe. Source: Reuters.

COAL

Coal remains a major fuel in the global energy system, accounting for almost 40% of electricity generation and more than 40% of energy-related carbon dioxide emissions. EIA's December 2019 report estimates a global coal demand in 2019 at 5.437 megatons of coal equivalent (Mtce), 0.4% down from 2018 (5.458 Mtce). Electricity generation from coal fell 3% in 2019 (24% in EU28 in 2019), with plants operating at an average of 51% of their available operating hours, a record low. From January 2018 to June 2019, countries outside of China decreased their total coal power capacity by 8.1 gigawatts (GW), due to steady retirements and an ongoing decline in the commissioning of new coal plants. Yet over the same period, China increased its coal fleet by 42.9 GW, and as a result the global coal fleet overall grew by 34.9 GW. China's coal use was still up 1% year-over-year as the country's total energy consumption rose by 3.3%.

EU coal power generation collapsed by 24% in 2019. The main driver of the coal-for-power decline was the CO_2 allowances price increase, deployment of renewables and above average temperatures. Coal-to-gas switching replaced around half of the coal, with solar and wind making up for the other

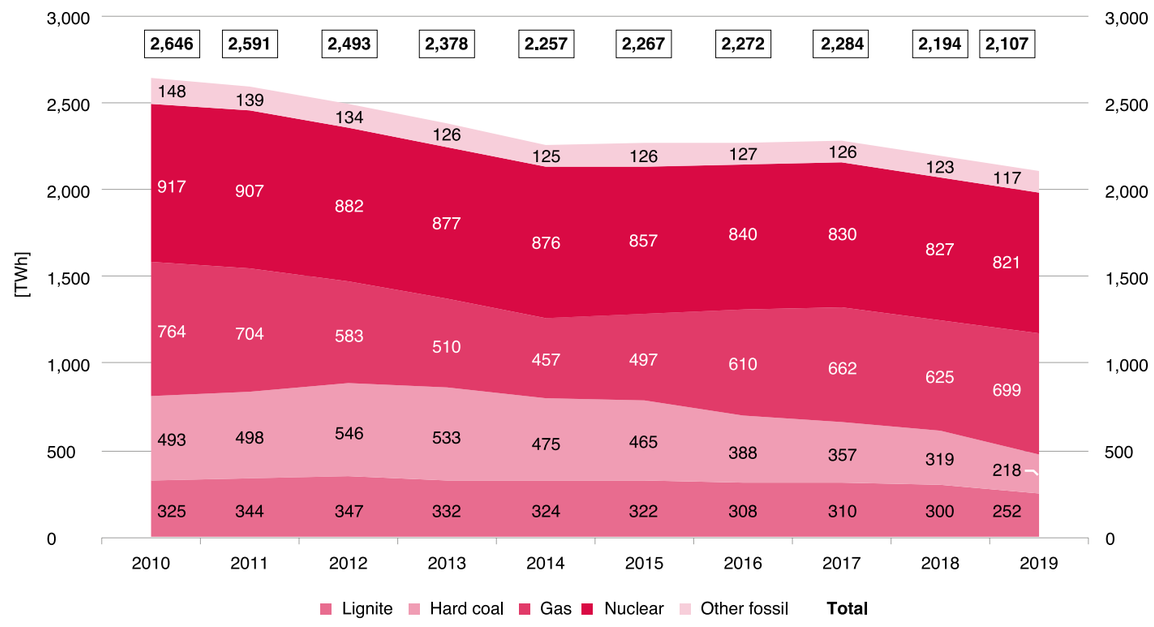


Figure 1.6: EU-28 conventional electricity generation. Source: Eurostat.

half. Hard coal generation fell 32% (-101 TWh). The most significant cuts of coal generation were in Germany and Spain, down by 26 and 24 TWh, respectively. Most of the European countries have already pledged to shut down coal power production by 2030, while Germany, with the largest remaining capacity (46.4 GW), plans the complete the phase-out by 2038. Spain and the Czech Republic are currently discussing their respective phase-outs, amounting to a total of 19.3 GW. Greece and Hungary both made commitments in 2019 to phase out coal, bringing the total of member states phasing out coal to 15. So far, no cancellation plans have been proposed in Poland, Romania, Bulgaria, Slovenia and Croatia which together comprise 36% of the remaining hard coal capacity in Europe. Out of these, Polish generation constitutes the biggest share, with the capacity of 30.4 GW. Poland expects to produce 56% of its electricity from hard coal and lignite in 2030 (75% in 2019), due to the unavailability of alternative sources of power.

European lignite power plant output dropped by 16% (-49 TWh) in 2019. The most prominent fall was in Germany (-22%) which nevertheless remains by far the biggest producer of lignite-fired power (114 TWh). Production also notably declined in Greece (-28% / 5 TWh) and Poland (-14% / 7 TWh). Lignite generation, too, was affected by higher CO_2 emission allowances prices, which in 2019 averaged 9.3 EUR/t higher than in 2018. In order to facilitate the coal and lignite phase-outs in favour of renewables, EU secretariat was established in 2019 to provide technical assistance in regions where mining and usage of coal is an essential part of the local economy. Under the proposal of the European Just Transition Mechanism, 100 billion Euros worth of support will be provided for these activities.

OIL

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

NATURAL GAS

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

Spot prices at the European gas hubs were mostly decreasing in the first three quarters, often reaching 10-year lows as was also the case for the Dutch TTF, the busiest European hub. In general, oversupply due to exceptionally high storage levels and increasing LNG imports weighed heavily on the price

curve in 2019. Prices rebounded slightly in November, supported by the onset of colder weather and uncertainties around the continuity of Russian pipeline deliveries through Ukraine. However, gas prices mostly declined afterwards until the end of year when the expectations of a sustained period of colder weather did not materialize and Russia-Ukraine talks came to an agreement. The yearly spot average at the TTF was 13.6 EUR/MWh, down by 41% on year.

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

EUA

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

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

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

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

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

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

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

POLITICAL DEVELOPMENTS AND GLOBAL TRENDS

BREXIT

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

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

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

2019–20 GLOBAL CORONAVIRUS PANDEMIC

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

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

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

COAL PHASE OUT

Belgium was the first EU country which terminated using coal, in 2016. With the Swedish and Austrian coal phase-out in April 2020, there are now three EU countries that have officially closed their coal-fired powerplants. Following countries are expected to end coal by 2025: France (2022), Slovakia (2023), Portugal (2023) and Italy (2025), according to Europe Beyond Coal. They are expected to be followed by Greece (2028), the Netherlands (2029), Finland (2029), Hungary (2030) and Denmark (2030). Discussions are currently underway in the Czech Republic, Spain and North Macedonia about when to exit coal-fired electricity. No cancellation plans have been proposed in Poland, Romania, Bulgaria, Slovenia and Croatia.

1.2 Major events

EVENTS IN THE REVIEWED FISCAL YEAR

ACQUISITION OF KILROOT AND BALLYLUMFORD POWER STATIONS

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

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

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

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

ACQUISITION OF FRENCH ASSETS FROM UNIPER

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

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

ACQUISITION OF TYNAGH POWER STATION

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

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

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

RESULTS OF CAPACITY AUCTIONS AND REINSTATEMENT OF THE CAPACITY MARKET IN THE UK

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

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

SUCCESSFUL CAPACITY AUCTIONS IN ITALY

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

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

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

OTHER MAJOR EVENTS

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

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

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

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

Combined Review of Operations

EVENTS THAT OCCURRED AFTER THE REPORTING DATE

ACQUISITION OF HUMBLY GROVE GAS STORAGE

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

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

PANDEMIC OF CORONAVIRUS

Outbreak of new human-to-human airborne or contact propagation virus ("COVID-19") was assessed by World Health Organization as pandemic on 11 March 2020, which was followed by state of emergency declared by governments, or relevant authority bodies, in countries where the Group operates. As of date of this report, more than four million cases have been reported across 210 countries and territories, including areas of the Groups' operations, resulting in more than 280,000 deaths. Further, there is no known vaccination or medicine targeting the virus. Government authorities introduced various restrictions including restriction on cross-border movement of people, on free movement of people and their gathering, closing of retailers except those necessary to serve basic needs (as food, pharmacy, cleaning agents and similar), closing of restaurants, museums, cinemas, theatres, sport facilities, etc. Except for the restrictions introduced by government authorities, the global economy is further influenced also by voluntary temporary shutdown of industries (such as automotive) or voluntary limitation of business operations. On the other hand, the infection curves are flattening and focus has turned rather to the recovery. Its length and pace will depend on policies adopted by local governments, namely health and economic policies.

The Group's management has been critically monitoring and evaluating the impacts with having implemented relevant measures. On every critical asset a special team has been set up to manage the situation, being constantly in contact with the relevant authorities and public officials. Main focus of the Group is guaranteeing health and safety of its employees, which remains the Group's top priority, and safeguarding the continuity of the essential energy security services in the countries where it operates.

The Group has performed analysis of a range of possible risks in connection with COVID-19 and has been implementing appropriate measures to mitigate the impact on employees and on the Group's operations. The risks are monitored regularly and taken measures are adjusted accordingly, as the situation remains unclear and volatile. Main measures implemented by management notably include:

- implementation of extensive home office program, where employees that do not necessarily have to work from office are asked to work from home;
- special regime for employees working in critical infrastructure – mainly dispatchers. Separation of these critical employees from others and restriction of access of other personnel to dispatching premises;
- employees in production department have been trained to adhere to very strict precautionary standards including social distancing and increased disinfection.

Based on information available currently, despite potential short-term results' volatility caused by the pandemic, the Group's performance is not expected to be significantly impaired in the medium- to long-term as the majority of its operated assets is driven by long-term contracts or regulatory-based payments. Further, given the stability of the Group resulting from the favourable position of majority of generation assets in the respective merit order, prudent hedging policy and conservative funding policy, the Group should have the ability to operate without significant financial difficulties.

The management cannot however preclude the possibility that extended lock down periods, an escalation in the severity of measures imposed by Government authorities, or a consequential adverse impact of such measures on the economic environment where the Group operates, will have an adverse effect on the Group, and its financial position and operating results, in the medium and longer term. The Group continues to monitor the situation closely and will respond to mitigate the impact of such events and circumstances as they occur.

OTHER MAJOR SUBSEQUENT EVENTS

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

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

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

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

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

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

1.3 Business performance

OPERATIONAL PERFORMANCE

PERFORMANCE OF POWER GENERATION ASSETS

As of 31 December 2019, EPPE Group consolidated 11.8 GW of net installed power capacity in Germany, the UK, Ireland, France and Italy which increased by 1.7 GW, or 17%, as compared to 31 December 2018. Given the fact the Group obtained new generation assets through acquisitions in 2019, the Group increased its net installed power capacity by 4.0 GW, of which 2.0 GW were gas assets, 1.7 GW coal assets and 0.3 GW renewables. On the top of that, the Group decommissioned 1.96 GW of net installed hard coal-fired capacity relating to Eggborough power plant and 0.3 GW of an oil fuelled capacity in 2019. As a result, more than 70% the fuel mix of Group is represented by low or zero carbon emission sources.

In 2019, Group assets generated 30.1 TWh of power, which is an increase by 5.7 TWh, or 23%, as compared to 2018. The increase is driven by aforementioned acquisitions, full year operation of Lynemouth biomass power plant and improved performance of gas assets on the UK and Italian market. On the other hand, decrease of generation in the German market was driven by market dynamics impacting production from conventional power plants.

KPI	Unit	2019	2018	2019 - 2018	%
Net installed capacity – Electricity – Total					
EPPE Group					
France	MW	2,262	-	2,262	-
Germany		1,157	1,157	-	-
UK		4,025	4,637	(612)	(13%)
Ireland		384	-	384	-
Italy		3,989	4,284	(295)	(7%)
Total – EPPE Group		**11,817**	**10,078**	**1,739**	**17%**

KPI	Unit	2019	2018	2019 - 2018	%
Net power production – Total					
EPPE Group					
France	TWh	2.4	-	2.4	-
Germany		1.4	3.2	(1.8)	(56%)
UK		11.0	7.9	3.1	39%
Ireland		0.3	-	0.3	-
Italy		15.0	13.3	1.7	13%
Total – EPPE Group		**30.1**	**24.4**	**5.7**	**23%**

SUSTAINABILITY PERFORMANCE

EMISSIONS AND ENVIRONMENTAL PROTECTION ACTIVITIES

In 2019, EPPE Group produced 14.0 million tons of carbon dioxide ("CO_2") emissions (13.0 million tons in 2018) with intensity of 466 ton CO_2 equivalent per GWh (527 ton CO_2 equivalent per GWh in 2018). The overall increase in CO_2 emissions volume is partially driven by the acquisition of generation assets in France, the UK and Ireland and by higher power production in Italy and the UK, which was partially compensated by a decline in power produced by German conventional assets. Further, the Group fuel mix was positively impacted by the fact that Lynemouth biomass power plant was operational for full year in 2019, while it commenced its operations in course of 2018 following to successful conversion from hard coal. In 2019, Lynemouth generated 2.6 TWh in its zero emissions generation facility.

Given the fact that the fuel mix of Group has changed positively towards low or zero emission sources, the Group generated 23% more power while having only 8% increase in direct Greenhouse Gas ("GHG") emissions. In other words, the emission intensity of Group's assets improved by 12% to 466 ton CO_2 equivalent per GWh.

KPI	Unit	2019	2018	2019 - 2018	%
Direct GHG Emissions (Scope 1)					
EPPE Group					
France	million tons CO_2 eq.	0.8	-	0.8	-
Germany		1.8	3.3	(1.5)	(45%)
UK		3.7	2.9	0.8	28%
Ireland		0.1	-	0.1	-
Italy		7.6	6.8	0.8	12%
Total – EPPE Group		**14.0**	**13.0**	**1.0**	**8%**

KPI	Unit	2019	2018	2019 - 2018	%
Emissions intensity – Including heat component					
EPPE Group					
France	ton CO_2 eq./GWh	352	-	352	-
Germany		1,285	949	336	35%
UK		339	368	(29)	(8%)
Ireland		392	-	392	-
Italy		505	510	(5)	(1%)
Total – EPPE Group		**466**	**527**	**(61)**	**(12%)**

In 2019, 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 Germany, Italy, the United Kingdom, the Republic of Ireland, France 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. Comprehensive information about environmental, social and governance topics can be obtained in the sustainability report annually published by EPH, the parent company of EPPE.

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

The EPPE Group is an environmentally and socially responsible operator of 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 a range of assets in France (wind and solar assets, biomass, CCGT and coal plants), CCGT plants in Ireland and in the UK and a hard coal plant in the UK which also has a smaller power battery storage. As a result, EPPE is energy efficient in terms of energy production versus energy consumption, avoids network losses and improves the security of Europe's internal energy supply.

In 2019, there was no material environmental accident in EPPE Group.

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

KPI	Unit	2019	2018	2019 - 2018	%
Headcount					
EPPE Group					
Czech Republic	#FTE	88	72	16	22%
France		518	-	518	-
Germany		2,516	2,591	(75)	(3%)
UK		506	393	113	29%
Ireland		11	-	11	-
Italy		582	566	16	3%
Switzerland		4	-	4	-
Total – EPPE Group		**4,225**	**3,622**	**603**	**17%**

KPI	Unit	2019	2018	2019 - 2018	%
Headcount					
EPPE Group					
Executives	#FTE	65	68	(3)	(4%)
Other Employees		4,160	3,554	606	17%
Total – EPPE Group		**4,225**	**3,622**	**603**	**17%**

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. Business performance was affected by rather adverse market development (chiefly lower than expected spreads and decrease of gas price leading to "coal to gas switching"), however this was compensated by long-term contracts and regulatory-based payments, namely in the form of capacity market contracts, balancing mechanism and service system contracts, capacity reserve and must run contracts, contract for difference, power purchase agreements, green energy tariffs and long-term contracts for coal offtake. Considerable part of the year-on-year increased result is attributable to 2019 acquisition in France, Northern Ireland and the Republic of Ireland.

SALES

Sales of EPPE Group improved by EUR 1,137 million, or 29%, to EUR 5,106 million (EUR 3,969 million in 2018). Generation and Mining segment increased by EUR 1,030 million, or 29%, due to increased power and gas trading sales of in-house trading entity EP Commodities, improved performance of South Humber Bank and effect of acquisitions in 2019. On the other hand, lower sales were recorded at JTSD Group and EP Mehrum as both of them were disadvantaged by German power market dynamics in 2019. Renewable energy segment increased by EUR 106 million, or 26%, primarily due to the fact that Lynemouth biomass power plant was fully operational for whole year.

External Sales	Unit	2019	2018	2019 - 2018	%
EPPE Group					
Generation and Mining	million EUR	4,591	3,561	1,030	29%
Renewable Energy		513	407	106	26%
EPPE Other		-	-	-	-
Holding Entities		2	1	1	100%
Total EPPE Group		**5,106**	**3,969**	**1,137**	**29%**

EBITDA

The presented EBITDA is defined as profit from operations plus depreciation of property, plant and equipment and amortisation of intangible assets minus impact of negative goodwill (if any). Apart from this, the EBITDA calculation does not include any further adjustments.

EBITDA of EPPE Group improved by EUR 100 million, or 31%, to EUR 427 million (EUR 327 million in 2018). Generation and Mining segment increased by EUR 20 million, or 7%, due to resumption of capacity market in the UK improving performance of South Humber Bank and EP Langage. Further, EBITDA was positively impacted by the effect of acquisitions, which was partially offset by lower performance of JTSD Group. Renewable energy segment increased by EUR 81 million, or 213%, primarily due to the fact that Lynemouth biomass power plant was fully operational for whole year.

EBITDA	Unit	2019	2018	2019 - 2018	%
EPPE Group					
Generation and Mining	million EUR	321	301	20	7%
Renewable Energy		119	38	81	213%
EPPE Other		-	-	-	-
Holding Entities		(13)	(6)	(7)	-
Inter-segment eliminations		-	(6)	6	-
Total EPPE Group		**427**	**327**	**100**	**31%**

CAPEX

The presented CAPEX is defined as additions to tangible and intangible assets excluding impact of emission rights and disregarding actual cash flows.

CAPEX of EPPE Group reached EUR 143 million (EUR 179 million in 2018). The 20% decrease in CAPEX is mainly driven by Renewable Energy segment where Lynemouth biomass conversion project was substantially completed in 2018. The largest part of Generation and Mining segment CAPEX was represented by a development of new mining fields in Germany.

CAPEX	Unit	2019	2018	2019 - 2018	%
EPPE Group					
Generation and Mining	million EUR	122	113	9	8%
Renewable Energy		21	66	(45)	(68%)
EPPE Other		-	-	-	-
Holding Entities		-	-	-	-
Inter-segment eliminations		-	-	-	-
Total EPPE Group		**143**	**179**	**(36)**	**(20%)**

Capital expenditures are necessary to maintain and improve the operations of our facilities and meet operating standards dictated by governmental regulations. Construction and maintenance costs have generally increased throughout the power industry over the past several years, and future costs will be highly dependent on the cost of components and availability of contractors that can perform the work necessary to maintain and improve other facilities.

NET FINANCIAL DEBT AND LEVERAGE

Net financial debt is calculated as a sum of Loans and borrowings less Cash and cash equivalents. Leverage is calculated as Net financial debt divided by EBITDA.

The Group's financial health is strong due to its conservative funding strategy and low leverage. Net financial debt stood at EUR 814 million at the end of the year under review (EUR 746 million in 2018). Excluding debt of EUR 562 million (EUR 414 million in 2018) provided by the parent company of EPPE, the net financial debt stood at EUR 252 million (EUR 332 million in 2018). Overall decrease of external funding by EUR 80 million, or 24%, was enabled by improved Group's operational performance illustrated by 31% increase of EBITDA. Increase of financial debt provided by parent company is to a large extent driven by acquisitions made in 2019.

Leverage (excluding debts to parent company) improved to 0.6x in 2019 as compared to 1.0x in 2018, which is driven by improved Group's operational performance and the effect of acquisitions. The total leverage (including debt to parent company) decreased to 1.9x (from 2.3x in 2018).

Net financial debt and Leverage	Unit	2019	2018	2019 - 2018	%
Loans and borrowings	million EUR	1,286	1,119	167	15%
out of which: loans and borrowings provided by EPH		562	414	148	36%
Cash and cash equivalents		472	373	99	27%
Net financial debt		**814**	**746**	**68**	**9%**
Net financial debt (excl. loans and borrowings provided by EPH)		**252**	**332**	**(80)**	**(24%)**
EBITDA		427	327	100	31%
Leverage		**1.9x**	**2.3x**	**(0.4)x**	**(17%)**
Leverage (excl. loans and borrowings provided by EPH)		**0.6x**	**1.0x**	**(0.4)x**	**(42%)**

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 2019, 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.

ACQUISITION OF OWN SHARES OR OWN OWNERSHIP INTERESTS

During the 2019, 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

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

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

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

(iii) impact on decarbonisation policy.

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

OUTLOOK FOR 2020

Performance of the Group is will be impacted, to certain extent, by COVID-19 pandemic outbreak. Possible short-term deviations are not expected to have medium and long-term impact on the Group as its key strengths remain its stability of operating results given by contracted or regulated nature of its major operations. The stability is further supported by favourable position in merit order of respective markets where the Group operates its diversified and balanced power generation fleet. Also, the robustness of the businesses is supported by strong and credible counterparties, mainly reputable energy companies.

