EP Energy, a.s.

Consolidated annual report for the year 2018

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I. Introduction by the Chairman of the Board of Directors

Dear investors, customers and partners,

In 2018, the EP Energy Group achieved **revenues of EUR 1,838 million**, with EBITDA reaching EUR 296 million and **Adjusted EBITDA[1] of EUR 327 million**, roughly at the same level as the previous year.

While the underlying business performance and profile of the Group remained very comparable to the previous period, the reported results were influenced by the following factors:

- Accounting for compensation of losses resulting from subsidies paid by the SSE Group to renewable energy producers, which are compensated to the SSE Group with a delay. This adjustment is currently considered to be a shift of recognition of EBITDA to future periods.
- Impairment of assets recorded by Plzeňská energetika prior to its sale, disposal of unutilized non-core assets in 2017 and sale of Plzeňská energetika on May 9, all being one off effects.

The EP Energy Group remains the largest heat supplier to final consumers in the Czech Republic and one of the largest domestic electricity producers. Our *Heat Infra* segment generated in 2018 **revenues** of **EUR 543 million,** with **EBITDA** of **EUR 138 million.** This is lower by EUR 15 million compared to the previous year. However -excluding one-off effects and effect of disposal of Plzeňská energetika on May 9, 2018- the result of the segment remained the same as in 2017 despite rising prices of emission allowances and milder winter compared to 2017.

Our *Power Distribution and Supply* segment reached **revenues** of **EUR 1,446 million** and **EBITDA** of **EUR 139 million** –down by EUR 84 million– negatively affected by accounting for compensation of losses reported by the SSE Group as a result of subsidies paid by the SSE Group to renewable energy producers, which are compensated to the SSE Group with a delay. Core business of the segment slightly down by 1.1% due to lower margin on supply and energy resale.

The *Renewables* segment, significantly smaller compared to the previous two segments in terms of installed capacity and resulting economic performance, remains an important part of our diversified portfolio.

On May 1, 2018, EP Energy **repaid EUR 598 million** of bonds using own cash (EUR 348 million) and loan from the parent company (EUR 250 million). The EUR 499 million bond due on November 1, 2019, is expected to be repaid by a combination of own cash and intercompany loan to be provided by the parent company.

We are proud of the fact that on July 3, 2018, Fitch **upgraded EP Energy's rating** from BB+ to BBB-, and rating of our Notes to BBB (both with stable outlook).

On behalf of the Board of Directors and everyone at EP Energy, I would like to thank you for your ongoing support as we strive to continue creating the shareholder value while keeping our low risk-profile.

Yours faithfully,

Tomáš David
Chairman of the Board of Directors and CEO

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[1] Adjusted EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortization of intangible assets minus negative goodwill (if applicable) further adjusted to exclude (i) one-off items related to impairment of PPE and goodwill recorded in the first quarter 2018 of EUR 10 million (relating to disposal of shares in Plzeňská energetika a.s.) (ii) result from sale of non-core assets and (iii) adding back (if negative) or deducting (if positive) the timing difference between (a) compensation for the expenses for mandatory purchase and off-take of energy from renewable sources pursuant to the Slovak RES Promotion Act and the Decree recognised in revenues in the relevant period and (b) net expenses accounted for the mandatory purchase of energy from renewable resources in accordance with the Slovak RES Promotion Act, in each case inclusive of accruals. Pro forma effects of disposal of Plzeňská energetika a.s. not reflected. For details please refer to the Report on the year ended December 31, 2018 for EP Energy, a.s. presented at www.epenergy.cz.

II. Independent Auditor´s Report to the Consolidated Annual Report

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

This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholder of EP Energy, a.s.

Opinion

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

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors 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.

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Key Audit Matters

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

Revenue recognition

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

Key audit matter	**How the key audit matter was addressed**
Revenues and profits reported from electricity, heat, gas, coal, and from related services are partially based on estimates. **Revenues from sales of electricity, heat, and gas to retail customers are recognised at the time the electricity, heat or gas is supplied. This recognition is based on periodic meter readings and includes an estimate of the value of electricity and consumption after the date of the last meter reading of the year, determined based on estimates of daily consumption, adjusted to take into account weather conditions and other factors.** **In our opinion, the estimate of these revenues is a key audit matter since there is a risk of inappropriately recognised sales due to having improperly set the estimate determination process.**	In this area, our audit procedures included especially the following: We tested the implementation, set up, and effectiveness of manual and automatic controls in the process of revenue recognition. We tested the relevant controls for the determination of amounts of energy not yet invoiced. In particular, we tested the functionality of recalculations being performed on a monthly basis directly in the customer systems. This included the verification of the logic and mathematical accuracy of this recalculation. Furthermore, we performed tests of the details of the balance equation as at the reporting date and verified the accuracy of the data used by the Group. We took a very close look at the estimated average prices and distribution network losses. Based on a comparison with the plan and previous periods, we carried out analytical procedures related to revenues and various categories of income. In addition, for a sample, we compared invoices issued after the reporting date with the estimated revenues as at 31 December 2018.

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Testing of fixed assets impairment, including goodwill

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

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

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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 separate and consolidated financial statements and our auditor's report. The statutory body is responsible for the other information.

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

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

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

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

Responsibilities of the Statutory Body 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 Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

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

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

Statutory Auditor Responsible for the Engagement

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

Prague
5 April 2019

KPMG Česká republika Audit

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

Karel Charvát
Partner
Registration number 2032

III. Other Information

Expected development of the EP Energy, a.s. Group ("EPE Group" or "Group")

In 2019, the EPE Group will continue the development of its activities across its core segments, i.e. predominantly in the power distribution and supply segment and in the heat and power generation segment.

The EPE Group will continue to place its emphasis on maintaining strong financial results coupled with a continued cash conversion profile in line with historical trends. As a significant part of the EPE Group is regulated, profitability is expected to remain stable (disregarding the timing differences arising from the System Operations Tariff system in the SSE Group), minor deviations might occur depending on development of weather and market conditions during the following years.

Other information about subsequent events that occurred after the reporting date

The Group's management is not aware of any other material subsequent events that could have an effect on the consolidated financial statements as at 31 December 2018.

Branches

The EPE Group has the following organizational units abroad:

- AISE, s.r.o., organizačná zložka located in Slovakia;
- EP ENERGY TRADING, a.s., organizačná zložka located in Slovakia

Research and development activities

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

Acquisition of own shares or own ownership interests

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

Risk management policies

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

Information on environmental protection activities

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

The EPE Group activities are regulated by a number of environmental regulations in the Czech Republic, Slovakia and Hungary. These include regulations governing the discharge of pollutants, the handling of hazardous substances and their disposal, cleaning of contaminated sites and health and safety of employees. For example, the EPE Group is subject to regulations imposing strict limits on emissions of CO2, sulfur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO) and solid dust particles emissions (SDP).

Although EPE Group currently does not employ an environmental policy at the Group level, the respective subsidiaries implement their own policies focused on meeting the legislative requirements

and on mitigating the environmental footprint of the EPE Group. This affects not only the activities for which EPE seeks to minimize their impact on the environment but also investment activities.

EPE will continue to maintain its compliance with the environmental legislative requirements. In 2018, the Group invested considerable amounts into the reconstruction of several plants.

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

In 2018, during a supervisory audit, Elektrárny Opatovice, a.s. passed the inspection of the environmental management system under the ISO 14001 international standard aimed to minimise impact of its activities on the environment. The ISO 14001 certificate holder is also Pražská teplárenská a.s.

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

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

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

The companies of the EPE Group have a municipal waste collection system established. Recycling, reuse of material, composting are preferred over landfilling, which greatly contributes to reducing the production of waste. For example, United Energy, a.s. is entitled to use the label of Ecological firm for its responsible approach to the environment, used product take-back and waste sorting.

EPE Group enjoys a positive image in the market and significant level of political and public support resulting from the fact that several of its production facilities operate in a highly efficient combined cogeneration mode that has much lower CO2 emissions than a typical power plant. As a result, EPE saves energy, avoids network losses and improves the security of Europe's internal energy supply.

Employment and social relations

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

The management believes that the EPE Group, its companies and equipment are in compliance with all legislative requirements and best practice methods. Moreover, they are constantly striving to improve the safety level of the Group's activities by introducing measures focused on risk assessment, elimination, mitigation and prevention. The EPE 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.

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

Anti-bribery and anti-corruption procedures

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

Environmental, Social and Governance rating

EPE Group views the areas of environmental, social and governance matters as being vital to the overall well-being of the EPE Group and its stakeholders. In 2019 for the first time, the EP Infrastructure Group, to which EPE Group belongs and is one of the two key EP Infrastructure's subholdings, obtained an ESG rating "Average Performer" from the renowned ESG rating agency Sustainalytics. Both EP Infrastructure and EP Energy are committed to further improve their awareness of the ESG areas, incl. implementation of new ESG policies and disclosures which should lead to an ESG rating upgrade as well.

Sustainability report

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

IV. Report on relations

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 Energy, a.s.**, with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 292 59 428, 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 line 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 which will decide on the approval of the Company's ordinary financial statements and the distribution of the Company's profit or the settlement of its loss.

The Report has been prepared for the 2018 accounting period.

II.
Structure of relations between related entities

CONTROLLED ENTITY

The controlled entity is EP Energy, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 292 59 428, recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, insert 21733.

DIRECTLY CONTROLLING ENTITIES:

EP Infrastructure, a.s.