EPPE Group continues to focus on improvements in efficiency and synergies of existing activities and prepares for further integration of new acquisitions, namely recent ones that enabled to the Group to enter the French power market and further enhance its strategic presence in the UK and Ireland. With respect to the French market, EPPE has established a partnership with Total, the French based oil and gas conglomerate, which may lead to a transfer of two gas-fired power plants with total net installed capacity of 828 MW. Further, EPPE focuses its attention to its two French hard coal-fired power plants with total net installed capacity of 1,190 MW, which have limited life time due to the governmental plan to phase out remaining French coal capacity by the end of 2022 to meet its carbon emission targets.

Recently, the Group substantially invested into programable and contracted renewable power generation capacities namely in the UK, Ireland, France and Italy, which in turn also improves stability of revenues and cash-flow of EPPE Group. A full effect of acquisitions is going to be reached in 2020, when operations will be consolidated for full period. In addition, Lynemouth power plant experienced its first year of full operation during which the production output was impacted, to certain extent, by optimization activities. Taking into account all this, the Group expects to achieve positive financial results in following years. Following to successful external refinancing at EP Produzione's and EP New Energy Italy levels, the Group is going to maintain its conservative funding strategy.

2 Management Statement

> The emission intensity of Group's assets improved by 12% comparing to 2018.

LYNEMOUTH POWER, United Kingdom

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 2019, which is prepared in accordance with the Czech accounting legislation.

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

The Consolidated Financial Statements of the 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 2019. In addition, the Group´s review of operations includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

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

Prague, 20 May 2020

Mgr. Marek Spurný

Vice-Chairman of the Board of Directors

Mgr. Pavel Horský

Vice-Chairman of the Board of Directors

3 Report on Relations

In 2019, the Group increased its net installed power capacity by 4.0 GW through acquisitions and decommissioned 1.96 GW of coal-fired and 0.3 GW of oil-fueled capacity.

EP PRODUZIONE, Italy

Report on Relations

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

–

prepared by the board of directors of EP Power Europe, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 278 58 685, in accordance with Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended)

(the "**Report**")

I. PREAMBLE

The Report has been prepared pursuant to Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended).

The Report has been submitted for review to the Company's supervisory board in accordance with Section 83 (1) of the Corporations Act (Act No.90/2012 Coll., as amended), and the supervisory board's position will be communicated to the Company's general meeting deciding on the approval of the Company's ordinary financial statements and on the distribution of profit or the settlement of loss.

The Report has been prepared for the 2019 accounting period.

II. STRUCTURE OF RELATIONS BETWEEN THE ENTITIES

CONTROLLED ENTITY

The controlled entity is EP Power Europe, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 278 58 685, registered in the Commercial Register of 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
Reg. No.: 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 2019, no other actions were taken at the initiative or in the interest of the controlling entity that would concern assets exceeding 10% of the controlled entity's equity as determined from the most recent financial statements.

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

V. 1. 1. IN 2019, THE FOLLOWING LOAN AGREEMENTS WERE IN PLACE

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

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 18 September 2018, a loan agreement, including valid amendments, 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 including valid amendments 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 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 8 July 2019, a loan agreement was signed by and between EP Power Europe, a.s. as the creditor, and EP France S.A.S., as the debtor.

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

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

On 18 October 2019, a loan agreement was signed by and between EP Power Europe, a.s. as the creditor, and EP Resources AG, as the debtor.

On 28 November 2019, a loan agreement was signed by and between EP Power Europe, a.s. as the creditor, and EP Ukraine B.V., as the debtor.

V. 1. 2. IN 2019, THE FOLLOWING AGREEMENTS ON THE CONTRIBUTION INTO THE OTHER CAPITAL FUNDS WERE CONCLUDED

On 28 June 2019, an agreement on the contribution into the other capital fund was signed by EP Power Europe, a.s. as the shareholder, and NADURENE a.s.

V. 1. 3. OTHER CONTRACTS VALID IN 2019

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 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.

On 1 November 2019, an agreement on the provision of guarantees was signed by and between EP Power Europe, a.s. as the guarantor, and EP Langage Limited, Lynemouth Power Limited, and EP SHB Limited.

V. 1. 4. IN 2019, 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 (the sublease agreement) 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 on 2 January 2017, between EP Power Europe, a.s. as the interested party, and Energetický a průmyslový holding, a.s. as the provider.

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

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

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

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

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

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

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

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

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 1 January 2018.

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

An agreement, including valid amendments, on providing professional assistance concluded on 1 January 2018 between EP Power Europe, a.s. as the provider, and EP UK Investments Ltd as the interested party.

An agreement on providing professional assistance concluded on 1 January 2018, between EP Power Europe, a.s. as the provider, and EP Mehrum GmbH as the interested party.

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

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

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

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

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

An agreement on providing professional assistance concluded on 2 January 2019, between EP Power Europe, a.s. as the provider, and EP Energy, a.s. as the interested party.

An agreement on providing professional assistance concluded on 1 January 2019 between EP Power Europe, a.s. as the provider, and EP Coal Trading, a.s. as the interested party.

An agreement on providing professional assistance concluded on 1 January 2019 between EP Power Europe, a.s. as the provider, and EP Logistics International, a.s. as the interested party.

An agreement on providing professional assistance concluded on 2 January 2019 between EP Power Europe, a.s. as the provider, and Saale Energie GmbH as the interested party.

An agreement on providing professional assistance concluded on 2 January 2019 between EP Power Europe, a.s. as the provider, and EP France S.A.S. as the interested party.

An agreement on providing professional assistance concluded on 2 January 2019 between EP Power Europe, a.s. as the provider, and JTSD Braunkohlebergbau GmbH as the interested party.

An agreement on providing professional assistance concluded on 1 April 2019 between EP Power Europe, a.s. as the provider, and EP New Energies GmbH as the interested party.

An agreement on providing professional assistance concluded on 1 August 2019 between EP Power Europe, a.s. as the provider, and EP Resources AG as the interested party.

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 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 2019 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 2019 to 31 December 2019, we have included all information known at the date of signing this report regarding the following:

- agreements 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 or 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, 30 March 2020

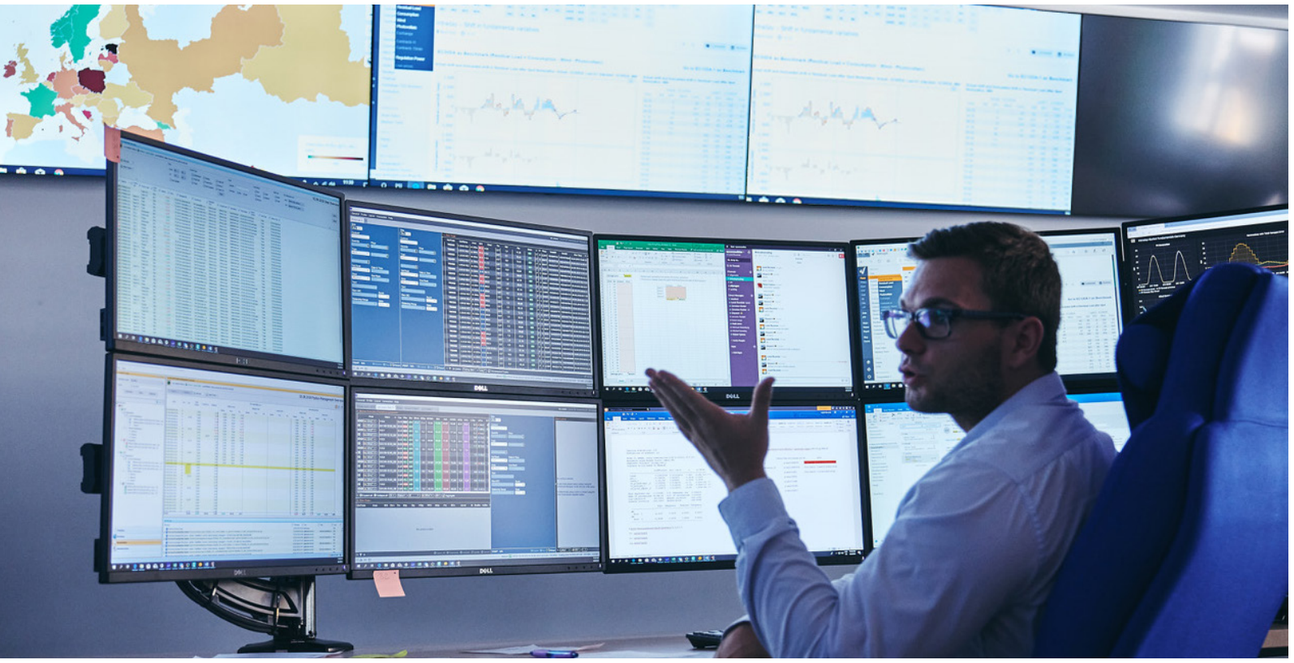
Mgr. Marek Spurný

Vice-Chairman of the Board of Directors

Mgr. Pavel Horský

Vice-Chairman of the Board of Directors

4 Consolidated Financial Statements
and Notes to the Consolidated Financial Statements



Consolidated EBITDA increased year-on-year by 31% to EUR 427 million.

EP COMMODITIES, Czech Republic

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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 Shareholder 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 2019, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Group is set out in Note 1 to the consolidated financial statements.

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

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the consolidated financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the separate and the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

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

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

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

Responsibilities of the Statutory Body and Supervisory Board for the Consolidated Financial Statements

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

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

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

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

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

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

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

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

Statutory Auditor Responsible for the Engagement

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 2019, based on which this independent auditor's report has been prepared.

Prague
20 May 2020

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Evidenční číslo 71

Karel Charvát
Partner
Evidenční číslo 2032

EP Power Europe

Consolidated Financial Statements

as of and for the year ended 31 December 2019

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

Consolidated statement of comprehensive income

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

	Note	2019	2018
Sales: Energy	6	4,933	3,828
of which: Electricity		*3,744*	*2,579*
Gas		*966*	*976*
Coal		*216*	*268*
Heat		*3*	*3*
Other energy products		*4*	*2*
Sales: Other	6	170	182
Gain (loss) from commodity derivatives for trading with electricity and gas, net		3	(41)
Total sales		**5,106**	**3,969**
Cost of sales: Energy	7	(3,701)	(2,880)
Cost of sales: Other	7	(80)	(111)
Total cost of sales		**(3,781)**	**(2,991)**
Subtotal		**1,325**	**978**
Personnel expenses	8	(293)	(271)
Depreciation and amortisation	15, 16	(281)	(224)
Repairs and maintenance		(58)	(54)
Emission rights, net	9	(305)	(134)
Negative goodwill	5	61	-
Taxes and charges	10	(91)	(73)
Other operating income	11	85	90
Other operating expenses	12	(239)	(213)
Own work capitalized		3	4
Profit (loss) from operations		**207**	**103**
Finance income	13	24	12
Finance expense	13	(56)	(50)
Profit (loss) from financial instruments	13	(5)	26
Net finance income (expense)		**(37)**	**(12)**
Share of profit (loss) of equity accounted investees, net of tax	17	135	(21)
Profit (loss) before income tax		**305**	**70**
Income tax expenses	14	(31)	(30)
Profit (loss) for the year		**274**	**40**

	Note	2019	2018
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences from foreign operations	14	(11)	7
Foreign currency translation differences from presentation currency	14	18	(8)
Effective portion of changes in fair value of cash-flow hedges, net of tax	14	(219)	408
Fair value reserve included in other comprehensive income, net of tax	14	(23)	21
Other comprehensive income for the year, net of tax		**(235)**	**428**
Total comprehensive income for the year		**39**	**468**
Profit (loss) attributable to:			
Owners of the Company		269	35
Non-controlling interest	26	5	5
Profit (loss) for the year		**274**	**40**
Total comprehensive income attributable to:			
Owners of the Company		34	462
Non-controlling interest	26	5	6
Total comprehensive income for the year		**39**	**468**
Total basic and diluted earnings per share in EUR	**25**	**2,286.81**	**297.54**

The notes presented on pages 74 to 200 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

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

	Note	2019	2018
Assets			
Property, plant and equipment	15	2,332	1,752
Intangible assets	16	187	93
Goodwill	16	41	41
Equity accounted investees	17	763	869
Restricted cash	22	-	-
Financial instruments and other financial assets	29	464	64
Trade receivables and other assets	20	113	142
Deferred tax assets	18	68	62
Total non-current assets		**3,968**	**3,023**
Inventories	19	320	177
Extracted minerals and mineral products		6	6
Trade receivables and other assets	20	788	512
Financial instruments and other financial assets	29	431	292
Prepayments and other deferrals		20	37
Tax receivables	23	167	129
Restricted cash	22	42	25
Cash and cash equivalents	21	472	373
Total current assets		**2,246**	**1,551**
Total assets		**6,214**	**4,574**
Equity			
Share capital	24	905	555
Other reserves	24	(460)	109
Retained earnings		997	701
Total equity attributable to equity holders		**1,442**	**1,365**
Non-controlling interest	26	74	59
Total equity		**1,516**	**1,424**

	Note	2019	2018
Liabilities			
Loans and borrowings	27	313	520
Financial instruments and financial liabilities	29	43	32
Provisions	28	1,276	728
Contract liabilities	6	-	-
Deferred tax liabilities	18	90	35
Trade payables and other liabilities	30	102	93
Total non-current liabilities		**1,824**	**1,408**
Trade payables and other liabilities	30	948	698
Contract liabilities	6	119	-
Loans and borrowings	27	973	599
of which owed to shareholders		*552*	*413*
Financial instruments and financial liabilities	29	323	132
Provisions	28	503	310
Deferred income		1	-
Current income tax liability	14	7	3
Total current liabilities		**2,874**	**1,742**
Total liabilities		**4,698**	**3,150**
Total equity and liabilities		**6,214**	**4,574**

The notes presented on pages 74 to 200 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

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

	Attributable to owners of the Company									
	Share capital	Share premium	Other capital funds from capital contributions	Non-distributable reserves	Translation reserve	Fair value reserve	Other capital reserves	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total Equity
Balance as at 1 January 2019 (A)	**555**	**-**	**89**	**9**	**(12)**	**(13)**	**(498)**	**534**	**701**	**1,365**	**59**	**1,424**
Total comprehensive income for the year:												
Profit or loss (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**269**	**269**	**5**	**274**
Other comprehensive income:												
Foreign currency translation differences for foreign operations	-	-	-	-	(11)	-	-	-	-	(11)	-	**(11)**
Foreign currency translation differences from presentation currency	-	-	-	-	18	-	-	-	-	18	-	**18**
Fair value reserve included in other comprehensive income, net of tax	-	-	-	-	-	(23)	-	-	-	(23)	-	**(23)**
Effective portion of changes in fair value of cash-flow hedges, net of tax	-	-	-	-	-	-	-	(219)	-	(219)	-	**(219)**
Total other comprehensive income (C)	**-**	**-**	**-**	**-**	**7**	**(23)**	**-**	**(219)**	**-**	**(235)**	**-**	**(235)**
Total comprehensive income for the year (D) = (B + C)	**-**	**-**	**-**	**-**	**7**	**(23)**	**-**	**(219)**	**269**	**34**	**5**	**39**
Contributions by and distributions to owners:												
Increase of share capital	350	-	-	-	-	-	(350)	-	-	-	-	**-**
Contribution to equity	-	-	13	-	-	-	-	-	-	13	-	**13**
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	(4)	**(4)**
Transfer to non-distributable reserves – creation of legal fund	-	-	-	3	-	-	-	-	(3)	-	-	**-**
Total contributions by and distributions to owners (E)	**350**	**-**	**13**	**3**	**-**	**-**	**(350)**	**-**	**(3)**	**13**	**(4)**	**9**
Changes in ownership interests in subsidiaries:								**-**				
Effect of changes in shareholding on non-controlling interests	-	-	-	-	-	-	-	-	30	30	2	**32**
Effect of acquisitions through business combinations	-	-	-	-	-	-	-	-	-	**-**	12	**12**
Total changes in ownership interests in subsidiaries (F)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30**	**30**	**14**	**44**
Total transactions with owners (G) = (E + F)	**350**	**-**	**13**	**3**	**-**	**-**	**(350)**	**-**	**27**	**43**	**10**	**53**
Balance as at 31 December 2019 (H) = (A + D + G)	**905**	**-**	**102**	**12**	**(5)**	**(36)**	**(848)**	**315**	**997**	**1,442**	**74**	**1,514**

The notes presented on pages 74 to 200 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

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

	Attributable to owners of the Company									
	Share capital	Share premium	Other capital funds from capital contributions	Non-distributable reserves	Translation reserve	Fair value reserve	Other capital reserves	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total Equity
Balance as at 1 January 2018	**555**	**-**	**81**	**5**	**(10)**	**(34)**	**(498)**	**126**	**674**	**899**	**55**	**954**
Adjustment on initial application of IFRS 9 (net of tax)	-	-	-	-	-	-	-	-	(4)	(4)	-	**(4)**
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)[1]	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**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**

The notes presented on pages 74 to 200 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

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

	Note	2019	2018
OPERATING ACTIVITIES			
Profit (loss) for the year		274	40
Adjustments for:			
Income taxes	14	31	30
Depreciation and amortisation	15, 16	281	224
Impairment losses on property, plant and equipment, intangible assets and financial assets	12, 13	12	2
Non-cash (gain) loss from commodity derivatives for trading with electricity, gas and emission rights, net	6, 9	(3)	78
(Gain) loss on disposal of property, plant and equipment, investment property and intangible assets	11	(4)	12
Emission rights	9	305	134
Share of (profit) loss of equity accounted investees	17	(135)	21
(Gain) loss on financial instruments	13	(7)	(26)
Net interest expense	13	35	23
Change in allowance for impairment to trade receivables and other assets, write-offs		(6)	16
Change in provisions		(28)	(69)
Negative goodwill	5	(61)	-
Foreign exchange (gains) losses, net		21	20
Operating profit before changes in working capital		**715**	**505**
Change in trade receivables and other assets		316	(167)
Change in inventories (including proceeds from sale)		(28)	4
Change in extracted minerals and mineral products		-	1
Change in trade payables and other liabilities		(291)	126
Change in restricted cash		(8)	4
Cash generated from (used in) operations		**704**	**473**
Interest paid		(25)	(16)
Income taxes paid		(17)	(55)
Cash flows generated from (used in) operating activities		**662**	**402**

	Note	2019	2018
INVESTING ACTIVITIES			
Loans provided to the owners		(569)	(407)
Repayment of loans provided to the owners		253	93
Proceed (outflows) from sale (settlement) of financial instruments		(33)	(11)
Acquisition of property, plant and equipment and intangible assets	15, 16	(124)	(179)
Purchase of emission rights	16	(245)	(94)
Proceeds from sale of emission rights		11	61
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		21	16
Acquisition of subsidiaries and associates, net of cash acquired	5	(19)	-
(Increase) decrease in participation in existing subsidiaries, joint-ventures and associates		68	-
Interest received		9	9
Cash flows from (used in) investing activities		**(628)**	**(512)**
FINANCING ACTIVITIES			
Proceeds from loans received	27	474	779
Repayment of borrowings	27	(383)	(487)
Finance fees paid from repayment of borrowings		(6)	-
Payment of lease liability	32	(5)	-
Dividends paid		(4)	(2)
Cash flows from (used in) financing activities		**76**	**290**
Net increase (decrease) in cash and cash equivalents		*110*	*180*
Cash and cash equivalents at beginning of the year		**373**	**188**
Effect of exchange rate fluctuations on cash held		(11)	5
Cash and cash equivalents at end of the year		**472**	**373**

The notes presented on pages 74 to 200 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") 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, commodity trading and mining sectors.

On 27 December 2019 EP Power Europe, a.s. merged with its subsidiary company EPPE Italy N.V. The merger resulted in issue of new shares. This issue of shares increased share capital of the Company by EUR 350 million (CZK 8,923 million).

The consolidated financial statements of the Company for the year ended 31 December 2019 comprise the statements of the Parent Company and its subsidiaries (together referred to as the "Group" or "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 2019 were as follows:

In millions of EUR

	Interest in share capital		Voting rights
	MEUR	%	%
Energetický a průmyslový holding, a.s.	905	100.00	100.00
Total	**905**	**100.00**	**100.00**

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 Energetický a průmyslový holding, a.s. as at 31 December 2019 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 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 members of the Board of Directors as at 31 December 2019 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 20 May 2020.

B BASIS OF MEASUREMENT

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

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

- 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 loans and borrowings and 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 6 – judgements relating to recognition of revenues from customers;
- Note 5 – information relating to assessment of the control over the subsidiaries;
- 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 2019 THAT HAVE BEEN APPLIED IN PREPARING THE GROUP'S FINANCIAL STATEMENTS

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

IFRS 16 Leases

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

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

Definition of a lease

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

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

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

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

Lessor accounting

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

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

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

Lessee accounting

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

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

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

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

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

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

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

In millions of EUR

	Land and buildings	Technical equipment, plant and machinery
Balance at 1 January 2019	5	9
Balance at 31 December 2019	7	5

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

Service part of a lease payment

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

Lease term

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

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

Lease of land or lease of land and building

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

Subleasing

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

Sale and lease back

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

Renewal options

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

Transition

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

The weighted average incremental borrowing rate applied to discount lease liabilities as at 1 January 2019 was 2.26 %.

In millions of EUR

	1 January 2019
Right-of-use assets presented in property, plant and equipment	14
Deferred tax asset	-
Lease liabilities presented in loans and borrowings	14
Retained earnings	-

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

II. STANDARDS NOT YET EFFECTIVE

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

Amendments to References to the Conceptual Framework in IFRS Standards (Effective for annual periods beginning on or after 1 January 2020)

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

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

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

Amendment to IFRS 3 – Definition of a Business
(Effective for annual periods beginning on or after 1 January 2020 (not adopted by EU yet))

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

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

Amendments to IAS 1 and IAS 8 – Definition of Material
(Effective for annual periods beginning on or after 1 January 2020)

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

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

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

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

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

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

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

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

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

3. Significant Accounting Policies

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

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

A BASIS OF CONSOLIDATION

I. SUBSIDIARIES

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

II. EQUITY ACCOUNTED 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.

B FOREIGN CURRENCY

I. FOREIGN CURRENCY TRANSACTIONS

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

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

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

Foreign exchange differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of FVOCI equity instruments, 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. TRANSLATION TO PRESENTATION CURRENCY

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

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

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

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

C NON-DERIVATIVE FINANCIAL ASSETS

I. CLASSIFICATION

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

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

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

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

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

- the financial asset is held within a business model whose objective is achieved by both collection contractual cash flows and selling financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding ("SPPI test").

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

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

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

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

II. RECOGNITION

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

III. MEASUREMENT

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

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

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

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

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

IV. DERECOGNITION

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

V. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

D NON-DERIVATIVE FINANCIAL LIABILITIES

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

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

E DERIVATIVE FINANCIAL INSTRUMENTS

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

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

OTHER NON-TRADING DERIVATIVES

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

SEPARABLE EMBEDDED DERIVATIVES

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

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

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

CASH FLOW HEDGES AND FAIR VALUE HEDGES

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

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

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

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

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

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

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

TRANSACTIONS WITH EMISSION RIGHTS AND ENERGY

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

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

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

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

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

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

F CASH AND CASH EQUIVALENTS

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

G INVENTORIES

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

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

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

H IMPAIRMENT

I. NON-FINANCIAL ASSETS

The carrying amounts of the Group's assets, other than inventories (refer to accounting policy (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)

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

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

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

contract assets, the Group has elected to measure loss allowances at an amount equal to lifetime ECLs.

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

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

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

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

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

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

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

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

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

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

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

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

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

PRESENTATION OF LOSS ALLOWANCES

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

III. EQUITY ACCOUNTED INVESTEES

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

I PROPERTY, PLANT AND EQUIPMENT

I. OWNED ASSETS

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (refer to accounting policy (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

POLICY APPLICABLE BEFORE 1 JANUARY 2019

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

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

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

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

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

POLICY APPLICABLE FROM 1 JANUARY 2019

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

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.

J INTANGIBLE ASSETS

I. GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

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

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

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

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

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

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

II. RESEARCH AND DEVELOPMENT

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

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

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

III. EMISSION RIGHTS

RECOGNITION AND MEASUREMENT

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

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

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

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

IMPAIRMENT OF EMISSION RIGHTS

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

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

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

RECOGNITION OF GRANTS

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

RECOGNITION, MEASUREMENT OF PROVISION

A provision is recognised regularly during the year based on the estimated number of tonnes of CO_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 (h) – Impairment).

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

V. AMORTISATION

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

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

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

K PROVISIONS

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

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

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

I. EMPLOYEE BENEFITS

LONG-TERM EMPLOYEE BENEFITS

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

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

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

Pension plans

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

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

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

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

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

SHORT-TERM EMPLOYEE BENEFITS

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

II. WARRANTIES

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

III. PROVISION FOR LAWSUITS AND LITIGATIONS

Settlement of a lawsuit represents an individual potential obligation. 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.

L LEASES

POLICY APPLICABLE FROM 1 JANUARY 2019

DEFINITION OF A LEASE

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

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

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

LESSOR ACCOUNTING

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

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

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

LESSEE ACCOUNTING

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

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

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

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

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

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

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

SERVICE PART OF A LEASE PAYMENT

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

LEASE TERM

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

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

LEASE OF LAND OR LEASE OF LAND AND BUILDING

In the event of the lease of land that is not covered by IAS 41 or IAS 2, it is always an operating lease. In the

case of the lease of a building and land, the total rent is divided proportionately into rent for the building and rent for the land in accordance with the fair value.

SUBLEASING

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

SALE AND LEASE BACK

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

RENEWAL OPTIONS

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

M REVENUE

I. REVENUES FROM CONTRACTS WITH CUSTOMERS

The Group applies a five-step model to determine when to recognise revenue, and at what amount. The 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.

- *Grid balancing services*

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

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

- *Coal mining and sale of coal*

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

II. DERIVATIVES WHERE THE UNDERLYING ASSET IS A COMMODITY

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

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

At the date of the financial statements, trading derivatives are measured at fair value. The change in fair value is recognised in profit or loss. In the separate accounts, the measurement is recognised in profit or loss from financial operations. For the purposes of Group reporting, where trading 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".

III. GOVERNMENT GRANTS

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

IV. 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 and associates

On 15 December 2016 EPPE acquired from EPH 100% share in EP United Kingdom, s.r.o. (“EP UK”)[1] 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”)[2] 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.

(1) EP United Kingdom, s.r.o. merged with EP Power Europe, a.s. as at 1 May 2017. EP Power Europe, a.s. is the successor company.
(2) EPPE Italy, N.V. merged with EP Power Europe, a.s. as at 1 January 2019 (the merger was registered on 27 December 2019, with 1 January 2019 as an effective date). EP Power Europe, a.s. is the successor company.

A ACQUISITIONS

I. 31 DECEMBER 2019

In millions of EUR

	Date of acquisition	Equity interest acquired %	Equity interest after acquisition %
New subsidiaries			
Fusine Energia S.r.l.	7/02/2019	100	100
EP Kilroot Limited and EP Ballylumford Limited	12/06/2019	100	100
EP France S.A.S and its subsidiaries and associates (EP France Group)	9/07/2019	[1]100/25	[1]100/25
Tynagh Energy Limited	29/10/2019	80	80
Total		-	-

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

FUSINE ENERGIA S.R.L.

On 7 February 2019, EPPE Group through the subsidiary EP New Energy Italia S.r.l. acquired Fusine Energia S.r.L. (“Fusine”) from Holcim Italia Group. The acquired company operated the biomass power plant in Fusine, province of Sondrio, with an installed capacity of 7 MW. The operation is part of the strategy of the Group to develop the renewable energy business. This is the third investment in biomass energy done by EPPE.

EP KILROOT LIMITED AND EP BALLYLUMFORD LIMITED

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

EP FRANCE GROUP

On 9 July 2019, EP Power Europe, a.s. and Uniper successfully concluded the negotiations announced at the end of December 2018 on the sale of Uniper's activities in France.

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

TYNAGH ENERGY LIMITED

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

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

ACQUISITION OF NON-CONTROLLING INTEREST

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

II. 31 DECEMBER 2018

There was no material acquisition of business in 2018.

B EFFECT OF ACQUISITIONS

I. 31 DECEMBER 2019

SUBSIDIARIES

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

In millions of EUR

	Carrying amount[1]	Fair value adjustment	2019 Total[1]
Property, plant, equipment, land, buildings	420	230	650
Intangible assets	36	33	69
Trade receivables and other assets	612	(9)	603
Financial instruments – assets	8	-	8
Inventories	136	(40)	96
Cash and cash equivalents	133	-	133
Restricted cash	7	-	7
Deferred tax asset	4	24	28
Provisions	(443)	(174)	(617)
Deferred tax liabilities	(19)	(66)	(85)
Loans and borrowings	(93)	50	(43)
Trade payables and other liabilities	(653)	29	(624)
Net identifiable assets and liabilities	**148**	**77**	**225**
Non-controlling interest			(12)
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(61)
Cost of acquisition			**152**
Consideration paid, satisfied in cash (A)			152
Purchase price liability			-
Consideration, other			-
Total consideration transferred			**152**
Less: Cash acquired (B)			133
Net cash inflow (outflow) (C) = (B – A)			**(19)**

(1) Represents values at 100% share.

II. 31 DECEMBER 2018

There was no material acquisition of business in 2018.

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 2019, the Group recognized negative goodwill of EUR 61 million from the acquisition of Fusine Energia S.r.l., EP Kilroot Limited and EP Ballylumford Limited, EP France Group and Tynagh Energy Limited.

Gain on a bargain purchase from the acquisition of Tynagh Energy Limited (EUR 21 million) is chiefly driven by the fact that the former shareholders were seeking exit from the investment due to change of asset risk profile from contracted asset to merchant asset and risks related to transformation from Single Electricity Market (SEM) to Integrated Single Electricity Market (I-SEM) introduced in October 2018. On the contrary, EPPE Group considered I-SEM to be an opportunity which would complement earlier acquisitions in Northern Ireland.

Gain on a bargain purchase from the acquisition of Uniper's energy assets in France (EUR 28 million) is driven by decision of the seller, German energy group Uniper, which considered the plan for coal exit by 2022 outlined by the French government, to have a negative effect on these assets. Uniper has concluded after strategic review to sell these assets considering the risks and negative outlook. For EPPE Group the acquisition was an opportunity to enter the French energy market, to diversify and expand its generation capacity including renewables and biomass, and opportunity to leverage its experience in managing assets approaching end of life cycle.

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

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

In millions of EUR

	2019 Total
Revenue of the acquirees recognised since the acquisition date	1,264
Profit (loss) of the acquirees recognised since the acquisition date	(10)

The following table provides information on the estimated revenues and profit or loss that would have been included in the consolidated statement of comprehensive income, if the acquisition had occurred at the beginning of the reporting period (i.e. as at 1 January 2019); this financial information was derived from the statutory or IFRS financial statements of the acquired entities.

In millions of EUR

	2019 Total
Revenue of the acquirees recognised in the year ended 31 December 2019*	3,247
Profit (loss) of the acquires recognised in the year ended 31 December 2019*	15

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

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

C BUSINESS COMBINATIONS – ACQUISITION ACCOUNTING 2019 AND 2018

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

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

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

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

Fair value adjustments resulting from business combinations in 2019 are presented in the following table:

In millions of EUR

	Property, plant and equipment	Intangible assets	Provisions	Other	Deferred tax asset/ (liability)	Total net effect on financial position
Subsidiary						
EP Kilroot Limited and EP Ballylumford Limited	99	-	(123)	(18)	(1)7	**(35)**
EP France S.A.S and its subsidiaries and associates (EP France Group)	182	33	(51)	54	(56)	**162**
Tynagh Energy Limited	(51)	-	-	(6)	7	**(50)**
	230	**33**	**(174)**	**30**	**(42)**	**77**

(1) Represents increase in deferred tax asset and decrease in deferred tax liability.

The fair value adjustments resulting from the purchase price allocation of Fusine Energia S.r.l. and were not significant and therefore management of the Group decided not to recognise any fair value adjustment resulting from this business combination in 2019.

D DISPOSAL OF INVESTMENTS

I. 31 DECEMBER 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 and deconsolidated without any significant impact on the Group's financial statements.

On 1 January 2019, an internal reorganization involving NADURENE a.s. took place. Assets, liabilities and equity of NADURENE a.s., including interest in subsidiary companies EP New Energy Italia S.r.l. and Biomasse Servizi S.r.l., were split into 49% and 51% share respectively. 51% share subsequently merged with EP Power Europe, a.s. and 49% share demerged into separate company NADURENE 2, a.s. in which EP Power Europe, a.s. held 100% interest as at the effective date of reorganization.

On 31 June 2019, EP Power Europe, a.s. sold 100% share in NADURENE 2, a.s. to Lausitz Energie Bergbau AG ("LEB"), a joint-venture company in which the Group owns 50% interest. As a result of this transaction, the Group lost control of NADURENE 2, a.s. and started to recognize its interest in NADURENE 2, a.s. as an equity accounted investee. Full method of consolidation of EP New Energy Italia S.r.l. and its subsidiary companies and Biomasse Servizi S.r.l. has not been affected after the sale as EP Power Europe, a.s. has retained 51% interest (75.5% effective ownership interest of the Group) as well as management control over the companies.

EPPE Group recognised non-controlling interest of EUR 8 million as a result of the transaction. As the consideration was received by the EPPE Group from its 50% equity accounted investee, half of the consideration represents a transfer within the Group with no impact on equity. The difference between remaining 50% of the consideration received and non-controlling interest recognised of EUR 28 million was recorded directly in equity. LEAG Group's share in EP New Energy Italia S.r.l. and its subsidiary companies and Biomasse Servizi S.r.l. is not included in carrying amount of LEAG Group to prevent double counting, which led to a decrease in the carrying amount of LEAG Group by EUR 36 million.

II. 31 DECEMBER 2018

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

6. Sales

In millions of EUR

	2019	2018
Sales: Energy		
of which: Electricity	3,744	(1)2,579
Gas	966	(1)976
Coal	216	268
Heat	3	3
Other	4	2
Total Energy	**4,933**	**(1)3,828**
Sales: Other	**170**	**182**
Total Revenues from customers	**5,103**	**(1)4,010**
Gain (loss) from commodity derivatives for trading with electricity and gas, net	**3**	**(1)(41)**
Total	**5,106**	**(1)3,969**

(1) For improved presentation of the effect of derivatives on revenues and cost of sales the comparative amounts for the year ended 31 December 2018 were adjusted by EUR 25 million (increase of Sales: Energy (Electricity) and decrease of Gain (loss) from commodity derivatives for trading with electricity and gas, net), EUR 47 million (increase of Sales: Energy (Gas) and decrease of Gain (loss) from commodity derivatives for trading with electricity and gas, net) and EUR 95 million (decrease of Cost of sold gas and other energy products and increase of Gain (loss) from commodity derivatives for trading with electricity and gas, net).

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

In the following table, revenues are disaggregated by geographical location of delivery of goods and services.

In millions of EUR

	2019	2018
United Kingdom	1,433	1,041
Italy	1,152	1,295
Germany	885	886
France	557	-
Czech Republic	286	215
Switzerland	151	168
Ireland	22	-
Other	620	364
Total	**5,106**	**3,969**

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

Contract liabilities primarily relate to deferred income arising from energy sales.

In millions of EUR

	31 December 2019	31 December 2018
Contract liabilities	119	-
Current	*119*	-
Non-current	-	-

7. Cost of sales

In millions of EUR

	2019	2018
Cost of Sales: Energy		
Cost of sold electricity	1,342	477
Cost of sold gas and other energy products	1,236	(1)1,240
Consumption of fuel and other material	988	1,055
Consumption of energy	11	23
Other cost of sales	124	85
Total Energy	**3,701**	**(1)2,880**
Cost of Sales: Other		
Other cost of goods sold	43	50
Other cost of sales	25	48
Consumption of material	12	9
Consumption of energy	5	6
Changes in WIP, semi-finished products and finished goods	(5)	(2)
Total Other	**80**	**111**
Total	**3,781**	**(1)2,991**

(1) For improved presentation of the effect of derivatives on revenues and cost of sales the comparative amounts for the year ended 31 December 2018 were adjusted by EUR 25 million (increase of Sales: Energy (Electricity) and decrease of Gain (loss) from commodity derivatives for trading with electricity and gas, net), EUR 47 million (increase of Sales: Energy (Gas) and decrease of Gain (loss) from commodity derivatives for trading with electricity and gas, net) and EUR 95 million (decrease of Cost of sold gas and other energy products and increase of Gain (loss) from commodity derivatives for trading with electricity and gas, net).

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

	2019	2018
Wages and salaries	211	184
Compulsory social security contributions	49	51
Expenses and revenues related to employee benefits (IAS 19)	17	23
Other social expenses	16	13
Total	**293**	**271**

The average number of employees during 2019 was 4,225 (2018: 3,622), of which 65 were executives (2018: 68).

9. Emission rights

In millions of EUR

	2019	2018
Profit (loss) from sale of emission rights	(21)	(48)
Creation of provision for emission rights	(321)	(195)
Gain (loss) from commodity derivatives for trading with emission rights, net	32	109
Deferred income (grant) released to profit and loss	5	-
Use of provision for emission rights	215	76
Consumption of emission rights	(215)	(76)
Total	**(305)**	**(134)**

The Ministries of the Environment of the Czech Republic, Germany, Italy, France, Ireland and United Kingdom set a limit on the amount of a pollutant that can be emitted. Companies are granted emission allowances and are required to hold an equivalent number of allowances which represent the right to emit a specific amount of pollutant. The total amount of allowances and credits cannot exceed the cap, limiting total emissions to that level. Companies that need to increase their emission allowance must buy credits from those who pollute less or from other market participants. The transfer of allowances is referred to as a trade. Refer to Note 3(e) – Derivative financial instruments – Transactions with emission rights and energy, Note 3(j) iii – Intangible assets – Emission rights and Note 3(k) iv – Provisions – Provision for emission rights for more details on accounting policies on emission rights.

The companies that participate in the emission rights programme are JTSD – Braunkohlebergbau GmbH, Helmstedter Revier GmbH, Kraftwerk Mehrum GmbH, Lynemouth Power Limited, EP UK Investments LTD and its selected subsidiaries, EP Produzione S.P.A. and its selected subsidiaries, Gazel Energie Generation S.A.S and Gazel Energie Solutions S.A.S.

10. Taxes and charges

In millions of EUR

	2019	2018
Carbon price support[1]	56	56
Property tax and real estate transfer tax	20	5
Electricity tax	7	8
Other taxes and charges expenses (revenues)	8	4
Total	**91**	**73**

(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

	2019	2018
Consulting fees	19	21
Tolling fee	15	15
Compensation from insurance companies	9	8
Inventories surplus	6	6
Revenues from written off liabilities	6	-
Contractual penalties	5	7
Ecological tax reimbursement	5	5
Profit from disposal of tangible and intangible assets	4	13
Rental income	2	2
Profit from sale of material	1	2
Other	13	11
Total	**85**	**90**

12. Other operating expenses

In millions of EUR

	2019	2018
Office equipment and other material	56	51
Consulting expenses	30	34
Change in provisions, net	29	(13)
Outsourcing and other administration fees	23	25
Insurance expenses	20	9
Rent expenses	13	16
Environmental expenses	11	6
Information technologies costs	8	6
Transport expenses	4	3
Re-transmission fee[1]	3	10
Training, courses, conferences	3	3
Security services	3	3
Gifts and sponsorship	2	2
Communication expenses	2	1
Contractual penalties	1	3
Advertising expenses	1	2
Shortages and damages	1	1
Administrative expenses	1	-
Impairment losses	(7)	17
Of which relates to: Inventories	*4*	-
Trade receivables and other assets	*(11)*	*15*
Property, plant and equipment and intangible assets	-	*2*
Other	35	34
Total	**239**	**213**

(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.

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

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

RECOGNISED IN PROFIT OR LOSS

In millions of EUR

	2019	2018
Interest income	16	11
Net foreign exchange gain	7	-
Other finance income	1	1
Finance income	**24**	**12**
Interest expense incl. various financing and refinancing related fees	(41)	(26)
Interest expense from unwind of provision discounting	(10)	(8)
Fees and commissions expense for other services	(5)	(15)
Net foreign exchange loss	-	(1)
Finance expense	**(56)**	**(50)**
Profit (loss) from other derivatives for trading	11	-
Profit (loss) from interest rate derivatives for trading	(4)	1
Impairment losses on financial assets[1]	(12)	-
Profit (loss) from financial assets at FVTPL[2]	-	25
Profit (loss) from hedging derivatives	-	6
Profit (loss) from financial assets at FVOCI	-	(2)
Profit (loss) from commodity derivatives for trading	-	(4)
Profit (loss) from financial instruments	**(5)**	**26**
Net finance income (expense) recognised in profit or loss	**(37)**	**(12)**

(1) For details refer to Note 17 – Equity accounted investees.

(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 31 December 2018, EPPE held 11% indirect share in ME, recorded in Financial instruments and other financial assets. In 2019 the Group sold whole 11% interest in ME to a third party, no gain or loss from the transaction was reported.

14. Income tax expenses

INCOME TAXES RECOGNISED IN PROFIT OR LOSS

In millions of EUR

	2019	2018
Current taxes:		
Current year	(34)	(47)
Adjustment for prior periods	(3)	4
Total current taxes	**(37)**	**(43)**
Deferred taxes:		
Origination and reversal of temporary differences	6	13
Total deferred taxes	**6**	**13**
Total income taxes (expense) benefit recognised in profit or loss	**(31)**	**(30)**

Deferred taxes are calculated using currently enacted tax rates expected to apply when the asset is realised or the liability settled. According to Czech legislation the corporate income tax rate is 19% for fiscal years 2019 and 2018. The German federal income tax rate range for 2019 is 28.47% – 30.00% (2018: 28.66% – 30.00%). Italian income tax rate for fiscal year 2019 is 24% (2018: 24%), British income tax rate for fiscal year 2019 is 19% (2018: 19%), Irish income tax rate for fiscal year 2019 is 12.5% and French income tax rate for fiscal year 2019 is 31%.

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

In millions of EUR

	2019		
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	(11)	-	(11)
Foreign currency translation differences from presentation currency	18	-	18
Effective portion of changes in fair value of cash-flow hedges[1]	(222)	3	(219)
Fair value reserve included in other comprehensive income	(25)	2	(23)
Total	**(240)**	**5**	**(235)**

(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

	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.