Registered office: Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
Reg. No.: 02413507

INDIRECTLY CONTROLLING ENTITIES:

EPIF Investments a.s.

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

Energetický a průmyslový holding, a.s.

Registered office: Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
Reg. No.: 28356250

EP Investment S.a r.l.

Registered office: 39, Avenue J.F. Kennedy, L – 1855 Luxembourg City, Luxembourg
Reg. No.: B 184488

OTHER CONTROLLED ENTITIES

The companies controlled by the same controlling entities are disclosed in note 37 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 treating the Company's ownership interests and other assets

Method and means of control

The controlling entities hold a majority share of voting rights in EP Energy, a.s., and exercise a controlling influence over EP Energy, a.s.

IV.
Overview of actions pursuant to Section 82 (2)(d) of Act No. 90/2012 Coll., the Corporations Act

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

In 2018, no other actions were taken at the initiative or in the interest of the controlling entity that would concern assets exceeding 10% of the controlled entity's equity as determined from the most recent financial statements.

V.
Contracts entered into between EP Energy, a.s. and other related entities

V.1.1.
In 2018, the following loan agreements were in force:

On 21 November 2006, a loan agreement, including valid amendments, was signed by and between a third party, as the creditor, and VTE Pchery s.r.o. (former ČES s.r.o.), as the debtor.

On 9 May 2012, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement.

On 7 December 2009, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and VTE Moldava II, a.s. (former Czech Wind Holding, a.s.), as the debtor. On 30 December 2010, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement.

On 9 December 2009, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and VTE Moldava II, a.s. (former Czech Wind Holding, a.s.), as the debtor. On 30 December 2010, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement.

On 18 December 2009, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and VTE Pchery s.r.o., as the debtor. On 30 December 2010, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement.

On 4 February 2010, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and VTE Moldava II, a.s. (former Czech Wind Holding, a.s.), as the debtor. On 30 December 2010, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement.

On 27 May 2010, a loan agreement was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and VTE Moldava, a.s., as the debtor. On 30 December 2010, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement. In 2015, VTE Moldava II, a.s. became the legal successor of VTE Moldava, a.s.

On 23 June 2010, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and CHIFFON ENTERPRISES LIMITED, as the debtor. On 30 December 2010, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement. On 26 September 2012, the receivable was assigned to EP Renewables a.s. based on a receivable assignment agreement. In 2015, EP Energy, a.s. became the legal successor of EP Renewables a.s.

On 3 November 2010, a loan agreement, including valid amendments, was signed by and between EP Renewables a.s. (former Czech Wind Holding, a.s.), as the creditor, and Greeninvest Energy, a.s., as the debtor. In 2015, EP Energy, a.s. became the legal successor of EP Renewables a.s.

On 27 June 2011, a loan agreement was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and VTE Pchery s.r.o., as the debtor. On 25 September 2012, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement.

On 28 December 2011, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and VTE Pchery s.r.o., as the debtor.

On 21 August 2012, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and CHIFFON ENTERPRISES LIMITED, as the debtor. On 26 September 2012, the receivable was assigned to EP Renewables a.s. based on a receivable assignment agreement. In 2015, EP Energy, a.s. became the legal successor of EP Renewables a.s.

On 15 October 2012, a loan agreement, including valid amendments, was signed by and between EP Renewables a.s., as the creditor, and CHIFFON ENTERPRISES LIMITED, as the debtor. In 2015, EP Energy, a.s. became the legal successor of EP Renewables a.s.

On 30 October 2012, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and United Energy, a.s., as the debtor.

On 30 October 2012, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and EP ENERGY TRADING, a.s., as the debtor.

On 30 October 2012, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and EP ENERGY TRADING, a.s., as the debtor.

On 30 October 2012, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and Elektrárny Opatovice, a.s., as the debtor.

On 26 June 2013, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as a creditor, and Elektrárny Opatovice, a.s., as the debtor.

On 30 July 2013, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and Plzeňská energetika a.s., as the debtor.

On 15 November 2013, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and EP ENERGY TRADING, a.s., as the debtor.

On 30 December 2013, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and United Energy, a.s., as the debtor.

On 3 March 2014, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and EP ENERGY HR d.o.o., as the debtor.

On 1 April 2014, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and VTE Moldava II, a.s., as the debtor.

On 14 December 2015, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and Alternative Energy, s.r.o., as the debtor.

On 3 June 2016, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and Alternative Energy, s.r.o., as the debtor.

On 5 August 2016, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and POWERSUN a.s., as the debtor.

On 31 October 2016, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and Alternative Energy, s.r.o., as the debtor.

On 1 December 2016, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and BUDAPESTI ERŐMŰ ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG, as the debtor.

On 19 January 2017, a loan agreement was signed by and between EP Energy, a.s. as the creditor and ARISUN, s.r.o. as the debtor.

On 19 January 2017, a loan agreement was signed by and between EP ENERGY, a.s. as the creditor and Triskata, s.r.o. as the debtor.

On 31 January 2017, a loan agreement was signed by and between EP Hungary, a.s. as the creditor and BUDAPESTI ERŐMŰ ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG as the debtor. EP ENERGY, a.s. became the legal successor of EP Hungary a.s.

On 31 July 2017, a loan agreement was signed between EP Energy, a.s. as the creditor and MR TRUST, a.s. as the debtor.

On 11 December 2017, a loan agreement was signed between EP Energy, a.s. as the creditor and PT-Holding Investment B.V. as the debtor.

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

On 23 January 2018, a loan agreement was signed between EP Energy, a.s. as the creditor and Claymore Equity, s.r.o. as the debtor.

On 9 March 2018, a loan agreement, including valid amendments, was signed between EP Real Estate, a.s. as the creditor and EP Energy, a.s. as the debtor.

On 5 April 2018, a loan agreement was signed between EP Energy, a.s. as the creditor and VTE Pchery s.r.o. as the debtor.

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

On 19 October 2018, a loan agreement was signed between Pražská teplárenská Holding a.s. as the creditor and EP Energy, a.s. as the debtor.

V.1.2.

In 2018, the following agreements on the set-off of receivables and payables were concluded:

On 2 May 2018, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and BUDAPESTI ERŐMŰ ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG.

On 9 July 2018, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and NPTH, a.s.

On 30 July 2018, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and NPTH, a.s.

On 5 September 2018, an agreement on the set-off of receivables was signed by and between EP Energy, a.s., Pražská teplárenská Holding a.s. and PT-Holding Investment B.V.

On 19 October 2018, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and Pražská teplárenská Holding a.s.

On 19 October 2018, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and Pražská teplárenská Holding a.s.

On 3 December 2018, an agreement on the set-off of receivables was signed by and between EP Energy, a.s., Pražská teplárenská Holding a.s. and PT-Holding Investment B.V.

V.1.3.

Other agreements effective in 2018:

On 1 August 2013, the ISDA 2002 Master Agreement and the Schedule to the 2002 Master Agreement were signed by and between Energetický a průmyslový holding, a.s. and EP Energy, a.s.

On 29 June 2015, an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s., United Energy, a.s., Plzeňská energetika a.s., EP ENERGY TRADING, a.s., Elektrárny Opatovice, EP Sourcing, a.s. and Severočeská teplárenská, a.s.

On 23 September 2015, a request for the accession of a new party to an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s. and PT Koncept, a.s.

On 23 September 2015, a request for the accession of a new party to an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s. and PT Transit, a.s.

On 23 September 2015, a request for the accession of a new party to an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s. and TERMONTA PRAHA a.s.

On 9 December 2015, a request for the accession of a new party to an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s. and EP Cargo a.s.

On 28 December 2015, a master agreement on the provision of guarantees, including valid amendments, was signed by and between EP Energy, a.s. and EP Energy Trading, a.s.

On 1 December 2016, an agreement on a long-term deposit was signed by and between EP Energy, a.s. and BUDAPESTI ERŐMŰ ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG.

On 4 January 2016 an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s., United Energy, a.s., Plzeňská energetika a.s., EP ENERGY TRADING, a.s., Elektrárny Opatovice a.s., EP Sourcing, a.s. and EP Cargo a.s.

On 2 May 2017, a request for the accession of a new party to an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s. and AISE, s.r.o.

On 19 December 2017, an agreement on a short-term deposit was signed by and between EP Energy, a.s. and Pražská teplárenská Holding a.s.

On 22 January 2018, a request for the accession of a new party to an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s. and Pražská teplárenská a.s.

On 22 January 2018, a request for the accession of a new party to an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s. and PT měření, a.s.

On 22 January 2018, a request for the accession of a new party to an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s. and Teplo Neratovice, spol. s r.o.

On 29 June 2018, an agreement on the assignment of a receivable due from Pražská teplárenská a.s. was signed between Pražská teplárenská Holding a.s. as assignor and EP Energy, a.s. as assignee.

On 29 June 2018, an agreement on the assignment of a receivable due from Pražská teplárenská a.s. was signed between NPTH, a.s. as assignor and EP Energy, a.s. as assignee.

On 30 July 2018, an agreement on the assignment of a receivable due from Pražská teplárenská Holding a.s. was signed between NPTH, a.s. as assignor and Pražská teplárenská Holding a.s. as assignee.

On 18 September 2018, an agreement on financial assistance was signed between EP Energy, a.s. as the creditor and VTE Moldava II, a.s. as the debtor.

On 5 October 2018, an agreement on the assignment of a receivable due from EP Energy, a.s. was signed between NPTH, a.s. as assignor and Pražská teplárenská Holding, a.s. as assignee.