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

RECONCILIATION OF THE EFFECTIVE TAX RATE

In millions of EUR

	2019		2018	
	%		%	
Profit before tax		305		70
Income tax using the Company's domestic rate (19%)	19.0%	58	19.0%	13
Effect of tax rates in foreign jurisdictions	4.3%	13	12.8%	9
Non-deductible expenses[1]	4.0%	12	17.0%	12
Other non-taxable income[2]	(14.8%)	(45)	(5.7%)	(4)
Change in tax rate	(1.6%)	(5)	(1.4%)	(1)
Tax incentives	(1.3%)	(4)	(1.4%)	(1)
Current year losses for which no deferred tax asset				
was recognised	0.3%	1	14.3%	10
Recognition of previously unrecognised tax losses	(0.6%)	(2)	(7.1%)	(5)
Withholding tax, income tax adjustments for prior periods	0.9%	3	(4.3%)	(3)
Income taxes recognised in profit or loss	**10.2%**	**31**	**43.2%**	**30**

(1) The basis consists mainly of a permanent difference between local GAAP and IFRS for NBV of fixed assets and provisions in the amount of EUR 20 million, valuation allowance to financial investment in Ergosud S.P.A. in the amount of EUR 12 million and non-deductible interest expense in the amount of EUR 6 million (2018: share of loss of equity accounted investees of EUR 21 million and interest expense of EUR 14 million).

(2) The basis consists mainly of the share of profit of equity accounted investees of EUR 135 million and negative goodwill of EUR 61 million (2018: interest income of EUR 4 million and revaluation of investment in Mátrai Erőmű ZRt. of EUR 7 million).

15. Property, plant and equipment

In millions of EUR

	Land and buildings[1]	Technical equipment, plant and machinery[1]	Other equipment, fixtures and fittings	Under construction	Total
Cost					
Balance at 31 December 2018	**318**	**2,361**	**4**	**26**	**2,709**
Adjustment for change in accounting policy (IFRS 16)	5	9	-	-	**14**
Balance at 1 January 2019	**323**	**2,370**	**4**	**26**	**2,723**
Effects of movements in foreign exchange rates	1	54	-	1	**56**
Additions	7	98	1	35	**141**
Disposals	(1)	(30)	-	-	**(31)**
Additions through business combinations[2]	81	543	6	20	**650**
Transfers	6	32	-	(38)	**-**
Balance at 31 December 2019	**417**	**3,067**	**11**	**44**	**3,539**
Depreciation and impairment losses					
Balance at 1 January 2019	**(77)**	**(879)**	**(1)**	**-**	**(957)**
Effects of movements in foreign exchange rates	-	(8)	-	-	**(8)**
Depreciation charge for the year	(15)	(245)	(1)	-	**(261)**
Disposals	-	19	-	-	**19**
Impairment losses recognised in profit or loss	-	-	-	-	**-**
Balance at 31 December 2019	**(92)**	**(1,113)**	**(2)**	**-**	**(1,207)**
Carrying amounts					
At 1 January 2019	**246**	**1,491**	**3**	**26**	**1,766**
At 31 December 2019	**325**	**1,954**	**9**	**44**	**2,332**

(1) Including right-of-use assets.
(2) Purchase of Fusine Energia S.r.L., EP Kilroot Limited and EP Ballylumford Limited, EP France Group and Tynagh Energy Limited.

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**

IDLE ASSETS

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

SECURITY

As at 31 December 2019, property, plant and equipment with carrying value of EUR 892 million (2018: EUR 913 million) is subject to pledges from financial indebtedness.

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 2019	**68**	**19**	**24**	**130**	**3**	**244**
Effect of movements in foreign exchange rates	-	-	1	2	(1)	**2**
Additions	-	2	250	-	2	**254**
Disposals	-	-	(206)	-	(5)	**(211)**
Additions through business combinations[1]	-	2	25	34	8	**69**
Balance at 31 December 2019	**68**	**23**	**94**	**166**	**7**	**358**
Amortisation and impairment losses						
Balance at 1 January 2019	**(27)**	**(11)**	**-**	**(72)**	**-**	**(110)**
Effect of movements in foreign exchange rates	-	-	-	-	-	**-**
Amortisation for the year	-	(4)	-	(16)	-	**(20)**
Disposals	-	-	-	-	-	**-**
Balance at 31 December 2019	**(27)**	**(15)**	**-**	**(88)**	**-**	**(130)**
Carrying amount						
At 1 January 2019	**41**	**8**	**24**	**58**	**3**	**134**
At 31 December 2019	**41**	**8**	**94**	**78**	**7**	**228**

(1) Purchase of EP Kilroot Limited and EP Ballylumford Limited, EP France Group and Tynagh Energy Limited.

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 2019, EPPE Group purchased emission allowances of EUR 245 million (2018: EUR 94 million). Emission allowances of EUR 5 million were allocated to the Group by the respective authorities.

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

Other intangible assets comprise valuable rights and capacity market certificates.

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

The Group has also carried out research activities reflected in these consolidated financial statements. Research costs are recognised as operating expenses in the income statement immediately when incurred. No significant research costs were incurred during 2019 and 2018.

IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL

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

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

In millions of EUR

	31 December 2019	31 December 2018
Biomasse Crotone S.P.A.	20	20
Biomasse Italia S.P.A.	16	16
Helmstedter Revier GmbH	5	5
Total goodwill	**41**	**41**

The balance of goodwill has not changed in 2019 (2018: no change).

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 five-year business plan followed by projected results based on expected useful life of the individual assets. Where relevant, cash-flows for a terminal period were extrapolated using a constant growth rate of 1.5% (2018: 2%), which does not exceed the long-term average growth rate for the industry. Other key assumptions considered by management include forecasts of commodity market prices, future electricity and gas prices, CO_2 allowances prices, foreign exchange rates, investment activity, changes in working capital and changes in the regulatory framework.

The discount rates used in estimating value in use were estimated based on the principle of an average market participant using peer companies (i.e. companies operating in a comparable industry and listed on world markets) as a standard for observing respective betas, debt to equity ratios and size adjustment parameters used for calculation. The resulting discount rate ranged from 3.83% to 6.46% (2018: 7.21%).

The 2019 year testing showed no need for impairment as no CGU with the recoverable value lower than the carrying value including goodwill was identified (2018: 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 2019 %	Carrying amount 31 December 2019
LEAG Group[1]	*(2)*	50.00	623
Kraftwerk Schkopau GbR	Germany	[3]41.90	66
Ergosud S.P.A.	Italy	50.00	49
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	[3]50.00	21
Fernwärme GmbH Hohenmölsen – Webau	Germany	[3]48.96	4
Total		**-**	**763**

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**

(1) Refer to Note 35 – Group entities for detail of entities included in LEAG Group.
(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.

LEAG GROUP

In 2019, EP Power Europe, a.s. sold 100% share in NADURENE 2, a.s. (and indirect 49% share in subsidiaries held by NADURENE 2, a.s.) to LEAG Group. Subsidiaries held by NADURENE 2, a.s. remain fully consolidated by EPPE Group. LEAG Group's share in EP New Energy Italia S.r.l. and its subsidiary companies and Biomasse Servizi S.r.l. is not included in carrying amount of LEAG Group to prevent double counting, which led to a decrease in the carrying amount of LEAG Group by EUR 36 million. For details refer to Note 5 (d).

ERGOSUD S.P.A.

In 2019, the Group reported a valuation allowance of EUR 12 million (2018: EUR 0 million) to its financial investment in Ergosud S.P.A., which was recorded as a result of the impairment test carried out as at 31 December 2019. The impairment test reflects the new commercial agreement that established a lower tolling fee that Ergosud S.P.A. will receive for using of its production capacity from the tollers. The carrying amount of the investment in Ergosud S.P.A. as at 31 December 2019 therefore decreased to EUR 49 million (2018: EUR 57 million).

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 2019 %	Share of profit (loss) 2019
LEAG Group	*(1)*	*(2)*	131
Ergosud S.P.A.	Italy	50.00	3
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	(3)50.00	3
Kraftwerk Schkopau GbR	Germany	(3)41.90	(2)
Total		**-**	**135**

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
Kraftwerk Schkopau GbR	Germany	(3)41.90	(2)
LEAG Group	*(1)*	*(2)*	(26)
Total		**-**	**(21)**

(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 2019 and 2018 and for the years then ended.

In millions of EUR

	2019	2018
Statement of financial position information		
Total assets	**5,724**	**6,418**
Non-current assets	2,328	3,015
Current assets	3,396	3,403
of which: cash and cash equivalents	*1,208*	*584*
other current assets	*2,188*	*2,819*
Total liabilities	**4,479**	**4,983**
Non-current liabilities	2,902	2,715
of which: financial liabilities (excluding trade payables)	*16*	*10*
other non-current liabilities	*2,886*	*2,705*
Current liabilities	1,577	2,268
of which: financial liabilities (excluding trade payables)	*966*	*1,418*
other current liabilities	*611*	*850*
Equity	**1,245**	**1,435**
Statement of comprehensive income information		
Revenues	2,340	2,340
of which: interest income	-	*2*
Depreciation and amortization	(258)	(254)
Interest expense	(52)	(50)
Income tax expense	-	-
Profit (loss) for the year	**262**	**(52)**
Other comprehensive income	(379)	772
Total comprehensive income for the year	**(117)**	**720**

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

In millions of EUR

Associates and joint ventures	Revenue	Profit (loss)	Other comprehensive income	Total comprehensive income	Assets	Liabilities	Equity
Kraftwerk Schkopau GbR[1]	31	7	-	7	215	106	109
Kraftwerk Schkopau Betriebsgesellschaft GmbH[1]	105	-	-	-	7	7	-
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH[1]	59	7	-	7	60	30	30
Fernwärme GmbH Hohenmölsen – Webau[1]	5	-	-	-	14	4	10
Ergosud S.P.A.	36	7	-	7	272	150	122
Total	**236**	**21**	**-**	**21**	**568**	**297**	**271**

(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]	5	210	105	1
Kraftwerk Schkopau Betriebsgesellschaft GmbH[1]	-	7	-	7
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH[1]	26	34	19	11
Fernwärme GmbH Hohenmölsen – Webau[1]	14	-	1	3
Ergosud S.P.A.	224	48	124	26
Total	**269**	**299**	**249**	**48**

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

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

In millions of EUR

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.

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 2019 Assets	31 December 2019 Liabilities	31 December 2019 Net	31 December 2018 Assets	31 December 2018 Liabilities	31 December 2018 Net
Property, plant and equipment	24	(94)	(70)	32	(69)	(37)
Intangible assets	6	(21)	(15)	12	(14)	(2)
Investment securities at amortised cost	-	(2)	(2)	-	(3)	(3)
Inventories	4	-	4	3	-	3
Provisions	83	-	83	88	-	88
Employee benefits (IAS 19)	1	(14)	(13)			
Loans and borrowings	-	-	-	2	-	2
Tax losses	27	-	27	13	-	13
Derivatives	1	(33)	(32)	-	(28)	(28)
Other items	50	(54)	(4)	-	(9)	(9)
Subtotal	**196**	**(218)**	**(22)**	**150**	**(123)**	**27**
Set-off tax	(128)	128	-	(88)	88	-
Total	**68**	**(90)**	**(22)**	**62**	**(35)**	**27**

MOVEMENTS IN DEFERRED TAX DURING THE YEAR

In millions of EUR

Balances related to:	Balance at 1 January 2019	Recognised in profit or loss	Recognised in other comprehen-sive income	Acquired in business combina-tions[1]	Effect of movements in foreign exchange rate	Balance at 31 December 2019
Property, plant and equipment	(37)	(7)	-	(26)	-	(70)
Intangible assets	(2)	(4)	-	(9)	-	(15)
Investment securities at amortised cost	(3)	-	-	-	1	(2)
Inventories	3	1	-	1	(1)	4
Provisions	88	(5)	-	-	-	83
Employee benefits (IAS 19)	-	1	2	(16)	-	(13)
Trade receivables and other assets	-	(1)	-	1	-	-
Loans and borrowings	2	(1)	-	-	(1)	-
Tax losses	13	13	-	-	1	27
Derivatives	(28)	(5)	3	-	(2)	(32)
Other	(9)	14	-	(8)	(1)	(4)
Total	**27**	**6**	**5**	**(57)**	**(3)**	**(22)**

(1) The purchase of Fusine Energia S.r.L., EP Kilroot Limited and EP Ballylumford Limited, EP France Group and Tynagh Energy Limited.

In millions of EUR

Balances related to:	Balance at 1 January 2018	Recognised in profit or loss	Recognised in other comprehen-sive 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)	2	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**

UNRECOGNISED DEFERRED TAX ASSETS

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

In millions of EUR

	31 December 2019	31 December 2018
Tax losses carried forward	40	6
Total	**40**	**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 2019	31 December 2018
Gazel Energie Generation S.A.S.	36	-
EPPE Germany a.s.	3	3
EP France S.A.S.	1	-
EPPE Italy N.V.	-	3
Total	**40**	**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 2019, then the associated tax income (savings) would be up to EUR 12 million (2018: EUR 1 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

	2020	2021	2022	2023	After 2024	Total
Tax losses	-	3	-	-	37	**40**

Tax losses expire over a period of 5 years in the Czech Republic, 9 years in the Netherlands for standard tax losses and indefinitely in France. Under current tax legislation, some deductible temporary differences do not expire. Deferred tax assets have not been recognised in respect of these items because, due to the varying nature of the sources of these profits, it is not probable that future taxable profit against which the Group can utilise the benefits from the deferred tax assets will be available.

19. Inventories

In millions of EUR

	31 December 2019	31 December 2018
Fossil fuel	124	31
Spare parts	96	50
Raw material and supplies	60	63
Overburden	31	24
Finished goods and merchandise	8	5
Work in progress	1	4
Total	**320**	**177**

As at 31 December 2019, inventories in the amount of EUR 43 million were subject to pledges (2018: EUR 40 million).

20. Trade receivables and other assets

In millions of EUR

	31 December 2019	31 December 2018
Trade receivables	590	500
Uninvoiced supplies	104	-
Advance payments	88	100
Subsidies related to renewable energy	52	36
Other accrued income	34	5
Estimated receivables	8	8
Other receivables and assets	31	24
Allowance for bad debts	(6)	(19)
Total	**901**	**654**
Non-current	113	142
Current	788	512
Total	**901**	**654**

In 2019, no receivables were written-off through profit or loss (2018: EUR 0 million).

As at 31 December 2019, trade receivables with a carrying value of EUR 204 million are subject to pledges (2018: EUR 125 million).

As at 31 December 2019, trade receivables and other assets amounting EUR 891 million are not past due (2018: EUR 650 million), remaining balance of EUR 10 million is overdue (2018: EUR 4 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 2019	31 December 2018
Current accounts with banks	472	373
Total	**472**	**373**

As at 31 December 2019, cash equivalents of EUR 99 million are subject to pledges (2018: EUR 116 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 2019, the balance of restricted cash is represented mainly by EUR 20 million cash on debt service reserve account by EP UK Finance Limited (2018: EUR 0 million). EUR 15 million (2018: EUR 21 million) represents security given by Eggborough Power Limited ("EPL") to the pension fund, this is expected to remain in place until risk on the schemes funding deficit is eliminated. EUR 3 million restricted cash on Pension Escrow accounts and EUR 1 million as a collateral for electricity market is recorded by EP Ballylumford Limited and EP Kilroot Limited (2018: EUR 0 million). EUR 1 million is represented by collateralised cash with National Grid relating to grid connection charges and EUR 1 million represented by collateral with National Grid relating to balancing mechanism (deposited with Elexon) by EP UK Investments LTD (2018: EUR 2 million represented by collateralised cash with National Grid and EUR 2 million collateral with National Grid relating to balancing mechanism deposited with Elexon) and EUR 1 million represents cash on major maintenance reserve account by Tynagh Energy Limited.

23. Tax receivables

In millions of EUR

	31 December 2019	31 December 2018
Value added tax receivables	147	88
Current income tax receivables	13	32
Withholding tax receivables	2	1
Other tax receivables	5	8
Total	**167**	**129**

24. Equity

SHARE CAPITAL AND SHARE PREMIUM

The authorised, issued and fully paid share capital as at 31 December 2019 consisted of 117,631 ordinary shares with a par value of CZK 200 thousand each (2018: 73,014 shares with a par value of CZK 200 thousand each).

On 27 December 2019 EP Power Europe, a.s. merged with EPPE Italy N.V. The merger resulted in an increase in the Company's share capital by CZK 8,923 million (EUR 350 million) by issuing additional 44,617 ordinary shares with a par value of CZK 200 thousand each.

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 2019

	Number of shares	Ownership %	Voting rights %
Energetický a průmyslový holding, a.s.	117,631	100.00	100.00
Total		**100.00**	**100.00**

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**

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

	Number of shares 2019
Shares outstanding at the beginning of the year	73,014
Issued ordinary shares at 27 December 2019	44,617
Shares outstanding at the end of the year	**117,631**

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

Reserves recognised in equity comprise the following items:

In millions of EUR

	31 December 2019	31 December 2018
Hedging reserve	315	534
Other capital funds from capital contributions[1]	102	89
Non-distributable reserves	12	9
Translation reserve	(5)	(12)
Fair value reserve	(36)	(13)
Other capital reserves	(848)	(498)
Total	**(460)**	**109**

(1) This balance includes 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 amount of EUR 13 million (2018: EUR 8 million).

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 and associates summarises the effects of all common control acquisitions and disposals.

In 2019 other capital reserves decreased by EUR 350 million in relation to the process of the merger of the Company with its subsidiary EPPE Italy N.V. The merger resulted in an increase in the Company's share capital by EUR 350 million from the revaluation surplus arising from the merger. The difference between share capital increase and the revaluation surplus, that was fully eliminated from the Group's equity as it does not represent a change in control or in resources available to the Group, was recorded in other capital reserves.

NON-DISTRIBUTABLE RESERVES

The legal reserve of EUR 12 million was reported as at 31 December 2019 (2018: EUR 9 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).

25. Earnings per share

BASIC EARNINGS PER SHARE

Basic earnings per share in EUR per 1 share of CZK 200,000 nominal value equal 2,286.81 (2018: 297.54).

The calculation of basic earnings per share as at 31 December 2019 was based on a profit attributable to ordinary shareholders of EUR 269 million (2018: EUR 35 million), and a weighted average number of ordinary shares outstanding of 117,631 (2018: 117,631).

On 27 December 2019 the company issued 44,617 ordinary shares with a par value of CZK 200,000 each. Increase of share capital was a result of merger of the Company with its subsidiary EPPE Italy N.V. 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 2019

In millions of shares

	Nominal	Weighted
Issued ordinary shares at the beginning of the year	73,014	73,014
Issued shares on 27 December 2019 (1 share/200 000 CZK) – common control transaction[1]	44,617	44,617
Total	**117,631**	**117,631**

(1) Transaction does not represent increase in available resources, therefore it is reflected retrospectively in the calculation of weighted number of shares.

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
Issued shares on 27 December 2019 (1 share/200 000 CZK) – common control transaction[1]	44,617	44,617
Total	**117,631**	**117,631**

(1) Transaction does not represent increase in available resources, therefore it is reflected retrospectively in the calculation of weighted number of shares.

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 2019

In millions of EUR

	EP Produzione Centrale Livorno Ferraris S.P.A.	JTSD – Braunkohle-bergbau GmbH, its subsidiaries and associates	Tynagh Energy Limited	EP New Energy Italia S.r.l., its subsidiaries and associates	Other individually immaterial subsidiaries	Total
Non-controlling percentage	**25.00%**	**10.00%**	**20.00%**	**24.50%**		
Business activity	Production of electricity and heat	Coal mining and production of electricity	Production of electricity	Production of electricity		
Country	Italy	Germany	Ireland	Italy		
Carrying amount of NCI at 31 December 2019	**42**	**7**	**13**	**9**	**3**	**74**
Profit (loss) attributable to non-controlling interest	**2**	**1**	**1**	**1**	**-**	**5**
Dividends declared	**(4)**	**-**	**-**	**-**	**-**	**(4)**
Statement of financial position information[1]						
Total assets	211	754	111	245		
of which: non-current	*138*	*535*	*68*	*142*		
current	*73*	*219*	*43*	*103*		
Total liabilities	41	648	47	209		
of which: non-current	*13*	*358*	*24*	*126*		
current	*28*	*290*	*23*	*83*		
Net assets	**170**	**106**	**64**	**36**		
Statement of comprehensive income information[1]						
Total revenues	248	423	23	146		
of which: dividends received	-	-	-	-		
Profit after tax	7	9	3	10		
Total comprehensive income for the year[1]	**7**	**9**	**3**	**10**		
Net cash inflows (outflows)[1]	**-**	**16**	**(19)**	**(11)**		

(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 2018

In millions of EUR

	EP Produzione Centrale Livorno Ferraris S.P.A.	JTSD – Braunkohleberg-bau 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	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 (loss) 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.

27. Loans and borrowings

In millions of EUR

	31 December 2019	31 December 2018
Loans payable to credit institutions	580	600
Loans payable to other than credit institutions	560	420
of which loans payable to sole shareholder[1]	*552*	*413*
Revolving credit facility	62	56
Factoring loans	54	43
Bank overdraft	16	-
Lease liabilities	14	-
Total	**1,286**	**1,119**
Non-current	313	520
Current	973	599
Total	**1,286**	**1,119**

(1) As at 31 December 2019, the nominal amount of loans payable to sole shareholder amounts to EUR 562 million (31 December 2018: EUR 414 million). These amounts are disregarding accrued unamortized interest on interest-free loans as this interest will not cause future cash flows.

The weighted average interest rate on loans for 2019 was 1.96% (2018: 1.66%).

OTHER LOANS AND BORROWINGS

TERMS AND DEBT REPAYMENT SCHEDULE

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

In millions of EUR

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/19	Due within 1 year	Due in 1–5 years	Due in following years
Unsecured bank loan	EUR	variable*	2020	225	225	-	-
Secured bank loan	GBP	variable*	2023	206	45	161	-
Secured bank loan	EUR	variable*	2025	149	47	84	18
Unsecured loan	GBP	fixed	2020	501	501	-	-
Unsecured loan	EUR	fixed	2025	36	28	5	3
Unsecured loan	CZK	fixed	2020	17	17	-	-
Unsecured loan	USD	fixed	2020	6	6	-	-
Revolving credit facility	GBP	variable*	2023	47	12	35	-
Revolving credit facility	EUR	variable*	2020	15	15	-	-
Factoring loan	EUR	variable*	2020	44	44	-	-
Factoring loan	EUR	fixed	2020	10	10	-	-
Bank overdraft	EUR	variable*	2020	16	16	-	-
Lease liabilities	-	-	-	14	7	5	2
Total interest-bearing liabilities				**1,286**	**973**	**290**	**23**

* 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 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 loan	EUR	variable*	2020	125	-	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	-	-
Factoring loan	EUR	variable*	2019	43	43	-	-
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.

EP PRODUZIONE S.P.A.

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

EP NEW ENERGY ITALIA S.R.L.

On 30 May 2019, EP New Energy Italia S.R.L. entered into a refinancing Facilities Agreement and during the first half of 2019 utilised term loans in the total amount of EUR 119 million.

FAIR VALUE INFORMATION

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

In millions of EUR

	31 December 2019		31 December 2018	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans payable to credit institutions	580	569	600	603
Loans payable to other than credit institutions	560	563	420	420
Revolving credit facility	62	62	56	56
Factoring loans	54	54	43	43
Bank overdraft	16	16	-	-
Lease liabilities	14	14	-	-
Total	**1,286**	**1,278**	**1,119**	**1,122**

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 2019	31 December 2018
Investing activities	-	-
Financing activities	-	174
Total	**-**	**174**

For the year 2019 there were no non-cash investing or financing activities.

For the year 2018 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.

Loans and borrowings

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	Revolving credit facility	Factoring loans	Bank overdraft	Finance lease liabilities	Share capital/ premium	Reserves	Retained earnings	Non-controlling interest	Total
Balance at 1 January 2019	**600**	**420**	**56**	**43**	**-**	**-**	**555**	**109**	**701**	**59**	**2,543**
Changes from financing cash flows											
Transfer to non-distributable reserves – creation of legal fund	-	-	-	-	-	-	-	3	(3)	-	**-**
Contribution to equity from shareholders	-	*(13)	-	-	-	-	350	(337)	-	-	**-**
Proceeds from loans and borrowings	196	167	84	11	16	-	-	-	-	-	**474**
Repayment of borrowings	(260)	(42)	(81)	-	-	-	-	-	-	-	**(383)**
Transaction cost related to loans and borrowings	(6)	-	-	-	-	-	-	-	-	-	**(6)**
Payment of lease liabilities	-	-	-	-	-	(5)	-	-	-	-	**(5)**
Dividend paid	-	-	-	-	-	-	-	-	-	(4)	**(4)**
Total change from financing cash flows	**(70)**	**112**	**3**	**11**	**16**	**(5)**	**350**	**(334)**	**(3)**	**(4)**	**76**
Changes arising from obtaining or losing of control of subsidiaries	37	1	-	-	-	5	-	-	30	14	**87**
Total effect of changes in foreign exchange rates	11	14	3	-	-	-	-	18	-	-	**46**
Other changes											
Liability related											
Interest expense	24	14	-	-	-	2	-	-	-	-	**40**
Interest paid	(22)	(1)	-	-	-	(2)	-	-	-	-	**(25)**
Lease liability (impact of IFRS 16)	-	-	-	-	-	14	-	-	-	-	**14**
Set-off with loans provided	-	-	-	-	-	-	-	-	-	-	**-**
Total liability-related other changes	**2**	**13**	**-**	**-**	**-**	**14**	**-**	**-**	**-**	**-**	**29**
Total equity-related other changes	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(253)**	**269**	**5**	**21**
Balance at 31 December 2019	**580**	**560**	**62**	**54**	**16**	**14**	**905**	**(460)**	**997**	**74**	**2,802**

* 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	Revolving credit facility	Factoring loans	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	279	401	56	43	-	-	-	-	**779**
Repayment of borrowings	-	(487)	-	-	-	-	-	-	**(487)**
Dividend paid	-	-	-	-	-	-	-	(2)	**(2)**
Total change from financing cash flows	**279**	**(94)**	**56**	**43**	**-**	**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	**600**	**420**	**56**	**43**	**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.

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 2019	**92**	**208**	**11**	**16**	**699**	**12**	**1,038**
Acquisitions through business combination	177	49	164	5	200	22	**617**
Provisions made during the year	40	321	-	23	53	21	**458**
Provisions used during the year	(36)	(215)	(26)	(1)	(34)	(3)	**(315)**
Provisions reversed during the year	(2)	-	(5)	-	(27)	(9)	**(43)**
Unwinding of discount*	1	-	-	-	9	-	**10**
Effects of movements in foreign exchange rate	2	4	5	-	3	-	**14**
Balance at 31 December 2019	**274**	**367**	**149**	**43**	**903**	**43**	**1,779**
Non-current	*247*	*14*	*103*	*25*	*858*	*29*	***1,276***
Current	*27*	*353*	*46*	*18*	*45*	*14*	***503***

* Unwinding of discount is included in interest expense.

(1) As at 31 December 2019, the balance in amount of EUR 445 million represents mining related provisions recorded by JTSD – Braunkohlebergbau GmbH and Helmstedter Revier GmbH. The balance in amount of EUR 202 million represents asset retirement costs recorded by EP Produzione S.P.A. and Fiume Santo S.P.A. The balance in amount of EUR 177 million represents asset retirement costs recorded by Gazel Energie Generation S.A.S. Remaining balance of EUR 79 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[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)	(22)	-	(35)	(5)	**(175)**
Provisions reversed during the year	(16)	-	-	(4)	(49)	-	**(69)**
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.

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 274 million (2018: EUR 92 million) was recorded by Mitteldeutsche Braunkohlengesellschaft GmbH, Helmstedter Revier GmbH, Gazel Energie Generation S.A.S., Eggborough Power Limited, EP Produzione Centrale Livorno Ferraris S.P.A., EP Produzione S.P.A., Fiume Santo S.P.A., Kraftwerk Mehrum GmbH and EP Ballylumford Limited.

I. MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT GMBH

The provision recorded by Mitteldeutsche Braunkohlengesellschaft GmbH amounts to EUR 10 million (2018: EUR 19 million), of which EUR 4 million (2018: EUR 3 million) represents a defined benefit pension scheme. The remaining balance of EUR 6 million (2018: EUR 16 million) represents other unfunded employee benefits paid for work and life jubilees and anniversaries.

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

In millions of EUR

	2019	2018
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	(3)	(2)
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 2019	**(6)**	**(2)**	(1)	**(9)**
Benefits paid by plan	-	-	-	**-**
Actuarial gains (losses)	-	(1)	-	**(1)**
Balance at 31 December 2019	**(6)**	**(3)**	**(1)**	**(10)**

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)**

MOVEMENT IN FAIR VALUE OF PLAN ASSETS

In millions of EUR

	Plan A	Plan B	Plan C	Total
Balance at 1 January 2019	**4**	**2**	-	**6**
Benefits paid by plan	-	-	-	**-**
Contributions to plan assets	-	-	-	**-**
Balance at 31 December 2019	**4**	**2**	**-**	**6**

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**

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

AS AT 31 DECEMBER 2019

In %

	Plan A	Plan B	Plan C
Discount rate	0.00	0.21	0.78
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	0.00	0.00	0.00
Post retirement pension increase	0.00	0.00	0.00
Mortality & disability	*(1)*	*(1)*	*(1)*

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

AS AT 31 DECEMBER 2018

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.

II. HELMSTEDTER REVIER GMBH

The provision recorded by Helmstedter Revier GmbH amounts to EUR 52 million (2018: EUR 49 million), of which EUR 29 million (2018: EUR 20 million) represents a defined benefit pension scheme and EUR 14 million (2018: EUR 22 million) represents an early retirement scheme. The schedules below summarise information about the defined benefit obligations.

In millions of EUR

	2019	2018
Plan A		
Fair value of plan asset	32	30
Present value of obligations	(59)	(49)
Total employee benefit	**(27)**	**(19)**
Plan B		
Fair value of plan asset	1	1
Present value of obligations	(3)	(2)
Total employee benefit	**(2)**	**(1)**
Early Retirement		
Present value of obligations	(14)	(22)
Total employee benefit	**(14)**	**(22)**

MOVEMENTS IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

In millions of EUR

	Plan A	Plan B	Early retirement	Total
Balance at 1 January 2019	**(49)**	**(2)**	**(22)**	**(73)**
Benefits paid by plan	1	-	8	**9**
Current service costs	(1)	-	-	**(1)**
Current interest costs	(1)	-	-	**(1)**
Actuarial gains (losses) recognised in other comprehensive income	(9)	(1)	-	**(10)**
Balance at 31 December 2019	**(59)**	**(3)**	**(14)**	**(76)**

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)**

MOVEMENT IN FAIR VALUE OF PLAN ASSETS

In millions of EUR

	Plan A	Plan B	Total
Balance at 1 January 2019	**30**	**1**	**31**
Contributions to plan assets	-	-	**-**
Expected return on plan assets	-	-	**-**
Actuarial gains (losses) recognised in other comprehensive income	2	-	**2**
Balance at 31 December 2019	**32**	**1**	**33**

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**

EXPENSE RECOGNISED IN PROFIT AND LOSS

In millions of EUR

	2019	2018
Current service costs	(1)	(2)
Current interest costs	(1)	(1)
Total	**(2)**	**(3)**

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

AS AT 31 DECEMBER 2019

In %

	Plan A	Plan B	Early Retirement
Discount rate	0.54	0.54	0.00
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	0.00	0.00	0.00
Post retirement pension increase	1.75	1.75	1.00
Mortality & disability	*(1)*	*(1)*	*(1)*

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

AS AT 31 DECEMBER 2018

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.

III. GAZEL ENERGIE GENERATION S.A.S.

The provision recorded by Gazel Energie Generation S.A.S. amounts to EUR 160 million, of which EUR 158 million represents a defined benefit pension scheme. The remaining balance of EUR 2 million represents other unfunded employee benefits paid for work and life jubilees and anniversaries.

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

In millions of EUR

	2019
Plan A	
Fair value of plan asset	-
Present value of obligations	(53)
Total employee benefit (asset)	**(53)**
Plan B	
Fair value of plan asset	-
Present value of obligations	(5)
Total employee benefit (asset)	**(5)**
Plan C	
Fair value of plan asset	-
Present value of obligations	(100)
Total employee benefit (asset)	**(100)**

MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

In millions of EUR

	Plan A	Plan B	Plan C	Total
Balance at 1 January 2019	**(48)**	**(5)**	**(78)**	**(131)**
Benefits paid by plan	3	-	1	**4**
Current service costs	(2)	-	(3)	**(5)**
Current interest costs	(1)	-	(2)	**(3)**
Actuarial gains (losses)	(5)	-	(19)	**(24)**
Balance at 31 December 2019	**(53)**	**(5)**	**(100)**	**(158)**

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

AS AT 31 DECEMBER 2019

In %

	Plan A	Plan B	Plan C
Discount rate	2.40	1.50	2.40
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	1.75	2.50	0.00
Post retirement pension increase	2.00	0.00	0.00
Mortality & disability	*(1)*	*(1)*	*(1)*

(1) Assumptions regarding future mortality are based on published statistics and mortality tables TGH/TGH 05.

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 43 million was recorded mainly by JTSD – Braunkohlebergbau GmbH (EUR 17 million; 2018: EUR 16 million) and Gazel Energie Generation (EUR 25 million; 2018: EUR 0 million).

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 2019 and 31 December 2018.

PROVISION FOR RESTORATION AND DECOMMISSIONING

The provision of EUR 903 million (2018: EUR 698 million) was primarily recorded by JTSD – Braunkohlebergbau GmbH (EUR 355 million; 2018: EUR 322 million), Gazel Energie Generation S.A.S. (EUR 184 million), EP Produzione S.P.A. (EUR 116 million; 2018: EUR 117 million), Helmstedter Revier GmbH (EUR 90 million; 2018: EUR 107 million), Fiume Santo S.P.A. (EUR 83 million; 2018: EUR 84 million), Eggborough Power Limited (EUR 13 million; 2018: EUR 14 million), Kraftwerk Mehrum GmbH (EUR 12 million, 2018: EUR 17 million) and Lynemouth Power Limited (EUR 12 million; 2018: EUR 11 million).

I. GERMANY (JTSD – BRAUNKOHLEBERGBAU GMBH AND HELMSTEDTER REVIER GMBH)

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

The following expense items are considered:

- dewatering and flooding expenses;
- creation and stability of slope systems;
- soil preparation and treatment for subsequent agricultural and forest use;
- removal of all technical plants and equipment.

As at 31 December 2019, the provision for re-cultivation of both Schleenhain and Profen strip mines recorded by JTSD – Braunkohlebergbau GmbH is based on the recommendations of The German Commission on Growth, Structural change and Employment („coal commission“) from 26 January 2019 which proposes a gradual reduction and closure of all coal-fired power plants and subsequently strip mines in Germany by 2038. Refer to Note 37 – Subsequent events for developments of the lignite phase-out in Germany after the balance sheet date.

Estimates are reviewed by an external expert/engineering office to ensure that mining provisions have been properly created. These external experts determine the value of all expense items listed above on the basis of usual market prices. In 2019, quantities and values were adjusted based on the latest knowledge. Consequently, the provisions were recalculated for IFRS accounting purposes on the basis of the new settlement values. An annual inflation rate of 0.27% (2018: 0.84%) and a discount rate in range between 1.09%–1.24% (2018: 1.68%) were used to calculate the provisions in case of JTSD – Braunkohlebergbau GmbH and annual inflation rate of 0.27% (2018: 0.84%) and a discount rate of 0.0% (2018: 0.0%) were used to calculate the provisions in case of Helmstedter Revier GmbH. For determination of the discount rate Helmstedter Revier GmbH applies German bonds that remained negative for 2019. As a result, the Company decided to apply 0%.

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

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

In millions of EUR

	2019 Profit (loss)	2018 Profit (loss)
Increase of inflation rate by 1%	(90)	(97)
Decrease of inflation rate by 1%	72	80

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

In millions of EUR

	2019 Profit (loss)	2018 Profit (loss)
Increase of discount rate by 1%	70	74
Decrease of discount rate by 1%	(85)	(90)

II. ITALY (EP PRODUZIONE S.P.A. AND FIUME SANTO S.P.A.)

As at 31 December 2019, the provision recognised by EP Produzione S.P.A. and Fiume Santo S.P.A. in total amount of EUR 202 million (2018: EUR 202 million) consists of the following items:

Asset retirement costs (ARO provision) in amount of EUR 176 million (EUR 105 million for EP Produzione S.P.A. and EUR 71 million for Fiume Santo S.P.A.; 2018: EUR 176 million, of which EUR 107 million for EP Produzione S.P.A. and EUR 69 million for Fiume Santo S.P.A.) represents a liability related to the eventual retirement of tangible assets. The provision is calculated as a present value of estimated future expenditures related to the fixed assets retirement.

Provision for health and safety risk in amount of EUR 7 million (2018: EUR 7 million) recorded by EP Produzione S.P.A. that represents potential liabilities to personnel arising from exposure to asbestos fibers.

Provision for restoration of land totalling EUR 19 million (2018: EUR 18 million) in region of Tavazzano, Ostiglia and Fiume Santo where the power plants are situated.

Estimated costs are adjusted by expected future inflation (0.27% for 2019; 2018: 0.84%) and discounted using a discount rate that reflects the current market assessment of the time value of money – risk free rate of 0.88% (2018: 1.53%).

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

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

In millions of EUR

	2019 Profit (loss)	2018 Profit (loss)
Increase of inflation rate by 1%	(24)	(25)
Decrease of inflation rate by 1%	20	22

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

In millions of EUR

	2019 Profit (loss)	2018 Profit (loss)
Increase of discount rate by 1%	19	22
Decrease of discount rate by 1%	(22)	(25)

III. FRANCE

As at 31 December 2019, the provision recognised by Gazel Energie Generation S.A.S., Aerodis S.A.S., Gazel Energie Renouvelables S.A.S. and Gazel Energie Solaire S.A.S. in total amount of EUR 177 million consists of the following items:

Provision for dismantling the windfarms and solar farms in France in amount of EUR 6 million represents a liability related to the eventual retirement of tangible assets. The provision is calculated as a present value of estimated future expenditures related to the fixed assets retirement.

Provision for dismantling the power plants of Gazel Energie Generation S.A.S. amounts EUR 171 million composed as follows:

Provision for dismantling four plants in the north of France (Emile Huchet power plants) EUR 79 million; provision for dismantling four plants in the south of France (Provence power plants) EUR 42 million; provision for dismantling closed power plants of Hornaing and Lucy EUR 43 million and provision for restoration of land totalling EUR 7 million, mainly to clean up ashes.

Estimated costs are adjusted by expected future inflation (0.27 % for 2019) and discounted using a discount rate in range between 0.28%–0.83%.

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

At the reporting date, a change of 1% in the inflation rate would have increased or decreased the provision for restoration recognised by Gazel Energie Generation S.A.S., Aerodis S.A.S., Gazel Energie Renouvelables S.A.S. and Gazel Energie Solaire S.A.S. by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of EUR

	2019 Profit (loss)
Increase of inflation rate by 1%	(18)
Decrease of inflation rate by 1%	16

At the reporting date, a change of 1% in the discount rate would have increased or decreased the provision for restoration recognised by Gazel Energie Generation S.A.S., Aerodis S.A.S., Gazel Energie Renouvelables S.A.S. and Gazel Energie Solaire S.A.S. by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of EUR

	2019 Profit (loss)
Increase of discount rate by 1%	16
Decrease of discount rate by 1%	(18)

IV. OTHER

As at 31 December 2019, Eggborough Power Limited (“EPL”) recognized a provision for restoration and decommissioning in amount of EUR 13 million (2018: EUR 14 million) representing the present value of costs associated with closure commitments at the ash disposal facility and land that EPL has retained.

As at 31 December 2019, Kraftwerk Mehrum GmbH recognised provision for Asset retirement obligation (“ARO provision”) in the amount of EUR 12 million (2018: EUR 17 million). The ARO provision is calculated as a present value of estimated future expenditures related to the fixed assets retirement.

Lynemouth Power Limited 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 2019	31 December 2018
Assets carried at amortised cost		
Loans to other than credit institutions	550	211
of which loans provided by Company to sole shareholder	*397*	-
Other term deposits	10	-
Total	**560**	**211**
Assets carried at fair value		
Hedging: *of which*	**6**	**4**
Other interest rate derivatives fair value hedge	*6*	*4*
Risk management purpose: *of which*	**320**	**126**
Commodity derivatives reported as trading	*320*	*126*
Equity instruments at fair value through OCI: *of which*	**9**	**5**
Shares and interim certificates at fair value through OCI	*9*	*5*
Equity instruments at fair value through PL: *of which*	**-**	**10**
Shares at fair value through PL	-	*10*
Total	**335**	**145**
Non-current	464	64
Current	431	292
Total	**895**	**356**

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL LIABILITIES

In millions of EUR

	31 December 2019	31 December 2018
Liabilities carried at fair value		
Hedging: *of which*	17	13
Currency forwards cash flow hedge	*14*	*13*
Interest rate swaps fair value hedge	*3*	-
Risk management purpose: *of which*	349	151
Commodity derivatives reported as trading	*349*	*151*
Total	**366**	**164**
Non-current	43	32
Current	323	132
Total	**366**	**164**

The weighted average interest rate on loans to other than credit institutions for 2019 was 3.16% (2018: 3.31%).

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

In millions of EUR

	31 December 2019 Nominal amount buy	31 December 2019 Nominal amount sell	31 December 2019 Positive fair value	31 December 2019 Negative fair value
Hedging: *of which*	998	(1,012)	6	(17)
Other interest rate derivatives fair value hedge	*98*	*(98)*	*6*	-
Currency forwards cash flow hedge	*728*	*(742)*	-	*(14)*
Interest rate swaps fair value hedge	*102*	*(102)*	-	*(3)*
Interest rate swaps cash flow hedge	*70*	*(70)*	-	-
Risk management purpose: *of which*	1,849	(2,057)	320	(349)
Commodity derivatives reported as trading	*1,845*	*(2,053)*	*320*	*(349)*
Currency forwards reported as trading	*4*	*(4)*	-	-
Total	**2,847**	**(3,069)**	**326**	**(366)**

In millions of EUR

	31 December 2018 Nominal amount buy	31 December 2018 Nominal amount sell	31 December 2018 Positive fair value	31 December 2018 Negative fair value
Hedging: *of which*	212	(213)	4	(13)
Other interest rate 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)**

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

	2019			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:				
Hedging: *of which*	-	6	-	**6**
Other interest rate derivatives fair value hedge	-	*6*	-	***6***
Risk management purpose: *of which*	-	320	-	**320**
Commodity derivatives reported as trading	-	*320*	-	***320***
Equity instruments at fair value through OCI: *of which*	-	-	9	**9**
Shares and interim certificates at fair value through OCI	-	-	*9*	***9***
Total	**-**	**326**	**9**	**335**
Financial liabilities carried at fair value:				
Hedging: *of which*	-	17	-	**17**
Currency forwards cash flow hedge	-	*14*	-	***14***
Interest rate swaps fair value hedge	-	*3*	-	***3***
Risk management purpose: *of which*	-	349	-	**349**
Commodity derivatives reported as trading	-	*349*	-	***349***
Total	**-**	**366**	**-**	**366**

In millions of EUR

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:				
Hedging: *of which*	-	4	-	**4**
Other interest rate 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 through 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**

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

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

In millions of EUR

	Carrying value	Fair value
	31 December 2019	31 December 2019
Financial assets		
Loans to other than credit institutions	550	584
Other term deposits	10	10
Total	**560**	**594**

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**

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 NOT RECOGNISED IN BALANCE SHEET

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

As at 31 December 2019, the EPPE Group is contractually obliged to purchase 3,837,320 pieces (2018: 460,000 pieces) of emission rights at an average price 24.311 EUR/piece (2018: 6.863 EUR/piece).