V.1.4.
In 2018, the following operating agreements were effective:

An agreement on the provision of meeting rooms signed by and between Elektrárny Opatovice, a.s. and EP Energy, a.s. on 30 September 2013. The agreement was terminated as of 30 March 2018.

An agreement on the provision of meeting rooms signed by and between Plzeňská energetika a.s. and EP Energy, a.s. on 30 September 2013. The agreement was terminated as of 30 March 2018.

An agreement on the provision of meeting rooms signed by and between United Energy, a.s. and EP Energy, a.s. on 30 September 2013. The agreement was terminated as of 30 March 2018.

A technical advisory agreement signed by and between Elektrárny Opatovice, a.s. and EP Energy, a.s. on 2 January 2014.

A technical advisory agreement signed by and between United Energy, a.s. and EP Energy, a.s. on 2 January 2014.

A technical advisory agreement signed by and between Plzeňská energetika a.s. and EP Energy, a.s. on 2 January 2014 including all amendments.

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

A cooperation agreement signed by and between Elektrárny Opatovice, a.s. and EP Energy, a.s., Pražská teplárenská, a.s., United Energy, a.s. and Plzeňská energetika a.s. on 2 April 2018.

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

V.2.
Other juridical acts made between EP Energy, a.s. and other related entities

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

EP Energy, a.s. did not take or adopt any other juridical acts or measures in the interest or at the initiative of related entities.

V.3.
Transactions, receivables and payables of EP Energy, a.s. vis-à-vis related entities

The receivables and payables of EP Energy, a.s. from/to related entities as at 31 December 2018 are disclosed in the notes to the financial statements, which form part of the consolidated annual report.

VI.

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

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

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

In addition, the board of directors of EP Energy, a.s. declares that EP Energy, a.s. incurred no damage as a result of the actions of the controlling entity or of any entity controlled by the same entity. All transactions between the controlled entity and the controlling entity/entities controlled by the same controlling entity were concluded at arm's length. The contractual and other relations with related entities resulted in no damage or financial advantage or disadvantage to EP Energy, a.s.

Prague, 28 March 2019

.....
Marek Spurný
Member of the Board of Directors

.....
Pavel Horský
Member of the Board of Directors

V. Consolidated Financial Statements and Notes to the Consolidated Financial Statements

EP Energy, a.s.

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

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

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Consolidated statement of comprehensive income

For the year ended 31 December 2018

In millions of EUR ("MEUR")

	Note	2018	2017
Sales: Energy	7	1,833	1,812
of which: Electricity		*1,267*	*1,301*
Heat		*336*	*341*
Gas		*210*	*157*
Coal		*20*	*13*
Sales: Other	7	28	27
Gain (loss) from commodity derivatives for trading with electricity and gas, net		(23)	(6)
Total sales		**1,838**	**1,833**
Cost of sales: Energy	8	(1,369)	(1,291)
Cost of sales: Other	8	(29)	(21)
Total cost of sales		**(1,398)**	**(1,312)**
Subtotal		**440**	**521**
Personnel expenses	9	(109)	(110)
Depreciation and amortisation	16, 17	(131)	(138)
Repairs and maintenance		(6)	(5)
Emission rights, net	10	(19)	(20)
Taxes and charges	11	(3)	(3)
Other operating income	12	42	38
Other operating expenses	13	(49)	(41)
Profit (loss) from operations		**165**	**242**
Finance income	14	1	2
Finance expense	14	(49)	(78)
Profit (loss) from financial instruments	14	(2)	-
Net finance income (expense)		**(50)**	**(76)**
Share of profit (loss) of equity accounted investees, net of tax	18	-	(1)
Gain (loss) on disposal of subsidiaries, special purpose entities, joint-ventures and associates	6	(3)	-
Profit (loss) before income tax		**112**	**165**
Income tax expenses	15	(29)	(46)
Profit (loss) for the year		**83**	**119**
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences from foreign operations	15	4	(39)
Foreign currency translation differences from presentation currency	15	(4)	42
Effective portion of changes in fair value of cash flow hedges, net of tax	15	3	43
Other comprehensive income for the year, net of tax		**3**	**46**
Total comprehensive income for the year		**86**	**165**
Profit (loss) attributable to:			
Owners of the Company			
Profit for the year from continuing operations		56	53
Profit for the year attributable to owners of the company		**56**	**53**
Non-controlling interest			
Profit for the year from continuing operations		27	66
Profit for the year attributable to non-controlling interest		**27**	**66**
Profit (loss) for the year		**83**	**119**
Total comprehensive income attributable to:			
Owners of the Company		59	97
Non-controlling interest	27	27	68
Total comprehensive income for the year		**86**	**165**
Basic and diluted earnings per share in EUR – continuing operations	26	**2.86**	**2.71**
Basic and diluted earnings per share in EUR	26	**2.86**	**2.71**

The notes presented on pages 8 to 100 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

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

	Note	2018	2017
Assets			
Property, plant and equipment	16	1,447	1,555
Intangible assets	17	62	60
Goodwill	17	101	104
Equity accounted investees	18	1	1
Financial instruments and other financial assets	31	11	7
Trade receivables and other assets	21	7	23
Prepayments and other deferrals		1	1
Deferred tax assets	19	-	2
Total non-current assets		**1,630**	**1,753**
Inventories	20	32	41
Trade receivables and other assets	21	274	375
Contract assets	6	29	-
Financial instruments and other financial assets	31	23	8
Prepayments and other deferrals		7	8
Tax receivables	23	11	16
Cash and cash equivalents	22	192	371
Restricted cash		3	1
Assets/disposal groups held for sale	24	-	4
Total current assets		**571**	**824**
Total assets		**2,201**	**2,577**
Equity			
Share capital	25	511	511
Share premium		116	116
Reserves		(359)	(344)
Retained earnings		109	82
Total equity attributable to equity holders		**377**	**365**
Non-controlling interest	27	422	405
Total equity		**799**	**770**
Liabilities			
Loans and borrowings	28	274	515
of which owed to the parent company/ultimate parent company		249	-
Financial instruments and financial liabilities	31	12	11
Provisions	29	18	18
Deferred income	30	47	119
Contract liabilities	6	63	-
Deferred tax liabilities	19	161	176
Trade payables and other liabilities	32	-	4
Total non-current liabilities		**575**	**843**
Trade payables and other liabilities	32	208	272
Contract liabilities	6	39	-
Loans and borrowings	28	511	614
of which owed to the parent company/ultimate parent company		*3*	-
Financial instruments and financial liabilities	31	24	8
Provisions	29	35	37
Deferred income	30	7	13
Current income tax liability		3	19
Liabilities from disposal groups held for sale	24	-	1
Total current liabilities		**827**	**964**
Total liabilities		**1,402**	**1,807**
Total equity and liabilities		**2,201**	**2,577**

The notes presented on pages 8 to 100 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 at 31 December 2017	**511**	**116**	**23**	**1**	**(34)**	**-**	**(326)**	**(8)**	**82**	**365**	**405**	**770**
Adjustments on initial application of IFRS 9 (net of tax)	-	-	-	-	-	-	-	-	(2)	(2)	-	(2)
Adjusted balance at 1 January 2018	**511**	**116**	**23**	**1**	**(34)**	**-**	**(326)**	**(8)**	**80**	**363**	**405**	**768**
Total comprehensive income for the year:												
Profit or loss (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**56**	**56**	**27**	**83**
Other comprehensive income:												
Foreign currency translation differences for foreign operations	-	-	-	-	1	-	-	-	-	**1**	3	**4**
Foreign currency translation differences from presentation currency	-	-	-	-	(1)	-	-	-	-	**(1)**	(3)	**(4)**
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	-	-	-	3	-	**3**	-	**3**
Total other comprehensive income (C)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**-**	**3**	**-**	**3**
Total comprehensive income for the year (D) = (B + C)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**3**	**56**	**59**	**27**	**86**
Contributions by and distributions to owners:												
Dividends to equity holders	-	-	-	-	-	-	-	-	(42)	**(42)**	(4)	**(46)**
Total contributions by and distributions to owners (E)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(42)**	**(42)**	**(4)**	**(46)**
Changes in ownership interests in subsidiaries:												
Effect of disposed entities	-	-	-	-	-	-	(18)		18	-	-	-
Effect of changes in ownership of non-controlling interest	-	-	-	-	-	-	-	-	(3)	**(3)**	(6)	**(9)**
Total changes in ownership interests in subsidiaries (F)	**-**	**-**	**-**	**-**	**-**	**-**	**(18)**	**-**	**15**	**(3)**	**(6)**	**(9)**
Total transactions with owners (G) = (E + F)	**-**	**-**	**-**	**-**	**-**	**-**	**(18)**	**-**	**(27)**	**(45)**	**(10)**	**(55)**
Balance at 31 December 2018 (H) = (A + D + G)	**511**	**116**	**23**	**1**	**(34)**	**-**	**(344)**	**(5)**	**109**	**377**	**422**	**799**

The notes presented on pages 8 to 100 form an integral part of these consolidated financial statements.