30. Trade payables and other liabilities

In millions of EUR

	31 December 2019	31 December 2018
Trade payables	527	416
Accrued expenses	132	109
Other tax liabilities	129	9
Uninvoiced supplies	64	9
Estimated payables	59	43
Advance payments received	54	87
Payroll liabilities	41	29
Retentions due to contractors	2	-
Other liabilities	42	89
Total	**1,050**	**791**
Non-current	102	93
Current	948	698
Total	**1,050**	**791**

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

As at 31 December 2019 and 31 December 2018, no liabilities to social and health insurance or tax authorities were overdue.

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

The Group's exposure to currency and liquidity risk related to trade payables and other liabilities is disclosed in Note 33 – Risk management policies and disclosures.

31. Financial commitments and contingencies

OFF BALANCE SHEET LIABILITIES

In millions of EUR

	31 December 2019	31 December 2018
Commitments	452	363
Granted pledges – securities	397	384
Other granted pledges	1,298	1,215
Total	**2,147**	**1,962**

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") and Saxony-Anhalt's State Office of Geology and Mining ("LAGB"), to ensure that the expenses for restoring open-cast mines are covered. The concluded agreements provide for the establishment of a special fund designed to financially shore up future liquidity requirements, which is to be set up successively by transferring certain assets to developed companies by MIBRAG and by reinvesting the assets within the fund. The special fund including the income generated by this fund will be pledged "insolvency-proof" as security to the States of Saxony and Saxony-Anhalt. A total of EUR 358 million is to be accrued by the special purpose vehicles by 2034 (Profen) and 2037 (Schleenhain). Subsequently, the accrued funds will be continuously reduced as the rehabilitation obligations are successively met. The agreement makes it possible for EPPE Group to accrue the total amount over time (not as a lump sum) until 2034 and 2037 respectively.

Remaining commitments of EUR 93 million (2018: EUR 3 million) is represented by contracts for future purchase of emission rights.

OTHER GRANTED PLEDGES

In millions of EUR

	31 December 2019	31 December 2018
Property, plant and equipment	892	913
Trade receivables	204	125
Cash and cash equivalents[1]	135	137
Inventories	43	40
Loans granted[2]	24	-
Total	**1,298**	**1,215**

(1) Pledged cash and cash equivalents include pledged restricted cash of EUR 36 million (2018: EUR 21 million).

(2) Pledged granted loans include intercompany loans of EUR 13 million, which were eliminated in these consolidated financial statements.

Other granted pledges include net book value of property, plant and equipment, cash and cash equivalents, trade receivables, inventories and loans granted pledged by EP SHB Limited, EP Langage Limited, Lynemouth Power Limited, EP UK Finance Limited, EP Ballylumford Limited and EP Kilroot Limited. Total value of assets pledged by each of these companies is limited by value of net assets less loan payable to EP UK Finance Limited.

OFF BALANCE SHEET ASSETS

In millions of EUR

	31 December 2019	31 December 2018
Other received guarantees and warranties	13	-
Total	**13**	**-**

Other received guarantees and warranties mainly consist of payment guarantees.

32. Leases

A LEASES AS A LESSEE

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

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

RIGHT-OF-USE ASSETS

Right-of-use assets related to leased land and buildings and technical equipment, plant and machinery that do not meet the definition of investment property are presented as property, plant and equipment (refer to Note 15).

In millions of EUR

	Land and building	Technical equipment, plant and machinery	Total
Balance at 1 January 2019	**5**	**9**	**14**
Depreciation charge for the year	(1)	(4)	(5)
Acquisitions through business combinations	2	-	2
Effects of movements in foreign exchange rate	1	-	1
Balance at 31 December 2019	**7**	**5**	**12**

MATURITY ANALYSIS OF LEASE LIABILITIES

In millions of EUR

	31 December 2019
Undiscounted contractual cash flows by maturity	
Up to 3 months	1
3 months to 1 year	7
1–5 years	6
Over 5 years	2
Total undiscounted contractual cash flows	**16**
Carrying amount	**14**

AMOUNTS RECOGNIZED IN PROFIT OR LOSS

In millions of EUR

	2019
2019 – Leases under IFRS 16	
Depreciation charge for the year	(5)
Expenses related to short-term leases	(1)
Expenses related to leases of low-value assets, excluding short-term leases of low-value assets	(8)

In millions of EUR

	2018
2018 – Leases under IAS 17	
Lease expenses	(17)

AMOUNTS RECOGNIZED IN STATEMENT OF CASH FLOWS

In millions of EUR

	2019
Total cash outflow for leases	(5)

B LEASES AS A LESSOR

OPERATING LEASE

During the year ended 31 December 2019, EUR 2 million (2018: EUR 2 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 2019

In millions of EUR

	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Individuals	Other	Total
Assets							
Cash and cash equivalents	-	-	-	472	-	-	**472**
Restricted cash	3	-	-	39	-	-	**42**
Trade receivables and other assets	652	74	1	-	149	25	**901**
Financial instruments and other financial assets	866	-	-	3	26	-	**895**
Total	**1,521**	**74**	**1**	**514**	**175**	**25**	**2,310**

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	339	-	-	16	1	-	**356**
Total	**945**	**23**	**1**	**410**	**29**	**-**	**1,408**

CREDIT RISK BY LOCATION OF DEBTOR

AS AT 31 DECEMBER 2019

In millions of EUR

	Czech Republic	Italy	Germany	United Kingdom	France	Ireland	Other	Total
Assets								
Cash and cash equivalents	11	167	51	98	121	18	6	**472**
Restricted cash	-	-	-	41	-	1	-	**42**
Trade receivables and other assets	24	231	138	263	148	6	91	**901**
Financial instruments and other financial assets	538	30	190	48	78	-	11	**895**
Total	**573**	**428**	**379**	**450**	**347**	**25**	**108**	**2,310**

AS AT 31 DECEMBER 2018

In millions of EUR

	Czech Republic	Italy	Germany	United Kingdom	France	Ireland	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	2	-	85	**654**
Financial instruments and other financial assets	236	13	77	18	-	-	12	**356**
Total	**268**	**475**	**233**	**331**	**2**	**-**	**99**	**1,408**

As at 31 December 2019, location Other comprises mainly debtors located in Luxembourg, Slovakia and Switzerland (2018: Luxembourg, Hungary and Switzerland).

II. IMPAIRMENT LOSSES

Loss allowances are measured on either of the following bases:

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

The Group measures loss allowances at an amount equal to lifetime ECLs except for those financial assets for which credit risk has not increased significantly since initial recognition.

The ECL model is based on the principle of expected credit losses. For the purposes of designing the ECL model, the portfolio of financial assets is split into segments. Financial assets within each segment are allocated to three stages (Stage I – III) or to a group of financial assets that are impaired at the date of the first recognition purchase or originated credit-impaired financial assets ("POCI"). At th 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 3(h)(ii).

CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

The following table provides information about the changes in the loss allowance during the year 2019.

In millions of EUR

	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Purchased credit-impaired	Total
Balance at 1 January 2019	**(17)**	**-**	**(2)**	**-**	**(19)**
Impairment losses recognised during the year	(4)	-	-	-	**(4)**
Reversal of impairment losses during the year	14	-	1	-	**15**
Impairment losses used during the year	2	-	-	-	**2**
Balance at 31 December 2019	**(5)**	**-**	**(1)**	**-**	**(6)**

The most significant change which contributed to change in the loss allowance during the period was mainly reversal of impairment loss of a trade receivable created in previous year as the uncertainty connected to the collection of the receivable has been rebutted.

The movements in the allowance for impairment in respect of financial assets during the year ended 31 December 2019 were as follows:

In millions of EUR

	Loans to other than credit institutions	Contract assets	Trade receivables and other assets	Total
Restated balance at 1 January 2019	**-**	**-**	**(19)**	**(19)**
Impairment losses recognised during the year	-	-	(4)	**(4)**
Reversals of impairment losses recognised during the year	-	-	15	**15**
Impairment losses used during the year	-	-	2	**2**
Balance at 31 December 2019	**-**	**-**	**(6)**	**(6)**

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

CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

AS AT 31 DECEMBER 2019

In millions of EUR

	Loans to other than credit institutions	Other short-term deposits (intended for investing activities)	Trade receivables and other assets	Total
Before maturity (net)	550	10	891	**1,451**
After maturity (net)	-	-	10	**10**
Total	**550**	**10**	**901**	**1,461**
A – Assets (gross)				
– before maturity	550	10	895	**1,455**
– after maturity <30 days	-	-	6	**6**
– after maturity 31–180 days	-	-	2	**2**
– after maturity 181–365 days	-	-	2	**2**
– after maturity >365 days	-	-	2	**2**
Total assets (gross)	**550**	**10**	**907**	**1,467**
B – Loss allowance for assets				
– before maturity	-	-	(4)	**(4)**
– after maturity <30 days	-	-	-	**-**
– after maturity 31–180 days	-	-	-	**-**
– after maturity 181–365 days	-	-	-	**-**
– after maturity >365 days	-	-	(2)	**(2)**
Total loss allowance	**-**	**-**	**(6)**	**(6)**
Total assets (net)	**550**	**10**	**901**	**1,461**

The following table provides information about the changes in the loss allowance during the year 2018.

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**

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

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

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

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

B LIQUIDITY RISK

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

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

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

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

MATURITIES OF FINANCIAL LIABILITIES

AS AT 31 DECEMBER 2019

In millions of EUR

	Carrying amount	Contractual cash flows[1]	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
Liabilities							
Loans and borrowings	**1,286**	1,323	187	798	315	23	-
Trade payables and other liabilities	[2]**996**	997	468	403	58	43	25
Financial instruments and financial liabilities	**366**	366	58	265	35	8	-
out of which Derivatives – inflow[3]	*-*	*1,471*	*148*	*683*	*325*	*315*	-
outflow[3]	***(366)***	*(2,169)*	*(206)*	*(1,232)*	*(408)*	*(323)*	-
Total	**2,648**	**2,686**	**713**	**1,466**	**408**	**74**	**25**

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.
(2) Advances received in amount of EUR 54 million are excluded from the carrying amount as these items will cause no future cash outflow.
(3) Inflow/outflow of derivatives represents nominal values of derivatives.

Contract liabilities in amount of EUR 119 million are not shown in the table above as these items are not expected to cause any future cash outflow.

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[3]	*-*	*1,127*	*363*	*564*	*200*	*-*	*-*
outflow[3]	***(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.
(3) Inflow/outflow of derivatives represents nominal values of derivatives.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or in significantly different amounts.

C INTEREST RATE RISK

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities will mature or re-price at different times or in differing amounts. The length of time for which the rate of interest is fixed on a financial instrument therefore indicates to what extent it is exposed to interest rate risk. The table below provides information on the extent of the Group's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that re-price to a market rate of interest before maturity, the next re-pricing date. Those assets and liabilities that do not have a contractual maturity date or are not interest-bearing are grouped together in the "maturity undefined" category.

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

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

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

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	472	-	-	-	**472**
Restricted cash	22	-	-	20	**42**
Trade receivables and other assets	-	-	-	901	**901**
Financial instruments and other financial assets[1]	136	371	43	345	**895**
Total	**630**	**371**	**43**	**1,266**	**2,310**
Liabilities					
Loans and borrowings	1,269	5	3	9	**1,286**
Trade payables and other liabilities	-	-	-	1,050	**1,050**
Financial instruments and financial liabilities[1]	-	-	-	366	**366**
Total	**1,269**	**5**	**3**	**1,425**	**2,702**
Net interest rate risk position	**(639)**	**366**	**40**	**(159)**	**(392)**
Effect of interest rate swaps	**154**	**(124)**	**(30)**	**-**	**-**
Net interest rate risk position (incl. IRS)	**(485)**	**242**	**10**	**(159)**	**(392)**

(1) Disregarding agreed interest rate swaps.

Notional amounts of financial instruments are included in Note 29 – Financial instruments.

Interest rate risk exposure 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[1]	167	-	43	146	**356**
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[1]	-	-	-	164	**164**
Total	**1,112**	**7**	**-**	**955**	**2,074**
Net interest rate risk position	**(550)**	**(7)**	**43**	**(152)**	**(666)**
Effect of interest rate swaps	**-**	**-**	**-**	**(1)**	**(1)**
Net interest rate risk position (incl. IRS)	**(550)**	**(7)**	**43**	**(153)**	**(667)**

(1) Disregarding agreed interest rate swaps.

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

	2019 Profit (loss)	2018 Profit (loss)
Decrease in interest rates by 1%	2	3
Increase in interest rates by 1%	(3)	(6)

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

In millions of EUR

	CZK	EUR	GBP	USD	Other	Total
Assets						
Cash and cash equivalents	-	11	3	3	2	**19**
Restricted cash	-	-	-	-	-	**-**
Trade receivables and other assets	-	369	17	12	2	**400**
Financial instruments and other financial assets	-	848	509	6	-	**1,363**
	-	**1,228**	**529**	**21**	**4**	**1,782**
Off-balance sheet assets						
Receivables from derivative operations	-	-	-	**-**	**-**	**-**
	-	**-**	**-**	**-**	**-**	**-**
Liabilities						
Loans and borrowings	-	515	508	13	-	**1,036**
Trade payables and other liabilities	-	414	17	7	1	**439**
Financial instruments and financial liabilities	-	316	-	-	-	**316**
	-	**1,245**	**525**	**20**	**1**	**1,791**
Off-balance sheet liabilities						
Payables related to derivative operations	-	-	4	**-**	**-**	**4**
	-	**-**	**4**	**-**	**-**	**4**
Net FX risk position	**-**	**(17)**	**4**	**1**	**3**	**(9)**
Effect of forward exchange contracts	**-**	**-**	**(4)**	**-**	**-**	**(4)**
Net FX risk position (incl. forward exchange contracts and CF hedges on FX risk)	**-**	**(17)**	**-**	**1**	**3**	**(13)**

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

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

In millions of EUR

	CZK	EUR	GBP	Other	Total
Assets					
Cash and cash equivalents	-	4	-	1	**5**
Restricted cash	-	-	-	-	**-**
Trade receivables and other assets	-	236	19	2	**257**
Financial instruments and other financial assets	-	388	370	-	**758**
	-	**628**	**389**	**3**	**1,020**
Off-balance sheet assets					
Receivables from derivative operations	-	-	-	-	**-**
	-	**-**	**-**	**-**	**-**
Liabilities					
Loans and borrowings	-	386	369	-	**755**
Trade payables and other liabilities	-	325	19	1	**345**
Financial instruments and financial liabilities	-	135	-	-	**135**
	-	**846**	**388**	1	**1,235**
Off-balance sheet liabilities					
Payables related to derivative operations	-	-	-	-	**-**
	-	**-**	**-**	**-**	**-**
Net FX risk position	**-**	**(218)**	**1**	**2**	**(215)**
Effect of forward exchange contracts	-	-	-	-	**-**
Net FX risk position (incl. forward exchange contracts and CF hedges on FX risk)	**-**	**(218)**	**1**	**2**	**(215)**

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

Off-balance sheet assets and liabilities include 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 2019	31 December 2019	31 December 2018	31 December 2018
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
EUR 1	25.672	25.410	25.643	25.725
GBP 1	29.256	29.866	28.990	28.762
USD 1	22.934	22.621	-	-

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

	2019 Profit (loss)	2018 Profit (loss)
EUR (5% strengthening)	1	11
GBP (5% strengthening)	-	-
USD (5% strengthening)	-	-

Effect in millions of EUR

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

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

E COMMODITY RISK

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

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

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

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

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

SENSITIVITY ANALYSIS

A change in the market price of electricity of 1 EUR/MWh would have decreased or increased revenues from sales of electricity by EUR 30 million (2018: EUR 24 million). This analysis assumes that all other variables, in particular gas prices and emission rights prices, remain constant.

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 2019	31 December 2018
Total liabilities	4,698	3,150
Less: cash and cash equivalents	472	373
Net debt	**4,226**	**2,777**
Total equity attributable to equity holders of the Company	1,442	1,365
Less: amounts accumulated in equity relating to cash flow hedges	315	534
Adjusted capital	**1,127**	**831**
Debt to adjusted capital	**3.75**	**3.34**

G HEDGE ACCOUNTING

CASH FLOW HEDGE

The balance as at 31 December 2019 and 2018 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.

During the period the Group reclassified EUR 25 million (positive impact on profit or loss) from hedging reserves to profit or loss (2018: EUR 15 million (positive impact on profit or loss)).

The following tables provide 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 2019	**152**	**382**	**534**
Cash flow hedges reclassified to profit or loss	(25)	-	(25)
Deferred tax – cash flow hedges reclassified to profit or loss	2	-	2
Revaluation of cash flow hedges	(11)	-	(11)
Deferred tax – cash flow hedges revaluation	1	-	1
Changes of hedging reserves recognised by equity accounted investees	-	(186)	(186)
Balance at 31 December 2019	**119**	**196**	**315**

(1) As at 31 December 2019 cash flow hedge reserve related to currency forwards includes revaluation of both currency forwards that are recognised on balance sheet as at 31 December 2019 and currency forwards that were already derecognised in prior periods. The Group concluded that the future hedged cash flows are still highly probable, therefore the revaluation is retained in equity until the hedged forecast transaction occurs.

In millions of EUR

	Currency forwards – cash flow hedge[1]	Equity accounted investees – cash flow hedge	Total
Balance at 1 January 2018	**126**	**-**	**126**
Cash flow hedges reclassified to profit or loss	(15)	-	(15)
Deferred tax – cash flow hedges reclassified to profit or loss	2	-	2
Revaluation of cash flow hedges	45	-	45
Deferred tax – cash flow hedges revaluation	(6)	-	(6)
Changes of hedging reserves recognized by equity accounted investees	-	382	382
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 2019 to 2027. As a result of the hedge relationship, on the Group consolidated level, the Group reported a change in foreign currency cash flow hedge reserve of negative EUR 33 million (2018: positive EUR 26 million). For risk management policies refer to Note 33(d) and (e) – Risk management policies and disclosures.

The following table provides details of cash flow hedge currency derivatives for foreign currency risk recorded by the Group as at 31 December 2019 and 2018:

In millions of EUR

	31 December 2019	31 December 2019	31 December 2019	31 December 2019
	Positive fair value	Negative fair value	Nominal amount hedged (buy)	Nominal amount hedged (sell)
Up to 3 months	-	-	-	-
3 months to 1 year	-	1	208	209
1–5 years	-	5	205	210
Over 5 years	-	8	315	323
Total	**-**	**14**	**728**	**742**

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 negative EUR 186 million (2018: positive 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.

FAIR VALUE HEDGE

The Group applies hedge accounting for hedging instruments designed to hedge changes in fair value arising from changes in interest rates and changes in price levels. The hedge is in place to cover inflation fluctuations for contract for difference and biomass purchases and exposures arising from external bank loans. The hedging instruments are interest rate swaps and CPI-linked interest rate derivatives. No hedge ineffectiveness was recognized for years ending 31 December 2019 and 2018. For more details on fair value hedge derivatives refer to Note 29 – Financial instruments.

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 2019 and 31 December 2018 was as follows:

In millions of EUR

	Accounts receivable and other financial assets	Accounts payable and other financial liabilities	Accounts receivable and other financial assets	Accounts payable and other financial liabilities
	2019	2019	2018	2018
Ultimate shareholder[1]	-	-	-	-
Companies controlled by ultimate shareholders	561	593	245	476
Associates and joint ventures	36	72	52	83
Key management personnel of the entity or its parent	-	-	-	-
Other related parties	-	-	-	-
Total	**597**	**665**	**297**	**559**

(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 2019 and 31 December 2018 was as follows:

In millions of EUR

	Revenues 2019	Expenses 2019	Revenues 2018	Expenses 2018
Ultimate shareholder[1]	-	-	-	-
Companies controlled by ultimate shareholders	197	(114)	163	(280)
Associates and joint ventures	352	(331)	121	(120)
Key management personnel of the entity or its parent	-	-	-	-
Other related parties	-	-	-	-
Total	**549**	**(445)**	**284**	**(400)**

(1) Daniel Křetínský represents the ultimate shareholder.

All transactions were performed under the arm's length principle with the exception of the prolongation of the zero interest loan provided by EPH, see Note 27 for more details.

TRANSACTIONS WITH THE KEY MANAGEMENT PERSONNEL

For the financial years ended 31 December 2019 and 2018 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., 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, Kraftwerk Mehrum GmbH and for financial year ended 31 December 2019 also EP Kilroot Limited, EP Ballylumford Limited, EP France Group and Tynagh Energy Limited.