For the year ended 31 December 2017

In millions of EUR ("MEUR")	Attributable to owners of the Company											
	Share capital	**Share premium**	**Other capital funds from capital contributions**	**Non-distributable reserves**	**Translation reserve**	**Fair value reserve**	**Other capital reserves**	**Hedging reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total Equity**
Balance at 1 January 2017 (A)	**505**	**116**	**23**	**1**	**(35)**	**-**	**(320)**	**(51)**	**143**	**382**	**464**	**846**
Total comprehensive income for the year:												
Profit or loss (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**53**	**53**	**66**	**119**
Other comprehensive income:												
Foreign currency translation differences for foreign operations	-	-	-	-	(18)	-	-	-	-	**(18)**	(21)	**(39)**
Foreign currency translation differences from presentation currency	-	-	-	-	19	-	-	-	-	**19**	23	**42**
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	-	-	-	43	-	**43**	-	**43**
Total other comprehensive income (C)	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**43**	**-**	**44**	**2**	**46**
Total comprehensive income for the year (D) = (B + C)	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**43**	**53**	**97**	**68**	**165**
Contributions by and distributions to owners:												
Increase (decrease) in share capital	6	-	-	-	-	-	(6)	-	-	**-**	-	**-**
Dividends to equity holders	-	-	-	-	-	-	-	-	(78)	**(78)**	(54)	**(132)**
Total contributions by and distributions to owners (E)	**6**	**-**	**-**	**-**	**-**	**-**	**(6)**	**-**	**(78)**	**(78)**	**(54)**	**(132)**
Changes in ownership interests in subsidiaries:												
Effect of changes in ownership of non-controlling interest	-	-	-	-	-	-	-	-	(36)	**(36)**	(73)	**(109)**
Total changes in ownership interests in subsidiaries (F)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(36)**	**(36)**	**(73)**	**(109)**
Total transactions with owners (G) = (E + F)	**6**	**-**	**-**	**-**	**-**	**-**	**(6)**	**-**	**(114)**	**(114)**	**(127)**	**(241)**
Balance at 31 December 2017 (H) = (A + D + G)	**511**	**116**	**23**	**1**	**(34)**	**-**	**(326)**	**(8)**	**82**	**365**	**405**	**770**

The notes presented on pages 8 to 100 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2018

In millions of EUR ("MEUR")	**Note**	**2018**	**2017**
OPERATING ACTIVITIES			
Profit (loss) for the year		83	119
Adjustments for:			
Income taxes	15	29	46
Depreciation and amortisation	16, 17	131	138
Dividend income		-	(1)
Impairment losses on property, plant and equipment and intangible assets	13	10	1
Gain (loss) from commodity derivatives for trading with electricity and gas, net		13	1
Gain (loss) on disposal of property, plant and equipment, investment property and intangible assets	12,13	(20)	(8)
Emission rights	10	19	20
Gain on disposal of subsidiaries, special purpose entities, joint-ventures, associates and non-controlling interests	6, 19	3	-
Share of profit (loss) of equity accounted investees	18	-	1
Gain on financial instruments	14	2	-
Net interest expense	14	44	59
Change in allowance for impairment to trade receivables and other assets, write-offs		1	3
Change in provisions		(1)	(1)
Other finance fees, net	14	4	5
Unrealised foreign exchange (gains) losses, net		6	25
Operating profit before changes in working capital		**324**	**408**
Change in trade receivables and other assets		86	(113)
Change in inventories (including proceeds from sale)		8	8
Change in assets held for sale and related liabilities		-	2
Change in trade payables and other liabilities		(34)	34
Change in restricted cash		(2)	-
Cash generated from (used in) operations		**382**	**339**
Interest paid		(44)	(56)
Income taxes paid		(45)	(32)
Cash flows generated from (used in) operating activities		**293**	**251**
INVESTING ACTIVITIES			
Dividends received from associates and joint-ventures		-	1
Loans provided to the other entities		-	(58)
Proceeds (outflows) from sale (settlement) of financial instruments		(14)	(4)
Acquisition of property, plant and equipment, investment property and intangible assets	16, 17, 18	(103)	(97)
Purchase of emission rights	17	(23)	(19)
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		41	18
Acquisition of subsidiaries and special purpose entities, net of cash acquired	6	(3)	(1)
Net cash inflow from disposal of subsidiaries and special purpose entities including received dividends	6	36	-
Increase (decrease) in participation in existing subsidiaries and special purpose entities, joint-ventures and associates		(12)	(108)
Cash flows from (used in) investing activities		**(78)**	**(268)**
FINANCING ACTIVITIES			
Proceeds from loans received		262	13
Repayment of borrowings		(9)	(12)
Repayment of bonds issued		(598)	-
Finance fees paid from repayment of borrowings		(1)	-
Dividends paid		(46)	(87)
Cash flows from (used in) financing activities		**(392)**	**(86)**
Net increase (decrease) in cash and cash equivalents		(177)	(103)
Cash and cash equivalents at beginning of the year		**371**	**464**
Effect of exchange rate fluctuations on cash held		(2)	10
Cash and cash equivalents at end of the year		**192**	**371**

The notes presented on pages 8 to 100 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Background

EP Energy, a.s. (the "Parent Company" or the "Company" or "EPE" or "energy subholding") is a joint-stock company, with its registered office at Pařížská 130/26, 110 00 Praha 1, Czech Republic. The Company was founded by Energetický a průmyslový holding, a.s. ("EPH") on 16 December 2010 as at that time a subsidiary that will hold/consolidate investments in entities belonging to the energy segment of Energetický a průmyslový holding, a.s. and its subsidiaries (the "EPH Group").

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

The share capital at the establishment of the Company of EUR 764 million was settled by a non-cash consideration in the form of shares in Honor Invest, a.s.(2), AISE, s.r.o., První energetická a.s.(1), Czech Energy Holding, a.s.(2), Plzeňská energetika a.s., ROLLEON a.s., EP Renewables a.s. (previously Czech Wind Holding, a.s.) and HC Fin3 N.V.(2)

The consolidated financial statements of the Company for the year ended 31 December 2018 include the statements of the Parent Company and its subsidiaries and the Group's interests in associates and joint-ventures (together referred to as the "Group" or the "EPE Group"). The Group entities are listed in Note 37 – Group entities.

(1) První energetická a.s. merged with EP ENERGY TRADING, a.s. as at 1 January 2013. EP ENERGY TRADING, a.s. is the successor company.

(2) Honor Invest, a.s., Czech Energy Holding, a.s., EAST BOHEMIA ENERGY HOLDING LIMITED, LIGNITE INVESTMENTS 1 LIMITED and HC Fin3 N.V. merged with EP Energy, a.s. as at 4 November 2013. EP Energy, a.s. is the successor company..

The shareholder of the Company as at 31 December 2018 was as follows:

	Interest in share capital		Voting rights
	MEUR	**%**	**%**
EP Infrastructure, a.s.	511	100.00	100.00
Total	**511**	**100.00**	**100.00**

The shareholder of the Company as at 31 December 2017 was as follows:

	Interest in share capital		Voting rights
	MEUR	**%**	**%**
EP Infrastructure, a.s.	511	100.00	100.00
Total	**511**	**100.00**	**100.00**

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

- Tomáš David (Chairman of the Board of Directors)
- Petr Sekanina (Vice-chairman of the Board of Directors)
- Marek Spurný (Member of the Board of Directors)
- Pavel Horský (Member of the Board of Directors)
- Jiří Feist (Member of the Board of Directors)
- William David George Price (Member of the Board of Directors)

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

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

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

2. Basis of preparation

(a) Statement of compliance

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

The consolidated financial statements were approved by the Board of Directors on 5 April 2019.

(b) Basis of measurement

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

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

- derivative financial instruments
- financial instruments at fair value through other comprehensive income

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

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

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

i. Assumptions and estimation uncertainties

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

- Notes 6 and 17 – Accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill,
- Note 29 – Recognition and measurement of provisions,
- Notes 28, 31 and 35 – Valuation of loans and borrowings and financial instruments,
- Note 38 – Litigations.

Measurement of fair values

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

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

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

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

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

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

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

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

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

ii. Judgements

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

- Notes 6 and 17 – accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill,
- Note 29 – recognition and measurement of provisions.
- Note 31 and 35 – hedge accounting application

(e) Recently issued accounting standards

i. Newly adopted Standards, Amendments to standards and Interpretations effective for the year ended 31 December 2018 that have been applied in preparing the Group's financial statements

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

31 December 2018 *In millions of EUR*	**Amount without adoption IFRS 15**	**Impact of adoption IFRS 15**	**31 December 2018 as reported**
Trade and other receivables	303	(29)	274
Contract assets	-	29	29
Other current assets		-	268
Total current assets	**571**	**-**	**571**
Trade and other payables	247	(39)	208
Contract liabilities	-	39	39
Other current liabilities	580	-	580
Total current liabilities	**827**	**-**	**827**
Deferred income	110	(63)	47
Contract liabilities	-	63	63
Other non-current liabilities	465	-	465
Total non-current liabilities	**575**	**-**	**575**

Major impacts of IFRS 15 applications were as follows:

- reclassification of not invoiced part of fulfilled performance obligation from Trade and other receivables to Contract assets of EUR 29 million representing new class of assets presented in statement of financial position
- reclassification of received payments for services and goods where control over the assets was not transferred to customer from Trade payables and other liabilities to Contract liabilities of EUR 39 million
- reclassification of deferred income related to grid connection fees collected and free-of-charge non-current assets transferred from customers to Contract liabilities in a total amount of EUR 63 million

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

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

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

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

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

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

  Where the Group acts as energy provider it was analysed if the distribution service invoiced is recognized as revenue from customers under IFRS 15. Judgement may be required to determine whether the Group acts as principal or agent in those cases. The key judgement is that the distribution services are not separable as a performance obligation from the integrated delivery service of the energy product. Therefore, it has been concluded that the Group acts as a principal

and therefore materially all distribution services which are billed to its customers as part of the revenues from energy delivery are presented gross in the statement of comprehensive income.