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

In millions of EUR

	2019	2018
Nr. of personnel	23	20
Compensation, fees and rewards	5	5
Compulsory social security contributions	1	1
Total	**6**	**6**

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 2019 and 31 December 2018 is set out below:

		31 December 2019		31 December 2018		2019	2018
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation 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 Verwaltungsgesellschaft Brandenburg mbH[3]	Germany	100	Direct	100	Direct	Equity	Equity
Lausitz Energie Vorsorge- und Entwicklungsgesellschaft Brandenburg GmbH & Co. KG	Germany	100	Direct	-	-	Equity	-
Lausitz Energie Verwaltungsgesellschaft Sachsen mbH	Germany	100	Direct	-	-	Equity	-
Lausitz Energie Vorsorge- und Entwicklungsgesellschaft Sachsen mbH & Co. KG	Germany	100	Direct	-	-	Equity	-
NADURENE 2 a.s.[4]	Czech Republic	100	Direct	-	-	Full	-
EP New Energy Italia S.R.L.	Italy	49	Direct	-	-	Full	-
Fusine Energia S.r.L.	Italy	100	Direct	-	-	Full	-
Biomasse Crotone S.P.A.	Italy	100	Direct	-	-	Full	-
Biomasse Italia S.P.A.	Italy	100	Direct	-	-	Full	-
Fores Italia S.R.I.	Italy	50	Direct	-	-	At cost	-
Biomasse Servizi S.R.L.	Italy	49	Direct	-	-	At cost	-
EP New Energies GmbH	Germany	100	Direct	-	-	Full	-
EP Mehrum GmbH	Germany	100	Direct	100	Direct	Full	Full
Kraftwerk Mehrum GmbH	Germany	100	Direct	100	Direct	Full	Full
JTSD – Braunkohlebergbau GmbH	Germany	90	Direct	90	Direct	Full	Full
Mitteldeutsche Braunkohlengesellschaft mbH	Germany	100	Direct	100	Direct	Full	Full
MIBRAG Consulting International GmbH (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

		31 December 2019		31 December 2018		2019	2018
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso-lidation method	Conso-lidation method
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
EP UK Investments LTD	United Kingdom	100	Direct	100	Direct	Full	Full
Eggborough Power Limited	United Kingdom	100	Direct	100	Direct	Full	Full
Lynemouth Power Limited	United Kingdom	100	Direct	100	Direct	Full	Full
EP UK Power Development Ltd(1)	United Kingdom	100	Direct	100	Direct	Full	Full
EP SHB Limited	United Kingdom	100	Direct	100	Direct	Full	Full
Humberland Limited(1)	United Kingdom	100	Direct	100	Direct	At cost	At cost
EP Langage Limited	United Kingdom	100	Direct	100	Direct	Full	Full
EP Ballylumford Limited	United Kingdom	100	Direct	-	-	Full	-
EP Kilroot Limited	United Kingdom	100	Direct	-	-	Full	-
Tynagh Energy Limited	Ireland	80	Direct	-	-	Full	-
EP UK Finance Limited	United Kingdom	100	Direct	100	Direct	Full	Full
RVA Group Limited(1)	United Kingdom	100	Direct	100	Direct	At cost	At cost
RVA Consulting Engineers Limited(1)	United Kingdom	100	Direct	100	Direct	At cost	At cost
RVA GmbH	Germany	100	Direct	-	-	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	-	Full
EP INVEST LIMITED(1)	United Kingdom	100	Direct	100	Direct	At cost	At cost
EP Commodities, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Produzione S.P.A.	Italy	100	Direct	-	-	Full	-
Fiume Santo S.P.A.	Italy	100	Direct	-	-	Full	-
EP Produzione Centrale Livorno Ferraris S.P.A.	Italy	75	Direct	-	-	Full	-
Centro Energia Ferrara S.R.L.	Italy	100	Direct	-	-	Full	-
Centro Energia Teverola S.R.L.	Italy	100	Direct	-	-	Full	-
Ergosud S.P.A.	Italy	50	Direct	-	-	Equity	-
EPPE Italy N.V.(2)	Netherlands	-	-	100	Direct	-	Full
EP Produzione S.P.A.	Italy	-	-	100	Direct	-	Full
Fiume Santo S.P.A.	Italy	-	-	100	Direct	-	Full
EP Produzione Centrale Livorno Ferraris S.P.A.	Italy	-	-	75	Direct	-	Full
Centro Energia Ferrara S.R.L.	Italy	-	-	58.35	Direct	-	Full
Centro Energia Teverola S.R.L.	Italy	-	-	58.35	Direct	-	Full

		31 December 2019		31 December 2018		2019	2018
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso-lidation method	Conso-lidation method
Ergosud S.P.A.	Italy	-	-	50	Direct	-	Equity
EP New Energy Italia S.R.L.*	Italy	51	Direct	-	-	Full	-
Fusine Energia S.r.L.	Italy	100	Direct	-	-	Full	-
Biomasse Crotone S.P.A.	Italy	100	Direct	-	-	Full	-
Biomasse Italia S.P.A.	Italy	100	Direct	-	-	Full	-
Fores Italia S.R.I.	Italy	50	Direct	-	-	At cost	-
Biomasse Servizi S.R.L.	Italy	51	Direct	-	-	At cost	-
NADURENE a.s. (4)	Czech Republic	-	-	100	Direct	-	Full
EP New Energy Italia S.R.L.	Italy	-	-	100	Direct	-	Full
Fusine Energia S.r.L.	Italy	-	-	-	-	-	-
Biomasse Crotone S.P.A.	Italy	-	-	100	Direct	-	Full
Biomasse Italia S.P.A.	Italy	-	-	100	Direct	-	Full
Fores Italia S.R.L.	Italy	-	-	50	Direct	-	At cost
Biomasse Servizi S.R.L.	Italy	-	-	100	Direct	-	At cost
EP France S.A.S.*	France	100	Direct	-	-	Full	-
Gazel Energie Generation S.A.S.	France	100	Direct	-	-	Full	-
Aerodis, S.A.	France	100	Direct	-	-	Full	-
Surschiste, S.A.	France	100	Direct	-	-	Full	-
Société des Eaux de l'Est S.A.	France	25	Direct	-	-	At cost	-
Gazel Energie Renouvelables S.A.S.	France	100	Direct	-	-	Full	-
Gazel Energie Solaire S.A.S.	France	100	Direct	-	-	Full	-
Gazel Energie Solutions S.A.S.	France	100	Direct	-	-	Full	-
Kernaman S.A.S.	France	100	Direct	-	-	Full	-
EP Yuzivska B.V.	Netherlands	100	Direct	100	Direct	Full	Full
EP Ukraine B.V. (EP Sophievska B.V.)(5)	Netherlands	90	Direct	-	-	Full	-
EP Resources AG	Switzerland	100	Direct	-	-	Full	-

* Holding entity

(1) This company is exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts, by virtue of section 479A.

(2) EPPE Italy N.V. merged with EP Power Europe, a.s. as at 1 January 2019 (the merger was registered on 27 December 2019, with 1 January 2019 as an effective date). EP Power Europe, a.s. is the successor company.

(3) On 29 November 2019 Lausitz Energie Erneuerbare Verwaltungs GmbH was renamed to Lausitz Energie Verwaltungsgesellschaft Brandenburg mbH.

(4) On 17 December 2019 demerger of NADURENE, a.s. was registered with 1 January 2019 as an effective date of the demerger. As a result, NADURENE, a.s. ceased to exist and its assets were partially transferred to newly created NADURENE 2 a.s. and partially merged with EP Power Europe, a.s. On 31 July 2019, 49% share of NADURENE, a.s. (assets of NADURENE, a.s., that were transferred to NADURENE 2 a.s. concurrently with the demerger), were transferred to Lausitz Energie Bergbau AG under restructuring of ownership interests within the Group.

(5) On 10 October 2019 EP Sophievska B.V. was renamed to EP Ukraine B.V.

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.

The decision of the Higher Regional Court in Naumburg concerning the obligation to off-take the EEG electricity is now legally binding. The scope of this is still subject in lawsuits at administrative court in Frankfurt and district court in Halle.

Based on MIBRAG's analysis, a provision of EUR 17.4 million in total is recorded in the financial statements. Provision covers both the economic risk for MIBRAG with respect to this legal dispute as well as the costs of the proceedings, on the basis of the information available at the time of preparation of financial statements.

EP PRODUZIONE S.P.A., FIUME SANTO S.P.A. AND EP PRODUZIONE LIVORNO FERRARIS S.P.A.

Over the last few months of 2018, EP Produzione S.P.A. and Fiume Santo S.P.A were subject to a tax audit carried out by the Revenue Agency for the 2015 and 2016 tax years. Assisted by their external consultants, the companies provided all the necessary clarifications in each of the competent offices which will allow them to settle all the findings with limited financial impact. As for EPP, it has been possible to close in July 2019 a settlement agreement concerning direct tax issues while Fiume Santo reported some findings on indirect taxes in December 2019. As at 31 December 2019, a provision of EUR 4.2 million in total is recorded in the financial statements by both companies.

Moreover, Revenue Agency started on May 2019 a tax audit on EP Produzione Livorno Ferraris S.P.A. for the 2016 tax year. Company provided information to the Revenue Agency and is waiting for a feedback. As at 31 December 2019, there is no indication of negative outcome and therefore no provision was recorded.

GAZEL ENERGIE GENERATION S.A.S.

LITIGATION ON POWER TRADING INVOICES

Gazel Energie Generation S.A.S. ("GEG") is disputing certain invoices relating to power trading with a counterparty concerning 2019 operations. In this respect an aggregate litigation provision of EUR 16.4 million has been booked as at 31 December 2019 even though GEG believes that this claim is not justified.

BIOMASS SUPPLIERS' LITIGATIONS

Due to the delay of the commissioning of Provence 4 Biomass, litigations occurred with a part of the wood suppliers in relation to the contractual penalties and in respect of which an aggregate provision of EUR 6.2 million has been booked as at 31 December 2019.

37. Subsequent events

A MAJOR ACQUISITIONS

ACQUISITION OF HUMBLY GROVE GAS STORAGE

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

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

B PANDEMIC OF CORONAVIRUS

Outbreak of new human-to-human airborne or contact propagation virus ("COVID-19") was assessed by World Health Organization as pandemic on 11 March 2020, which was followed by state of emergency declared by governments, or relevant authority bodies, in countries where the Group operates.
As of date of this report, more than four million cases have been reported across 210 countries and territories, including areas of the Groups' operations, resulting in more than 280,000 deaths. Further, there is no known vaccination or medicine targeting the virus. Government authorities introduced various restrictions including restriction on cross-border movement of people, on free movement

of people and their gathering, closing of retailers except those necessary to serve basic needs (as food, pharmacy, cleaning agents and similar), closing of restaurants, museums, cinemas, theatres, sport facilities, etc. Except for the restrictions introduced by government authorities, the global economy is further influenced also by voluntary temporary shutdown of industries (such as automotive) or voluntary limitation of business operations. On the other hand, the infection curves are flattening and focus has turned rather to the recovery. Its length and pace will depend on policies adopted by local governments, namely health and economic policies.

The Group's management has been critically monitoring and evaluating the impacts with having implemented relevant measures. On every critical asset a special team has been set up to manage the situation, being constantly in contact with the relevant authorities and public officials. Main focus of the Group is guaranteeing health and safety of its employees, which remains the Group's top priority, and safeguarding the continuity of the essential energy security services in the countries where it operates.

The Group has performed analysis of a range of possible risks in connection with COVID-19 and has been implementing appropriate measures to mitigate the impact on employees and on the Group's operations. The risks are monitored regularly and taken measures are adjusted accordingly, as the situation remains unclear and volatile. Main measures implemented by management notably include:

- implementation of extensive home office program, where employees that do not necessarily have to work from office are asked to work from home;
- special regime for employees working in critical infrastructure – mainly dispatchers. Separation of these critical employees from others and restriction of access of other personnel to dispatching premises;
- employees in production department have been trained to adhere to very strict precautionary standards including social distancing and increased disinfection.

Based on information available currently, despite potential short-term results' volatility caused by the pandemic, the Group's performance is not expected to be significantly impaired in the medium- to long-term as the majority of its operated assets is driven by long-term contracts or regulatory-based payments. Further, given the stability of the Group resulting from the favourable position of majority of generation assets in the respective merit order, prudent hedging policy and conservative funding policy, the Group should have the ability to operate without significant financial difficulties.

The management cannot however preclude the possibility that extended lock down periods, an escalation in the severity of measures imposed by Government authorities, or a consequential adverse impact of such measures on the economic environment where the Group operates, will have an adverse effect on the Group, and its financial position and operating results, in the medium and longer term. The Group continues to monitor the situation closely and will respond to mitigate the impact of such events and circumstances as they occur.

C OTHER SUBSEQUENT EVENTS

The draft law presented by the German federal government in January 2020 for the phase-out of lignite currently calls for the end of operations of the power plants Schkopau and Lippendorf, which receive lignite from Mibrag, in 2034 respectively 2035. For the lignite strip mine Schleenhain, which supplies

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

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

Except for the matters described above and elsewhere in the Notes, the Company's management is not aware of any other material subsequent events that could have an effect on the consolidated financial statements as at 31 December 2019.

APPENDICES*:

Appendix 1 – Business combinations

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

Date:	Signature of the authorised representative	
20 May 2020	Mgr. Marek Spurný	Mgr. Pavel Horský
	Vice-Chairman of the Board of Directors	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 2019

TThe fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of Fusine Energia S.r.L. are provided in the following table.

In millions of EUR

	Carrying amount[1]	Fair value adjustment	2019 Total
Property, plant, equipment, land, buildings	9	-	9
Trade receivables and other assets	5	-	5
Financial instruments – assets	4	-	4
Deferred tax assets	2	-	2
Provisions	(1)	-	(1)
Loans and borrowings	(3)	-	(3)
Trade payables and other liabilities	(2)	-	(2)
Net identifiable assets and liabilities	**14**	**-**	**14**
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(2)
Cost of acquisition			**12**
Consideration paid, satisfied in cash (A)			12
Consideration, other			-
Total consideration transferred			**12**
Less: Cash acquired (B)			-
Net cash inflow (outflow) (C) = (B – A)			**(12)**

(1) Represents values at 100% share.

In millions of EUR

	2019 Total
Revenue of the acquirees recognised since the acquisition date	5
Profit (loss) of the acquirees recognised since the acquisition date	1

In millions of EUR

	2019 Total
Revenue of the acquirees recognised in the year ended 31 December 2019*	6
Profit (loss) of the acquirees recognised in the year ended 31 December 2019*	1

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

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of EP Kilroot Limited and EP Ballylumford Limited are provided in the following table.

In millions of EUR

	Carrying amount[1]	Fair value adjustment	2019 Total
Property, plant, equipment, land, buildings	89	99	188
Intangible assets	7	-	7
Trade receivables and other assets	41	(3)	38
Inventories	41	(15)	26
Cash and cash equivalents	24	-	24
Restricted cash	3	-	3
Deferred tax assets	2	24	26
Provisions	(14)	(123)	(137)
Deferred tax liabilities	(9)	(17)	(26)
Loans and borrowings	(1)	-	(1)
Trade payables and other liabilities	(33)	-	(33)
Net identifiable assets and liabilities	**150**	**(35)**	**115**
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(10)
Cost of acquisition			**105**
Consideration paid, satisfied in cash (A)			105
Consideration, other			-
Total consideration transferred			**-**
Less: Cash acquired (B)			24
Net cash inflow (outflow) (C) = (B – A)			**(81)**

(1) Represents values at 100% share.

In millions of EUR

	2019 Total
Revenue of the acquirees recognised since the acquisition date	131
Profit (loss) of the acquirees recognised since the acquisition date	17

In millions of EUR

	2019 Total
Revenue of the acquirees recognised in the year ended 31 December 2019*	274
Profit (loss) of the acquirees recognised in the year ended 31 December 2019*	19

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

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

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2019 Total
Property, plant, equipment, land, buildings	208	182	390
Intangible assets	21	33	54
Trade receivables and other assets	556	-	556
Financial instruments – assets	4	-	4
Inventories	81	(25)	56
Cash and cash equivalents	75	-	75
Provisions	(420)	(51)	(471)
Deferred tax liabilities	-	(56)	(56)
Loans and borrowings	(52)	50	(2)
Trade payables and other liabilities	(600)	29	(571)
Net identifiable assets and liabilities	**(127)**	**162**	**35**
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(28)
Cost of acquisition			**7**
Consideration paid, satisfied in cash (A)			7
Consideration, other			-
Total consideration transferred			**-**
Less: Cash acquired (B)			75
Net cash inflow (outflow) (C) = (B – A)			**68**

(1) Represents values at 100% share.

In millions of EUR

	2019 Total
Revenue of the acquirees recognised since the acquisition date	1,106
Profit (loss) of the acquirees recognised since the acquisition date	(30)

In millions of EUR

	2019 Total
Revenue of the acquirees recognised in the year ended 31 December 2019*	2,823
Profit (loss) of the acquirees recognised in the year ended 31 December 2019*	(17)

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

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

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2019 Total
Property, plant, equipment, land, buildings	114	(51)	63
Intangible assets	8	-	8
Trade receivables and other assets	10	(6)	4
Inventories	14	-	14
Cash and cash equivalents	34	-	34
Restricted cash	4	-	4
Provisions	(8)	-	(8)
Deferred tax liabilities	(10)	7	(3)
Loans and borrowings	(37)	-	(37)
Trade payables and other liabilities	(18)	-	(18)
Net identifiable assets and liabilities	**111**	**(50)**	**61**
Non-controlling interest			(12)
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(21)
Cost of acquisition			**28**
Consideration paid, satisfied in cash (A)			28
Purchase price liability			-
Total consideration transferred			**-**
Less: Cash acquired (B)			34
Net cash inflow (outflow) (C) = (B – A)			**6**

(1) Represents values at 100% share.

In millions of EUR

	2019 Total
Revenue of the acquirees recognised since the acquisition date	22
Profit (loss) of the acquirees recognised since the acquisition date	2

In millions of EUR

	2019 Total
Revenue of the acquirees recognised in the year ended 31 December 2019*	144
Profit (loss) of the acquirees recognised in the year ended 31 December 2019*	12

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

5 Statutory Financial Statements and Notes to the Statutory Financial Statements

Equity investments stood at CZK 33.1 billion as at 31 December 2019.

LYNEMOUTH POWER, United Kingdom

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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 Shareholder 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 2019, the income statement, and the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, 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 2.10. to the financial statements, EP Power Europe, a.s. has not prepared an annual report as at 31 December 2019, as it plans to include the respective information in a consolidated annual report. Consequently, this auditor's report does not include out statement on the other information.

Responsibilities of the Statutory Body and Supervisory Board for the 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 overseeing 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 2019, based on which this independent auditor's report has been prepared.