- *Electricity infrastructure services*

  The Group provides services connected with the infrastructure by providing distribution of energy products. The revenue from all these contracts is recognized over the time of contract. As the Group fulfils the performance obligation arisen from those contracts equally over the time of the contract, the revenues are recognized as the control over benefits from contract is transferred to client, therefore equally over the time of contract.

- *Non-cash considerations received*

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

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

IFRS 9 Financial Instruments

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

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

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

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

The following table shows the reconciliation of carrying amounts of financial assets under IAS 39 to IFRS 9 on transition on 1 January 2018:

In millions of EUR	**31 December 2017 as reported**	**Impact of adopting IFRS 9**	**1 January 2018**
Trade receivables	155	(1)	154
Loans to other than credit institutions	7	(1)	6
Total	**162**	**(2)**	**160**

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

I. Classification and measurement of financial assets and financial liabilities

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

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

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

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

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

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

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

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

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

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 by through profit of loss by the Group are derivatives.

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

II. Impairment of financial assets

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

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

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

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

The ECL model is based on the principle of expected credit losses. For the purposes of designing the ECL model, the 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 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 assumes that the credit risk on a financial asset has increased significantly if:

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

(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% (not relevant condition in ECL model for intercompany loans and receivables); 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 securities 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

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

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

For the purposes of ECL calculation, the Group uses components needed for the calculation, namely probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). The Group

implements forward looking information into the calculation of ECL. Forward-looking information means any macroeconomic factor projected for future, which has a significant impact on the development of credit losses. ECLs are present values of probability-weighted estimate of credit losses. The Group considers mainly expected growth of gross domestic product, reference interest rates, stock exchange indices or unemployment rates.

Presentation of loss allowances

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

Impact of the new impairment model

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

III. Hedge accounting

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

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

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

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

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

IFRIC 22 Foreign Currency Translations and Advance Consideration

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

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

Amendments to IAS 40 – Transfers of Investment Property

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

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

ii. Standards not yet effective

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

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

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

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

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

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

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

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

The first-time application of the standard will lead to an increase in both property, plant and equipment (accounting for the rights of use) and financial liabilities (recognition of the corresponding lease liabilities) in the balance sheet. The impact of the transition on the amount of leasing liabilities and rights of use for continuing activities at the time of first-time application is expected to be EUR 35 to EUR 50 million. As a result of this change in the balance sheet net financial debt will increase slightly. Effect on retained earnings is expected to be immaterial.

In the future, instead of other operating expenses, depreciation on rights of use and interest expenses will be recognized in profit or loss from the accretion of lease liabilities (unless they relate to expenses from short-term and low-value leases). This will lead to improved annual EBITDA which is expected to be higher by EUR 5 to EUR 10 million.

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

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

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

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

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

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

The amendment will have no 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 (not adopted by EU yet))

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

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

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

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

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

Amendments from the 2014 - 2016 cycle of annual improvements (Effective for annual periods beginning on or after 1 January 2019)

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

organisation, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition).

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

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

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

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

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

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

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

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

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

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

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

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

(a) Basis of consolidation

i. Subsidiaries

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

ii. Equity accounted 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. 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 are eliminated against the investment to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

vi. Unification of accounting policies

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

vii. Pricing differences

The Group accounted for pricing differences which arose from the acquisition of subsidiaries from Energetický a průmyslový holding, a.s. or subsidiaries contributed to the share capital of the Company by Energetický a průmyslový holding, a.s. As these acquired or contributed entities were under common control of Energetický a průmyslový holding, a.s., they were therefore excluded from the scope of IFRS 3, which defines recognition of goodwill raised from business combination as the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Acquirees under common control are treated under the net book value presented in the consolidated financial statements of Energetický a průmyslový holding, a.s. (i.e. including historical goodwill less potential impairment) as at the date these entities were acquired by Energetický a

průmyslový holding, a.s. (acquisition date). The difference between the cost of acquisition and carrying values of net assets of the acquiree and original goodwill carried forward as at the acquisition date were recorded to consolidated equity as pricing differences. Pricing differences are presented in Other capital reserves in Equity. "Note 6 – Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates" summarises the effects of all common control transactions in both periods.

viii. Disposal of subsidiaries and equity accounted investees

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

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

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

(b) Foreign currency

i. Foreign currency transactions

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

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

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

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

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

ii. Financial statements of foreign operations

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

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

iii. Translation to presentation currency

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

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

(c) Non-derivative financial assets

i. Classification

Policy applicable from 1 January 2018

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

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

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

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

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

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

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

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

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

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

Policy applicable before 1 January 2018

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

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

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

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

ii. Recognition

Policy applicable from 1 January 2018

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

Policy applicable before 1 January 2018

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

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

iii. Measurement

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

Policy applicable from 1 January 2018

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

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

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

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

Policy applicable before 1 January 2018

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

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

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

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

iv. De-recognition

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

v. Offsetting of financial assets and liabilities

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

(d) Non-derivative financial liabilities

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

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

(e) Derivative financial instruments

Policy applicable from 1 January 2018

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

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

Other non-trading derivatives

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

Cash flow hedges and fair value hedges

The majority of financial derivatives are held for risk mitigation purposes but they do not meet the criteria for hedge accounting as stated by IFRS 9. These derivatives are designated as held 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, or the designation is revoked, 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 than 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 FVtOCI, 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 for physical delivery are considered to fall outside the scope of application of IFRS 9, when the contract concerned is considered to have been entered into as part of the Group's normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

– a physical delivery takes place under such contracts;

– the volumes purchased or sold under the contracts correspond to the Group's operating requirements; and

– the contract cannot be considered a written option as defined by IFRS 9.

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

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

(f) Cash and cash equivalents

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

(g) Inventories

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

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

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

(h) Impairment

i. Non-financial assets

The carrying amounts of the Group's assets, other than inventories (refer to accounting policy (g) – Inventories), investment properties (refer to accounting policy (k) – Investment property) 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 and contract assets)

Policy applicable after 1 January 2018

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

• 12-month ECLs: ECLs that result from possible default events within the 12 months after the reporting date;

• lifetime ECLs: ECLs that result from all possible default events over the expected life of a financial instrument.

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

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

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

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

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

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

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

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

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

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

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

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

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

For the purposes of ECL calculation, the Group uses components needed for the calculation, namely probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD"). The Group implements forward-looking information into the calculation of ECL. Forward-looking information means

any macroeconomic factor projected for future, which has a significant impact on the development of credit losses. ECLs are present values of probability-weighted estimate of credit losses. The Group considers mainly expected growth of gross domestic product, reference interest rates, stock exchange indices or unemployment rates.

Presentation of loss allowances

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

Policy applicable before 1 January 2018

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

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

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

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

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

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

iii. Equity accounted 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 (h) – Impairment). Opening balances are presented at net book values, which include adjustment from revaluation within the Purchase Price Allocation process.

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

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

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

ii. Leased assets

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

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

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

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

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

iii. Free-of-charge received property

Several items of gas equipment were obtained "free of charge" from municipal and local authorities. This equipment was recorded as property, plant, and equipment at the costs incurred by the municipal and local authorities with a corresponding amount recorded as contract liability (before 1 January 2018 as deferred income) as receipt of the free of charge property is related to obligation to connect the customers to the grid. These costs approximate the fair value of the obtained assets. This contract liability is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets acquired free of charge.

iv. Subsequent costs

Subsequent costs are capitalised only if it is probable that the future economic benefits embodied in an item of property, plant and equipment will flow to the Group and its cost can be measured reliably. All other expenditures, including the costs of the day-to-day servicing of property, plant and equipment, are recognised in profit or loss as incurred.

v. Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated. Leased assets are depreciated over the shorter of

the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives are as follows:

• Power plant buildings and structures	50 – 100 years
• Buildings and structures	20 – 50 years
• Machinery, electric generators, gas producers, turbines and drums	20 – 30 years
• Distribution network	10 – 30 years
• Machinery and equipment	4 – 20 years
• Fixtures, fittings and others	3 – 20 years

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

(j) Intangible assets

i. Goodwill and intangible assets acquired in a business combination

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

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

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

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

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

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

ii. Research and development

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

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

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

iii. Emission rights

Recognition and measurement

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

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

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

Impairment of emission rights

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

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

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

Recognition of grants

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

Recognition, measurement of provision

A provision is recognised regularly during the year based on the estimated number of tonnes of CO2 emitted.

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

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

iv. Software and other intangible assets

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

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

v. Amortisation

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

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

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

(k) Provisions

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

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

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

i. Employee benefits

Long-term employee benefits

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

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

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

Pension plans

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

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

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

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

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

Short-term employee benefits

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

ii. Warranties

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

iii. Provision for lawsuits and litigations

Settlement of a lawsuit represents an individual potential obligation. 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 CO2 emitted. It is measured at the best estimate of the expenditure required to settle the present obligation at the reporting date.

v. Restructuring

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

vi. Asset retirement obligation and provision for environmental remediation

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

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

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

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

Rehabilitation provisions are recognised for the following restoration activities:

- dismantling and removing structures;

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

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

vii. Onerous contracts

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

(l) Revenue

Policy applicable from 1 January 2018

i. Revenues from contracts with customers (applicable from 1 January 2018)

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

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

• over time, in a manner that depicts the entity's performance; or

• at a point in time, when control of the goods or services is transferred to the customer.