Prague
20 May 2020

KPMG Česká republika Audit, s.r.o.
Evidenční číslo 71

Karel Charvát
Partner
Evidenční číslo 2032

Individual Financial Statements

as of and for the year ended 31 December 2019

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 2019
(in CZK thousand)

			31.12.2019		01.01.2019
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	**57 943 106**	**355 808**	**57 587 298**	**47 054 242**
B.	**Fixed assets**	**33 460 237**	**355 808**	**33 104 429**	**33 617 664**
B.I.	***Intangible fixed assets***	**1 204**	**150**	**1 054**	**1 098**
B.I.2.	*Valuable rights*	**1 204**	**150**	**1 054**	**1 098**
B.I.2.2.	Other valuable rights	1 204	150	1 054	1 098
B.II.	***Tangible fixed assets***	**240**	**84**	**156**	**75**
B.II.2.	Tangible movable assets and sets of tangible movable assets	240	84	156	75
B.III.	***Non-current financial assets***	**33 458 793**	**355 574**	**33 103 219**	**33 616 491**
B.III.1.	Equity investments – controlled or controlling entity	31 918 082	35 574	31 882 508	31 997 205
B.III.3.	Equity investments in associates	1 540 711	320 000	1 220 711	1 541 339
B.III.5.	Other non-current securities and investments				77 947
C.	**Current assets**	**24 472 920**		**24 472 920**	**13 436 539**
C.I.	***Inventories***	**38 240**		**38 240**	**68 061**
C.I.2.	Work in progress and semifinished goods	38 240		38 240	68 061
C.II.	***Receivables***	**24 243 578**		**24 243 578**	**13 342 234**
C.II.1.	Long-term receivables	**9 434 035**		**9 434 035**	**2 064 921**
C.II.1.2.	Receivables – controlled or controlling entity	9 434 035		9 434 035	2 064 921
C.II.2.	***Short-term receivables***	**14 809 543**		**14 809 543**	**11 277 313**
C.II.2.1.	Trade receivables	232 907		232 907	111 358
C.II.2.2.	Receivables – controlled or controlling entity	14 512 082		14 512 082	11 161 726
C.II.2.4.	*Receivables – other*	**64 554**		**64 554**	**4 229**
C.II.2.4.3.	State – tax receivables	56 818		56 818	3 328
C.II.2.4.4.	Short-term prepayments made	1 085		1 085	830
C.II.2.4.5.	Estimated receivables	6 060		6 060	6
C.II.2.4.6.	Sundry receivables	591		591	65
C.IV.	***Cash***	**191 102**		**191 102**	**26 244**
C.IV.1.	Cash on hand	1		1	
C.IV.2.	Cash at bank	191 101		191 101	26 244
D.	**Other assets**	**9 949**		**9 949**	**39**
D.1.	Deferred expenses	152		152	39
D.3.	Accrued income	9 797		9 797	

		31.12.2019	01.01.2019
	TOTAL LIABILITIES & EQUITY	**57 587 298**	**47 054 242**
A.	**Equity**	**31 983 750**	**27 093 797**
A.I.	***Share capital***	**23 526 200**	**23 526 200**
A.I.1.	Share capital	23 526 200	23 526 200
A.II.	***Share premium and capital funds***	**2 907 326**	**2 677 389**
A.II.2.	*Capital funds*	**2 907 326**	**2 677 389**
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 (+/-)	-191 616	-421 553
A.IV.	***Retained earnings (+/-)***	**890 208**	**890 208**
A.IV.1.	Accumulated profits or accumulated loss brought forward (+/-)	890 208	890 208
A.V.	***Profit or loss for the current period (+/-)***	**4 660 016**	
B.+C.	**Liabilities**	**25 603 541**	**19 945 784**
B.	**Reserves**	**12 333**	**4 761**
B.2.	Income tax reserve	8 772	2 977
B.4.	Other reserves	3 561	1 784
C.	**Payables**	**25 591 208**	**19 941 023**
C.I.	***Long-term payables***	**10 204 656**	**8 287 180**
C.I.6.	Payables – controlled or controlling entity	10 204 656	8 287 180
C.II.	***Short-term payables***	**15 386 552**	**11 653 843**
C.II.4.	Trade payables	127 814	65 327
C.II.6.	Payables – controlled or controlling entity	15 244 587	11 553 069
C.II.8.	*Other payables*	**14 151**	**35 447**
C.II.8.3.	Payables to employees	5 361	4 682
C.II.8.4.	Social security and health insurance payables	1 290	1 034
C.II.8.5.	State – tax payables and subsidies		1 215
C.II.8.6.	Estimated payables	7 500	28 516
D.	**Other liabilities**	**7**	**14 661**
D.1.	Accrued expenses	7	14 661

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
31.12.2019
(in CZK thousand)

		Year ended 31.12.2019	Year ended 31.12.2018
I.	Sales of products and services	181 343	99 332
A.	Purchased consumables and services	218 032	143 872
A.2.	Consumed material and energy	901	441
A.3.	Services	217 131	143 431
B.	Change in internally produced inventory (+/-)	24 796	-11 842
D.	Staff costs	147 228	119 627
D.1.	Payroll costs	124 767	101 005
D.2.	Social security and health insurance costs and other charges	22 461	18 622
D.2.1.	Social security and health insurance costs	22 444	18 613
D.2.2.	Other charges	17	9
E.	Adjustments to values in operating activities	116	83
E.1.	Adjustments to values of intangible and tangible fixed assets	116	83
E.1.1.	Adjustments to values of intangible and tangible fixed assets – permanent	116	83
III.	Other operating income	80 437	9 392 511
III.3.	Sundry operating income	80 437	9 392 511
F.	Other operating expenses	86 354	9 391 953
F.3.	Taxes and charges	26	18
F.4.	Reserves relating to operating activities and complex deferred expenses	1 777	
F.5.	Sundry operating expenses	84 551	9 391 935
*	**Operating profit or loss (+/-)**	**-214 746**	**-151 850**
IV.	Income from non-current financial assets – equity investments	5 935 688	644 750
IV.1.	Income from equity investments – controlled or controlling entity	5 935 688	644 750
G.	Costs of equity investments sold	543 318	179 613
VI.	Interest income and similar income	390 998	289 170
VI.1.	Interest income and similar income – controlled or controlling entity	390 998	289 170
I.	Adjustments to values and reserves relating to financial activities	355 574	
J.	Interest expenses and similar expenses	575 563	361 482
J.1.	Interest expenses and similar expenses – controlled or controlling entity	575 561	361 482
J.2.	Other interest expenses and similar expenses	2	
VII.	Other financial income	703 153	222 848
K.	Other financial expenses	665 344	233 585
*	**Financial profit or loss (+/-)**	**4 890 040**	**382 088**
**	**Profit or loss before tax (+/-)**	**4 675 294**	**230 238**
L.	Income tax	15 278	5 491
L.1.	Due income tax	15 278	5 491
**	**Profit or loss net of tax (+/-)**	**4 660 016**	**224 747**
***	**Profit or loss for the current period (+/-)**	**4 660 016**	**224 747**
*	Net turnover for the current period	7 291 619	10 648 611

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
31.12.2019
(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 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
Loss 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**
Impact of merger as at 1 January 2019 (NADURENE a.s.)		1 913		-1 424		489
Impact of merger as at 1 January 2019 (EPPE Italy N.V.)	8 923 400			784 487		9 707 887
Distribution profit or loss – EP Power Europe, a.s.				224 747	-224 747	
Balance at 1 January 2019	**23 526 200**	**-421 553**	**3 098 942**	**890 208**		**27 093 797**
Gains or losses from the revaluation of assets		229 937				229 937
Profit for the current period					4 660 016	4 660 016
Balance at 31 December 2019	**23 526 200**	**-191 616**	**3 098 942**	**890 208**	**4 660 016**	**31 983 750**

Cash Flow Statement

EP Power Europe, a.s.
Corporate ID 278 58 685

Pařížská 130/26
Josefov
110 00 Praha 1

Year ended
31.12.2019
(in CZK thousand)

		Year ended 31.12.2019	Year ended 31.12.2018
P.	**Opening balance of cash and cash equivalents**	**26 244**	**20 162**
	Cash flows from ordinary activities (operating activities)		
Z.	Profit or loss from ordinary activities before tax	4 675 294	230 238
A.1.	Adjustments for non-cash transactions	-4 913 655	108 237
A.1.1.	Depreciation of fixed assets	116	83
A.1.2.	Change in provisions and reserves	353 368	-2 532
A.1.4.	Revenues from profit shares	-5 935 688	
A.1.5.	Expenses from profit shares	543 318	
A.1.6.	Interest expense and interest income	184 565	72 312
A.1.7.	Adjustments for other non-cash transactions	-59 334	38 374
A.*	**Net operating cash flow before changes in working capital**	**-238 361**	**338 475**
A.2.	Change in working capital	-55 303	-87 179
A.2.1.	Change in operating receivables and other assets	-147 957	-73 545
A.2.2.	Change in operating payables and other liabilities	62 833	13 574
A.2.3.	Change in inventories	29 821	-27 208
A.**	**Net cash flow from operations before tax**	**-293 664**	**251 296**
A.3.	Interest paid	-279 732	-258 335
A.4.	Interest received	203 339	304 264
A.5.	Income tax paid from ordinary operations	-9 483	-7 150
A.***	**Net operating cash flows**	**-379 540**	**290 075**
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-155 836	-112 569
B.2.	Proceeds from fixed assets sold	2 116 688	
B.3.	Loans and borrowings to related parties	-10 246 764	-1 358 386
B.***	**Net investment cash flows**	**-8 285 912**	**-1 470 955**
	Cash flow from financial activities		
C.1.	Change in payables from financing	8 830 310	1 185 359
C.***	**Net financial cash flows**	**8 830 310**	**1 185 359**
F.	**Net increase or decrease in cash and cash equivalents**	**164 858**	**4 479**
R.	**Closing balance of cash and cash equivalents**	**191 102**	**24 641**

Notes to the Czech Statutory Financial Statements for Year 2019

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
Company ID no.: 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.

The Group EPPE is an 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	Pavel Horský
	Vice-Chairman	Marek Spurný
	Vice-Chairman	Tomáš David
	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

1.3 MERGER

A project of demerger by split-up with the formation of one new company and a part of assets and liabilities being merged by acquisition with the existing successor company EP Power Europe, a.s. and the demerging company NADURENE a.s. was recorded on 17 December 2019. A part of the assets and liabilities of NADURENE a.s. passed on to NADURENE 2, a.s., a company formed by a demerger by split-up, and the remaining part of assets and liabilities of NADURENE a.s. passed on by acquisition to EP Power Europe, a.s. The decisive date of the merger was 1 January 2019.

A cross-border merger by acquisition project between the successor company EP Power Europe, a.s. and the dissolving company EPPE Italy N.V. was recorded on 27 December 2019. The decisive date of the merger was 1 January 2019.

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.

Notes to the Czech Statutory Financial Statements for Year 2019
Translated from the Czech Original

The Company's financial statements are prepared for the accounting period from 1 January 2019 to 31 December 2019 ("2019").

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 INCOME TAX

Current income tax is calculated using the effective tax rate and the accounting profit increased or decreased by permanent or temporary non-deductible expenses and non-taxable revenues (e.g. the creation and utilisation of other provisions and adjustments, representation costs, differences between accounting and tax depreciation).

An income tax provision is established as the financial statements are prepared before the tax liability is determined. In the subsequent accounting period, the Company releases this provision and records the actual tax liability determined.

In the balance sheet, the income tax provision is reduced by income tax prepayments, and the net liability (if any) is recorded in Income tax reserve, and the net receivable (if any) is recorded in State – tax receivables.

Deferred income tax is determined for companies constituting a group of companies and for all accounting entities to the obligation of having their financial statements audited. It is based on the balance sheet approach, i.e. the temporary differences between the tax base of assets and liabilities and their book value in the balance sheet, multiplied by the income tax rate expected to be valid for the subsequent accounting period.

A deferred tax asset is recognised only if it is probable that it will be utilised in future accounting periods.

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.

Notes to the Czech Statutory Financial Statements for Year 2019
Translated from the Czech Original

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 are prepared by EP Investment S.à r.l, with its registered office at Avenue John F. Kennedy 39, L-1855 Luxembourg. It will be available at the Company' registered office.

The consolidated financial statements for the narrowest group of entities are prepared by Energetický a průmyslový holding, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic. The consolidated financial statements for 2019 will be published in the accordance with Section 21a of the Accounting Act and stored at the registered office of Energetický a průmyslový holding, a.s.

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. Comparability of information

3.1 NON-CURRENT FINANCIAL ASSETS

As described in Note 1, the Company was part of merger projects with the decisive date of 1 January 2019. The above mergers were recorded by the Commercial Register. The prior period information in the balance sheet represents the Company´s opening balance sheet as at 1 January 2019. The prior period information in the profit and loss account and the cash flow statement represents data for the period ended as at 31 December 2018 for EP Power Europe, a.s. only and due to the mergers this data is not necessarily fully comparable with the data stated for the period ended as at 31 December 2019.

4. Cash flow statement

The cash flow statement was prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance.

Cash and cash equivalents can be analysed as follows:

(in TCZK)

	Cash on hand	Cash at bank	Total cash and cash equivalents
Balance as at 31/12/2018	0	24 641	**24 641**
Impact of merger as at 1 January 2019 (NADURENE a.s.)	0	724	**724**
Impact of merger as at 1 January 2019 (EPPE Italy N.V.)	0	879	**879**
Balance as at 1/1/2019	0	26 244	**26 244**
Balance as at 31/12/2019	1	191 101	**191 102**

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

5 Additional information

5.1 NON-CURRENT FINANCIAL ASSETS

EQUITY INVESTMENTS – CONTROLLED ENTITY

(in TCZK)

Company name	Amount of ownership interest	Total profit (+) / loss (-)	Equity	Value of ownership interest	Value of ownership interest
		for the period 1/1/2019–31/12/2019	as at 31/12/2019	as at 31/12/2019	as at 1/1/2019
Equity investments – controlled entity					
EPPE Germany, a.s.	100%	-366	3 719 180	3 759 850	3 745 550
EP Commodities, a.s.*	100%	399 467	1 224 954	734 695	734 695
EP UK Investments Ltd*	100%	-85 686	3 944 970	6 384 159	6 148 168
EP France S.A.S*	100%	64 703	14 432 695	3	-
EP New Energy Italia S.r.l.	51%	1 065 274	2 157 603	474 302	439 630
NADURENE a.s.	100%	-	-	-	426 489
Biomasse Servizi S.r.l.	51%	4 453	11 638	4 017	4 067
EP Produzione S.p.A.	100%	802 012	3 540 552	20 497 645	20 498 606
EP Resources AG*	100%	17 724	43 274	23 416	-
EP Ukraine B.V.*	90%	-1 384	141	1 372	-
EP Yuzivska B.V.*	100%	-36 255	2 139	38 623	-
Total				**31 918 082**	**31 997 205**
Equity investments in associates					
Ergosud S.p.A.	50%	67 872	3 627 048	1 540 711	1 541 339
Total				**1 540 711**	**1 541 339**
Other equity investments					
MÁTRA ENERGY HOLDING Zártkörűen Működő Részvénytársaság	15%	-	-	-	77 947
Total					**77 947**

* Data based on unaudited statutory financial statements of the companies.

Registered offices of the Company as at 31 December 2019 were as follows:

Biomasse Servizi S.r.l.	Via Vittorio Veneto 74, Rome, Italy
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
EP France S.A.S.	Rue du Débarcadère 9, 92700 Colombes, France
EP New Energy Italia S.r.l.	Via Vittorio Veneto 74, Rome, Italy
EP Produzione S.p.A.	Via Vittorio Veneto 74, Rome, Italy
EP Resources AG	Lindenstrasse 14, CH-6340 Baar, Switzerland
EP Ukraine B.V.	Schiphol Boulevard 477, C4, 1118BK Schiphol, Netherlands
EP Yuzivska B.V.	Schiphol Boulevard 477, C4, 1118BK Schiphol, Netherlands
Ergosud S.p.A.	Via di San Basilio 48, 00187 Rome, Italy

The valuation allowance is created to the following investments: Ergosud S.p.A. (TCZK 320 000) and EP Yuzivska B.V. (TCZK 35 574).

IN 2019 THE FOLLOWING CHANGES IN NON-CURRENT FINANCIAL ASSETS WERE MADE:

As a result of the merger with NADURENE a.s. (see description in Note 1), ownership interests in EP New Energy Italia S.r.l.. and Biomasse Servizi S.r.l. passed on to EPPE.

As a result of the merger with EPPE Italy N.V. (see description in Note 1), ownership interests in Ergosud S.p.A. and EP Produzione S.p.A. passed on to EPPE.

On 15 May 2019, EP Ukraine B.V. was established and EPPE contributed TCZK 232, which corresponded with 90% of the issued registered capital. Subsequently, EPPE provided a contribution into the other capital funds of TCZK 927 on 16 May 2019 and of TCZK 229 on 31 December 2019; both contributions corresponded with 90% of the issued capital.

On 20 June 2019, the Company sold a 15% share in MÁTRA ENERGY HOLDING Zártkörűen Működő Részvénytársaság, which was held in the value of TCZK 77 947.

On 28 June 2019, a contribution of TCZK 40 110 was made into the other capital funds of EP New Energy Italia S.r.l.

On 9 July 2019, EP Resources AG was established; the investment amounted to TCZK 22 939.

On 4 July 2019, a 100% share in EP France S.A.S was acquired.

On 31 July 2019, a 100% share in NADURENE 2, a.s. was sold.

On 19 August 2019, a contribution of TCZK 14 300 was made into the other capital funds of EPPE Germany, a.s.

On 28 November 2019, a contribution of TCZK 38 363 was made into the other capital funds of EP Yuzivska B.V.

5.2 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.

5.3 LONG-TERM RECEIVABLES

31 DECEMBER 2019

(in TCZK)

Counterparty	Principal	Outstanding interestas at 31/12/2019
Energetický a průmyslový holding, a.s.	9 434 035	-*
Total	**9 434 035**	**-**

* Outstanding interest is presented in Short-term receivables.

1 JANUARY 2019

Counterparty	Principal	Outstanding interest as at 1/1/2019
EP New Energy Italia S.R.L.	2 064 921	-
Total	**2 064 921**	**-**

On 28 June 2019, a receivable from EP New Energy Italia S.R.L. was assigned to Nadurene a.s. The receivable was subsequently offset against the payable relating to the contribution to the other capital funds of Nadurene a.s.

5.4 SHORT-TERM RECEIVABLES

31 DECEMBER 2019

(in TCZK)

Counterparty	Principal	Outstanding interest as at 31/12/2019
Energetický a průmyslový holding, a.s.	625 688	37 142
EP France S.A.S	3	612
EP Resources AG	160 609	-
EP Ukraine B.V.	3 202	6
EP UK Investments Ltd	13 646 890	37 930
Total	**14 436 392**	**75 690**

1 JANUARY 2019

Counterparty	Principal	Outstanding interest as at 1/1/2019
Energetický a průmyslový holding, a.s.	633 444	25 494
EP New Energy Italia S.R.L.	180 075	4 090
EP UK Investments Ltd	10 304 338	14 285
Total	**11 117 857**	**43 869**

5.5 EQUITY

As at 31 December 2019, 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.

As part of the merger with EPPE Italy N.V. as at 1 January 2019 (see Note 1.3), the share capital of EPPE increased by TCZK 8 923 400. This increase of the share capital was performed by subscribing 44 617 new ordinary certificated registered shares at TCZK 200 per share. After the recording of the merger, the registered capital of EPPE thus amounted to TCZK 23 526 200 as at 1 January 2019, with 117 631 ordinary certificated registered shares at TCZK 200 per share.

On 22 May 2019, the General Meeting decided to transfer the 2018 profit to the retained losses/profits account.

As at the date of approval of the financial statements, there is no proposal for distribution of current year's profit in place yet. The proposal for distribution will be prepared by the Board of Directors for the Company's shareholders and subsequently discussed and approved at the General Meeting.

No own shares were acquired during the 2019 reporting period.

5.6 LONG-TERM PAYABLES

31 DECEMBER 2019

(in TCZK)

Counterparty	Principal	Outstanding interest as at 31/12/2019
EP Produzione S.p.A.	10 204 656	-*
Total	**10 204 656**	**-**

* Outstanding interest is presented in Short-term payables.

1 JANUARY 2019

Counterparty	Principal	Outstanding interest as at 1/1/2019
EP Produzione S.p.A.	8 287 180	-
Total	**8 287 180**	**-**

5.7 SHORT-TERM PAYABLES

31 DECEMBER 2019

(in TCZK)

Counterparty	Principal	Outstanding interest as at 31/12/2019
Energetický a průmyslový holding, a.s.	14 231 692	37 194
EP Commodities, a.s.	700 586	63 329
EP Produzione S.p.A.	-	211 786
Total	**14 932 278**	**312 309**

1 JANUARY 2019

Counterparty	Principal	Outstanding interest as at 1/1/2019
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
EPPE Germany a.s.	19 665	
Total	**11 392 466**	**160 603**

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.

5.8 REVENUES

Revenues from equity investments – controlled entity represent dividends in the amount of TCZK 3 819 000 (2018: TCZK 0) from EP Produzione S.p.A. and then revenues from sale of equity investments in the amount of TCZK 2 116 688 (2018: TCZK 644 750).

5.9 INCOME TAX

The current income tax estimate and overview of income tax prepayments as at 31 December 2019 and as at 31 December 2018 are shown below:

	Balance as at 31/12/2019	Balance as at 31/12/2018
Current income tax estimate	17 439	5 500
Current income tax prepayments	3 983	2 523
Corporate income tax overpaid 2018	4 684	-
Income tax provision (+) / State – tax receivables (-)	**8 772**	**2 977**

Expenses of TCZK 15 278 related to current income tax on ordinary activities for 2019 represent the income tax provision created of TCZK 17 439 and the difference between the tax liability for 2018 and the release of the income tax provision created as at 31 December 2018 of TCZK 2 161.

Expenses of TCZK 5 491 related to current income tax on ordinary activities for 2018 represent the income tax provision created of TCZK 5 500 and the difference between the tax liability for 2017 and the release of the income tax provision created as at 31 December 2017 of TCZK 9.

5.10 EMPLOYEES, EXECUTIVES AND STATUTORY BODIES

The average number of the Company´s employees during the reporting period was 33 (as at 31 December 2018: 31).

The members of the Company's Board of Directors, Supervisory Board or executives did not receive as a result of performing their duties in 2019 and 2018 any advantages (advances, earnest money, loans etc.).

5.11 SIGNIFICANT OFF-BALANCE SHEET TRANSACTIONS

The Company reports off-balance sheet a liability from guarantees provided to group companies totalling TCZK 1 979 760 (as at 1 January 2019: TCZK 2 517 453) and a receivable totalling TCZK 1 270 497 (as at 1 January 2019: TCZK 0), which is the difference between the nominal value and purchase price of the EPPE receivable for EP France obtained during acquisition of the group EP France.

6 Subsequent events

At the end of 2019, first information from China on COVID-19 were shown, which resulted in an extraordinary situation in the first months of 2020. On 11 March 2020, the World Health Organisation declared the outbreak of a new virus, air-transmissible from human to human, a pandemic. On 12 March 2020, the Czech government declared a state of emergency. The government authorities introduced different restrictions on cross-border movement, the free movement of people, ordered closures of retail businesses with the exception of those serving basic needs (such as food retailers, drugstores, pharmacies, etc.), and also closures of restaurants, museums, cinemas, theatres, sports facilities, etc. Apart from the restrictions introduced by the government authorities, the voluntary temporary closures of some manufacturing facilities (primarily in the automotive industry) and any voluntary restriction of business operations will have an impact on the country's economy. Over a period of several days, the COVID-19 pandemic spread caused a serious situation in the entire society and the global economy.

The Company identified the risks connected with COVID-19 and adopted relevant precautions to reduce the impact on its employees and the Company's business. Based on the available information and current state, the Company continues to analyse the entire situation and assess its impacts on an ongoing basis. The Company's management has considered the potential impacts of COVID-19 on its activities and business and concluded that they have no significant impact on the financial statements for 2019, nor on the going concern assumption in 2020.

Apart from information mentioned above, no other events occurred subsequent to the balance sheet date that would have a material impact on the financial statements as at 31 December 2019.

Prepared on: 20 May 2020

Mgr. Pavel Horský

Vice-Chairman of the Board of Directors

Mgr. Marek Spurný

Vice-Chairman of the Board of Directors