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

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

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

Revenues are measured using transaction prices allocated to those goods transferred, reflecting the volume supplied, including the estimated volume supplied between last invoice date and end of the period. For B2C customers advance payments are required in general based on historical consumption, those are settled when the actual supplied volumes are known. While B2B customers are usually invoiced with higher frequency based on volumes actually supplied. Sales transactions usually do not contain significant financing component.

Where the Group acts as energy provider it was analysed if the distribution service invoiced is recognized as revenue from customers under IFRS 15. Judgement may be required to determine whether the Group acts as principal or agent in those cases. The key judgement is that the distribution services are not separable as a performance obligation from the integrated delivery service of the energy product. Therefore, it has been concluded that the Group acts as a principal and therefore materially all distribution services which are billed to its customers as part of the revenues from energy delivery are presented gross in the statement of comprehensive income.

Electricity infrastructure services

The Group provides services connected with the infrastructure by providing distribution of energy products. The revenue from all these contracts is recognized over the time of contract. As the Group fulfils the performance obligation arisen from those contracts equally over the time of the contract, the revenues are recognized as the control over benefits from contract is transferred to client, therefore equally over the time of contract. Services are generally billed on monthly bases containing volume based and fixed fee.

Non-cash considerations received

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

Policy applicable before 1 January 2018

i. Revenues from own products and goods sold and services rendered

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

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

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

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

Other revenues represent revenues from non-energy activities.

ii. Revenues from sale of electricity, heat and gas

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

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

Policy applicable before and after 1 January 2018

i. Energy trading

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

ii. 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.

iii. Revenues from free-of-charge property

Free-of-charge property obtained from the municipal and local authorities was recorded as property, plant, and equipment at the costs incurred by the municipal and local authorities with a corresponding amount recorded as deferred income. These costs approximate the fair value of the obtained assets. This deferred income is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets acquired free of charge.

iv. Rental income

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

(m) Finance income and costs

i. Finance income

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

ii. Finance costs

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

iii. Borrowing costs

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

(n) Income taxes

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

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

Deferred tax is measured using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No deferred tax is recognised on the following temporary differences: temporary differences arising from the initial recognition of assets or liabilities that is not a business combination and that affects neither accounting nor taxable profit or loss, and temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. No deferred tax is recognised on the initial recognition of goodwill.

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

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

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

(o) Dividends

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

(p) Non-current assets held for sale and disposal groups

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

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

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

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

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

(q) Segment reporting

Due to the fact that the Group has issued debentures (Senior Secured Notes) in 2012 and 2013 which are listed on the Irish Stock Exchange, the Company reports segmental information in accordance with IFRS 8.

Segment results that are reported to the Group's board of directors (the chief operating decision maker) include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. The support is provided by four executive committees: a strategic committee, an investment committee, a risk management committee and a compliance committee.

4. Determination of fair values

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

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values or the income approach method. The market value of property is the estimated amount

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

(b) Intangible assets

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

(c) 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 contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

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

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

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

5. Operating segments

The Group operates in following reportable segments: Heat Infra, Renewables, Power Distribution and Supply. Heat Infra and Power Distribution and Supply are the core segments of the Group.

Operating segments have been identified primarily on the basis of internal reports used by the EPE's "chief operating decision maker" (Board of Directors) to allocate resources to the segments and assess their performance. Major indicators used by the Board of Directors to measure these segments' performance is operating profit before depreciation, amortization and negative goodwill (EBITDA) and capital expenditures.

i. Heat Infra

The Heat Infra segment owns and operates large-scale combined heat and power plants (CHPs) in the Czech Republic primarily operated in highly efficient co-generation mode and represented primarily by: Elektrárny Opatovice, a.s., United Energy, a.s. and Pražská teplárenská a.s., which is operating the largest district heating system in the Czech Republic, supplying heat to the City of Prague, and three CHPs in Hungary, represented by Budapesti Erömü Zrt., which is supplying the City of Budapest. Prior to 9 May 2018 EP Energy, a.s. also owned 100% shares of Plzeňská energetika, a.s. which was in 2018 sold to EP Infrastructure, a.s. The heat generated in its co-generation power plants is supplied mainly to retail customers through well maintained and robust district heating systems that the EPE Group owns in most of the cases. Czech based heat supply is regulated in a way of cost plus a reasonable profit margin while the Hungarian operations are regulated using the standard Regulated Asset Base ("RAB") multiplied by WACC plus eligible operating expenditures and allowed depreciation formula.

ii. Renewables

The Renewables segment owns and operates three solar power plants and holds a minority interest in an additional solar power plant and a majority interest in one wind farm in the Czech Republic. The Group also owns two solar power plants and a biogas facility in Slovakia.

iii. Power Distribution and Supply

The Power Distribution and Supply segment consists of a Power Distribution division and a Supply division. The Supply division supplies power and natural gas to end-consumers in the Czech Republic and Slovakia. The Power Distribution division purchases and sells in the wholesale market power generated by the Heat Infra segment and purchases from external sources and purchases electricity and natural gas to supply customers through the Supply division. In addition, this segment distributes electricity in the central Slovakia region. This segment is mainly represented by Stredoslovenská energetika Group, EP Sourcing, a.s., EP Cargo a.s. and EP ENERGY TRADING, a.s.

Stredoslovenská distribučná, a.s. (further "SSD", former SSE-Distribúcia, a.s.), which provides distribution of power, is required by law to provide non-discriminatory access to the distribution network. Prices are subject to the review and approval of Energy Regulatory Authority ("RONI"). Entity operates under regulatory framework where allowed revenues are based on the RAB multiplied by the allowed regulatory WACC plus eligible operating expenditures and allowed depreciation in line with regulatory frameworks in other European countries. All key tariff parameters are set for a given regulatory period of five years (current regulatory period is 2017 – 2021).

RONI regulates certain aspects of the SSE's relationships with its customers including the pricing of electricity and services provided to certain customers of SSE. Price of electricity (the commodity) is regulated for households and small businesses with the annual consumption up to 30 MWh where RONI sets a capped gross profit per MWh. The price of electricity for the wholesale customers is not regulated.

iv. Holding entities

The Holding entities represent EP Energy, a.s. as a holding company. The segment profit therefore primarily represents dividends received from its subsidiaries, finance expense and results from acquisition accounting or disposals of subsidiaries or associates.

Profit or loss

For the year ended 31 December 2018

In millions of EUR	**Heat Infra**	**Power Distribution and Supply**	**Renewables**	**Total segments**	**Other**	**Holding**	**Inter-segment eliminations**	**Consolidated Financial Information**
Sales: Energy	532	1,455	6	1,993	-	-	(160)	1,833
external revenues	*441*	*1,386*	*6*	*1,833*	-	-	-	*1,833*
of which: Electricity	*105*	*1,156*	*6*	*1,267*	-	-	-	*1,267*
Heat	*336*	-	-	*336*	-	-	-	*336*
Gas	-	*210*	-	*210*	-	-	-	*210*
Coal	-	*20*	-	*20*	-	-	-	*20*
inter-segment revenues	*91*	*69*	-	*160*	-	-	*(160)*	-
Sales: Other	11	14	-	25	6	-	(3)	28
external revenues	11	12	-	23	5	-	-	28
inter-segment revenues	-	2	-	2	1	-	(3)	-
Gain (loss) from commodity derivatives from trading with electricity and gas, net	-	(23)	-	(23)	-	-	-	(23)
Total sales	**543**	**1,446**	**6**	**1,995**	**6**	**-**	**(163)**	**1,838**
Cost of sales: Energy	(310)	(1,171)	-	(1,481)	-	-	112	(1,369)
external cost of sales	(293)	(1,076)	-	(1,369)	-	-	-	(1,369)
inter-segment cost of sales	(17)	(95)	-	(112)	-	-	112	-
Cost of sales: Other	(22)	(52)	-	(74)	(4)	-	49	(29)
external cost of sales	(22)	(3)	-	(25)	(4)	-	-	(29)
inter-segment cost of sales	-	(49)	-	(49)	-	-	49	-
Personnel expenses	(53)	(55)	-	(108)	(1)	-	-	(109)
Depreciation and amortisation	(64)	(64)	(3)	(131)	-	-	-	(131)
Repairs and maintenance	(2)	(4)	-	(6)	-	-	-	(6)
Emission rights, net	(19)	-	-	(19)	-	-	-	(19)
Taxes and charges	(2)	(1)	-	(3)	-	-	-	(3)
Other operating income	15	11	1	27	(2)15	-	-	42
Other operating expenses	(12)	(35)	(2)	(49)	-	(1)	1	(49)
Operating profit	**74**	**75**	**2**	**151**	**16**	**(1)**	**(1)**	**165**
Finance income	2	2	-	4	-	*154	*(157)	1
external finance revenues	-	1	-	1	-	-	-	1
inter-segment finance revenues	2	1	-	3	-	*154	*(157)	-
Finance expense	(18)	(2)	(1)	(21)	-	(51)	23	(49)
Profit (loss) from derivative financial instruments	(1)	-	-	(1)	-	(1)	-	(2)
Gain or loss on disposal of subsidiaries and associates	-	-	-	-	-	(3)	-	(3)
Profit (loss) before income tax	**57**	**75**	**1**	**133**	**16**	***98**	***(135)**	**112**
Income tax expenses	(11)	(18)	-	(29)	-	-	-	(29)
Profit (loss) for the year	**46**	**57**	**1**	**104**	**16**	***98**	***(135)**	**83**

* *EUR 134 million is attributable to intra-group dividends primarily recognised by EP Energy, a.s.*

Other financial information:								
EBITDA(1)	138	139	5	282	16	(1)	(1)	296

1) EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortisation of intangible assets (negative goodwill not included, if applicable). For EBITDA reconciliation to the closest IFRS measure explanation see below

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

For the year ended 31 December 2017

In millions of EUR	**Heat Infra**	**Power Distribution and Supply**	**Renewables**	**Total segments**	**Other**	**Holding**	**Inter-segment eliminations**	**Consolidated Financial Information**
Sales: Energy	542	1,418	5	1,965	-	-	(153)	1,812
external revenues	450	1,357	5	1,812	-	-	-	1,812
of which: Electricity	109	1,187	5	1,301	-	-	-	1,301
Heat	341	-	-	341	-	-	-	341
Gas	-	157	-	157	-	-	-	157
Coal	-	13	-	13	-	-	-	13
inter-segment revenues	92	61	-	153	-	-	(153)	-
Sales: Other	13	13	-	26	5	-	(4)	27
external revenues	13	10	-	23	4	-	-	27
inter-segment revenues	-	3	-	3	1	-	(4)	-
Gain (loss) from commodity derivatives from trading with electricity and gas, net	-	(6)	-	(6)	-	-	-	(6)
Total sales	**555**	**1,425**	**5**	**1,985**	**5**	**-**	**(157)**	**1,833**
Cost of sales: Energy	(320)	(1,082)	-	(1,402)	-	-	111	(1,291)
external cost of sales	(308)	(983)	-	(1,291)	-	-	-	(1,291)
inter-segment cost of sales	(12)	(99)	-	(111)	-	-	111	-
Cost of sales: Other	(17)	(47)	-	(64)	(3)	-	46	(21)
external cost of sales	(17)	(1)	-	(18)	(3)	-	-	(21)
inter-segment cost of sales	-	(46)	-	(46)	-	-	46	-
Personnel expenses	(56)	(53)	-	(109)	(1)	-	-	(110)
Depreciation and amortisation	(72)	(64)	(2)	(138)	-	-	-	(138)
Repairs and maintenance	(2)	(3)	-	(5)	-	-	-	(5)
Emission rights, net	(20)	-	-	(20)	-	-	-	(20)
Taxes and charges	(2)	(1)	-	(3)	-	-	-	(3)
Other operating income	22	16	-	38	-	-	-	38
Other operating expenses	(7)	(32)	(1)	(40)	-	(1)	-	(41)
Operating profit	**81**	**159**	**2**	**242**	**1**	**(1)**	**-**	**242**
Finance income	1	1	-	2	-	*135	*(135)	2
external finance revenues	-	1	-	1	-	1	-	2
inter-segment finance revenues	1	-	-	1	-	*134	*(135)	-
Finance expense	(8)	(4)	(2)	(14)	-	(90)	26	(78)
Profit (loss) from derivative financial instruments	1	-	-	1	-	(1)	-	-
Share of profit of equity accounted investees	-	(1)	-	(1)	-	-	-	(1)
Profit (loss) before income tax	**75**	**155**	**-**	**230**	**1**	***43**	***(109)**	**165**
Income tax expenses	(13)	(37)	-	(50)	-	4	-	(46)
Profit (loss) for the year	**62**	**118**	**-**	**180**	**1**	***47**	***(109)**	**119**

* *EUR 109 million is attributable to intra-group dividends primarily recognised by EP Energy, a.s.*

Other financial information:								
EBITDA[1]	153	223	4	380	1	(1)	-	380

1) *EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortisation of intangible assets (negative goodwill not included, if applicable). For EBITDA reconciliation to the closest IFRS measure explanation see below.*

EBITDA reconciliation to the closest IFRS measure

It must be noted that EBITDA is not an indicator that is defined under IFRS. This indicator is construed as determined by the Board of Directors and is presented to disclose additional information to measure the economic performance of the Group's business activities. This term should not be used as a substitute to net income, revenues or operating cash flows or any other indicator as derived in accordance with IFRS. This non-IFRS indicator should not be used in isolation. This indicator may not be comparable to similarly titled indicators used by other companies.

For the year ended 31 December 2018

In millions of EUR	**Heat Infra**	**Power distribution and supply**	**Renewables**	**Total reportable segments**	**Other**	**Holding entities**	**Inter-segment eliminations**	**Consolidated financial information**
Profit from operations	**74**	**75**	**2**	**151**	**16**	**(1)**	**(1)**	**165**
Depreciation and amortisation	64	64	3	131	-	-	-	131
EBITDA	**138**	**139**	**5**	**282**	**16**	**(1)**	**(1)**	**296**

For the year ended 31 December 2017

In millions of EUR	**Heat Infra**	**Power distribution and supply**	**Renewables**	**Total reportable segments**	**Other**	**Holding entities**	**Inter-segment eliminations**	**Consolidated financial information**
Profit from operations	**81**	**159**	**2**	**242**	**1**	**(1)**	**-**	**242**
Depreciation and amortisation	72	64	2	138	-	-	-	138
EBITDA	**153**	**223**	**4**	**380**	**1**	**(1)**	**-**	**380**

Segment assets and liabilities

For the year ended 31 December 2018

In millions of EUR	**Heat Infra**	**Power Distribution and Supply**	**Renewables**	**Total segments**	**Other**	**Holding**	**Inter-segment eliminations**	**Consolidated Financial Information**
Reportable segment assets	993	1,277	33	2,303	4	452	(558)	2,201
Reportable segment liabilities	(481	(403)	(39)	(923)	(2)	(1,035)	558	(1,402)
Additions to tangible and intangible assets[1]	84	52	-	136	-	-	-	136
Additions to tangible and intangible assets (excl. emission rights and goodwill)	51	52	-	103	-	-	-	103
Equity accounted investees	-	1	-	1	-	-	-	1

1) This balance includes additions to emission rights and goodwill

For the year ended 31 December 2017

In millions of EUR	**Heat Infra**	**Power Distribution and Supply**	**Renewables**	**Total reportable segments**	**Other**	**Holding entities**	**Inter-segment eliminations**	**Consolidated Financial Information**
Reportable segment assets	1,060	1,251	35	2,346	3	828	(600)	2,577
Reportable segment liabilities	(655)	(439)	(41)	(1,135)	(1)	(1,271)	600	(1,807)
Additions to tangible and intangible assets[1]	74	50	-	124	-	-	-	124
Additions to tangible and intangible assets (excl. emission rights and goodwill)	48	49	-	97	-	-	-	97
Equity accounted investees	-	1	-	1	-	-	-	1

1) This balance includes additions to emission rights and goodwill

Information about geographical areas

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

For the year ended 31 December 2018

In millions of EUR	Czech Republic	Slovakia	Hungary	Other	Total segments
Property, plant and equipment	585	820	42	-	1,447
Intangible assets	136	19	8	-	163
Investment property	-	-	-	-	-
Total	**721**	**839**	**50**	**-**	**1,610**

In millions of EUR	Czech Republic	Slovakia	Hungary	Other	Total segments
Sales: Electricity	341	813	29	84	1,267
Sales: Heat	269	-	67	-	336
Sales: Gas	177	33	-	-	210
Sales: Coal	4	3	1	12	20
Sales: Other	20	8	-	-	28
Gain (loss) from commodity derivatives from trading with electricity and gas, net	(23)	-	-	-	(23)
Total	**788**	**857**	**97**	**96**	**1,838**

The geographical area Other comprises income items primarily from United Kingdom, Belgium, Luxembourg, Germany and Switzerland.

For the year ended 31 December 2017

In millions of EUR	Czech Republic	Slovakia	Germany	Hungary	Other	Total segments
Property, plant and equipment	684	833	-	38	-	1,555
Intangible assets	141	20	-	3	-	164
Investment property	-	-	-	-	-	-
Total	**825**	**853**	**-**	**41**	**-**	**1,719**

In millions of EUR	Czech Republic	Slovakia	Germany	Hungary	Other	Total segments
Sales: Electricity	316	870	21	23	71	1,301
Sales: Heat	273	-	-	68	-	341
Sales: Gas	121	36	-	-	-	157
Sales: Coal	10	1	1	-	1	13
Sales: Other	20	7	-	-	-	27
Gain (loss) from commodity derivatives from trading with electricity and gas, net	(6)	-	-	-	-	(6)
Total	**734**	**914**	**22**	**91**	**72**	**1,833**

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

6. Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates

As described in the Note 1 – Background, the Company was established on 16 December 2010 by a common control contribution of shares in entities owned by the parent company Energetický a průmyslový holding, a.s. and the Company, as a part of its accounting policy on common control transactions, opted to restate its comparatives. For the purpose of preparation of these consolidated financial statements, the contributions by the parent company are presented using one of the following two methods:

1. If the contributed entities were previously acquired by the parent company Energetický a průmyslový holding, a.s. under the scope of IFRS 3, the Company presents the contributed entities in its consolidated financial statements from the original date of acquisition by the parent company Energetický a průmyslový holding, a.s. From the view of the EPE Group consolidated financial statements, these transactions are reflected as if carried out directly by the Company, including all goodwill and fair value adjustments. The difference between the value contributed to the statutory share capital of the Company as determined by the independent valuation specialist, and net book value (including fair value adjustments as part of the net book value in EPH's consolidated financial statements) of the contributed entity in EPH's consolidated financial statement as at the date when acquired by the parent company, was presented as a pricing difference in Other capital reserves in Equity. This approach relates to the following entities:
    a. AISE, s.r.o. (acquired by EPH on 8 October 2009)
    b. PT Holding Investment B.V. and its associates (acquired by EPH on 20 September 2010)
    c. Plzeňská energetika a.s. (acquired by EPH on 6 October 2009). The company was sold in May 2018 to EP Infrastructure, a.s. and the related Pricing difference was derecognised.
    d. VTE Moldava II, a.s. (former EP Renewables a.s.) and its subsidiaries (acquired by EPH on 1 September 2010)
    e. ROLLEON a.s.(3) and its subsidiary (acquired by EPH on 6 October 2009)
    f. HC Fin3 N.V.(2) (acquired by EPH on 16 March 2010) including:
        (a) EAST BOHEMIA ENERGY HOLDING LIMITED(2) and its subsidiaries (acquired by EPH on 31 December 2010)
        (b) LIGNITE INVESTMENTS 1 LIMITED(2) and its joint-venture (acquired by EPH on 28 June 2011)
2. If the contributed entities were previously acquired by the parent company Energetický a průmyslový holding, a.s. in a transaction under common control, the Company presents the contributed entities in its consolidated financial statements as common control acquisition from the original date of acquisition by the parent company Energetický a průmyslový holding, a.s. The difference between the value contributed to the statutory share capital of the Company as determined by the independent valuation specialist and the net book value of the contributed entity as at the date when contributed to the parent company was presented as a pricing difference in Other capital reserves in Equity. This approach relates to the following entities:
    a. Czech Energy Holding, a.s.(2) and its subsidiaries and associate (acquired by EPH on 6 October 2009)
    b. Honor Invest, a.s.(2) and its associate Pražská energetika, a.s. (acquired by EPH on 10 August 2009)
    c. První energetická a.s.(1) (acquired by EPH on 6 October 2009)

(1) První energetická a.s. merged with EP ENERGY TRADING, a.s. as at 1 January 2013. EP ENERGY TRADING, a.s. is the successor company.

(2) Honor Invest, a.s., Czech Energy Holding, a.s., HC Fin3 N.V., EAST BOHEMIA ENERGY HOLDING LIMITED and LIGNITE INVESTMENTS 1 LIMITED merged with EP Energy, a.s. as at 4 November 2013. EP Energy, a.s. is the successor company.

(3) REOLLEON a.s. and its subsidiaries were disposed by the Group as of 2 December 2015

(a) Acquisitions

i. 31 December 2018

On 10 October 2018 the Group acquired remaining 2% shares in PT měření, a.s. and PT Real Estate, a.s. as part of squeeze out approved by the Shareholders´ meetings of PT Měření, a.s. and PT Real Estate, a.s. in September 2018.

On 12 October 2018 the Group acquired remaining 2% shares in Pražská teplárenská, a.s. as part of squeeze out approved by the Shareholders´ meeting of Pražská teplárenská, a.s. in September 2018.

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

All these transaction resulted in derecognition of non-controlling interest in total amount of EUR 6 million.

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

ii. 31 December 2017

Acquisition of non-controlling interest

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

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

(b) Effect of acquisitions

i. 31 December 2018

There was no material acquisition of business in 2018.

ii. 31 December 2017

In April 2017 the Group acquired 100% share in SPV100, s.r.o for EUR 0.6 million. The value of net assets acquired was approximately zero.

(c) Business combinations – acquisition accounting 2018 and 2017

There were no material acquisitions of businesses in 2018 nor in 2017 therefore the Group did not recognise any fair value adjustment resulting from the business combinations.

(d) Disposal of investments in 2018 and 2017

i. 31 December 2018

On 9 May 2018 EP Energy, a.s. sold its 100% share in Plzeňská energetika, a.s. for EUR 41 million (CZK 1,058 million). The effect of disposal is provided in the following table:

In millions of EUR	**Net assets sold in 2018**
Property, plant, equipment, land, buildings	47
Trade receivables and other assets	2
Cash and cash equivalents	5
Intangible assets	2
Inventories	1
Deferred tax liabilities	(7)
Trade payables and other liabilities	(2)
Provisions	(2)
Deferred income	(2)
Net identifiable assets and liabilities	**44**
Non-controlling interest	-
Net assets value disposed	**44**
Sales price	41
Gain (loss) on disposal	**(3)**
Cash and cash equivalents disposed	(5)
Net cash inflow from disposal	**36**

As a result of the sale, corresponding part of a "pricing differences" recognized in Other capital reserves (EUR 18 million) was transferred to retained earnings.

ii. 31 December 2017

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

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

7. Sales

In millions of EUR	**2018**	**2017**
Sales: Energy		
Electricity	1,267	1,301
Heat	336	341
Gas	210	157
Coal	20	13
Total Energy	**1,833**	**1,812**
Sales: Other	**28**	**27**
Total revenues from customers	**1,861**	**1,839**
Gain (loss) from commodity derivatives for trading with electricity and gas, net	**(23)**	**(6)**
Total for continuing operations	**1,838**	**1,833**

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

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

In millions of EUR	**31 December 2018**	**1 January 2018**
Contract assets	**29**	**29**
Current	*29*	*29*
Non-current	-	-
Contract liabilities	**102**	**102**
Current	*39*	*38*
Non-current	*63*	*64*

As at 1 January 2018 the amount of current contract liabilities amounted to EUR 38 million. The entire amount has been recognised as revenue till the end of 2018.

Contract assets and liabilities as at 31 December 2018 include:

- not invoiced part of fulfilled performance obligation reclassified from Trade and other receivables to Contract assets of EUR 29 million
- received payments for services and goods where control over the assets was not transferred to customer reclassified from Trade payables and other liabilities to Contract liabilities of EUR 39 million
- deferred income related to grid connection fees collected and free-of-charge non-current assets transferred from customers reclassified to Contract liabilities in a total amount of EUR 63 million

8. Cost of sales

In millions of EUR	**2018**	**2017**
Cost of Sales: Energy		
Cost of sold electricity	865	828
Cost of sold gas and other energy products	205	152
Consumption of energy	197	193
Cost of coal and other material	79	90
Other cost of sales	23	28
Total Energy	**1,369**	**1,291**
Cost of Sales: Other		
Consumption of material	12	6
Cost of goods sold	9	8
Consumption of energy	4	3
Other cost of sales	4	4
Total Other	**29**	**21**
Total for continuing operations	**1,398**	**1,312**

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

9. Personnel expenses

In millions of EUR	**2018**	**2017**
Wages and salaries	74	74
Compulsory social security contributions	25	26
Board members' remuneration (including boards of subsidiaries)	3	3
Expenses and revenues related to employee benefits (IAS 19)	1	1
Other social expenses	6	6
Total for continuing operations	**109**	**110**

The average number of employees during 2018 was 3,496 (2017: 3,680), of which 78 (2017: 88) were executives.

10. Emission rights

In millions of EUR	**2018**	**2017**
Deferred income (grant) released to profit and loss	10	7
Creation of provision for emission rights	(29)	(27)
Use of provision for emission rights	28	23
Consumption of emission rights	(28)	(23)
Total for continuing operations	**(19)**	**(20)**

The Ministries of the Environment of the Czech Republic, Slovakia and Hungary set a limit on the amount of a pollutant that can be emitted. Companies are granted emission rights and are required to hold an equivalent number of allowances that 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 rights must buy credits from those who pollute less or from other market participants. The transfer of rights is referred to as a trade.

The companies that participate in the emission rights programme are United Energy, a.s., Pražská teplárenská a.s., Stredoslovenská energetika, a.s., Elektrárny Opatovice, a.s. and Budapesti Erömü Zrt.

11. Taxes and charges

In millions of EUR	**2018**	**2017**
Property and real estate transfer tax	1	1
Other taxes and charges	2	2
Total for continuing operations	**3**	**3**

12. Other operating income

In millions of EUR	**2018**	**2017**
Property acquired free-of-charge and fees from customers	5	6
Rental income	6	7
Consulting fees	3	3
Compensation from insurance and other companies	3	5
Profit from disposal of tangible and intangible assets	(1)20	(1)8
Profit from sale of material	1	1
Revenues from liabilities written-off	-	2
Other	4	6
Total for continuing operations	**42**	**38**

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

13. Other operating expenses

In millions of EUR	**2018**	**2017**
Impairment losses, net	1)10	1
Outsourcing and other administration fees	18	15
Consulting expenses	5	9
Office equipment and other material	8	8
Rent expenses	9	9
Information technology costs	6	5
Change in provision, net	(1)	3
Advertising expenses	3	2
Transport expenses	5	4
Insurance expenses	2	2
Gifts and sponsorship	1	1
Contractual penalties	1	-
Loss from receivables written-off	-	1
Own work capitalised to fixed assets	(27)	(25)
Other	9	6
Total	**49**	**41**

(1) The amount includes impairment of tangible assets in the amount of EUR 7 million and impairment of goodwill of EUR 3 million, both recorded in connection with the sale of 100% shares in Plzeňská energetika a.s. which happened on 9 May 2018.

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

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

Recognised in profit or loss

In millions of EUR	**2018**	**2017**
Interest income	1	1
Dividend income	-	1
Finance income	**1**	**2**
Interest expense incl. various financing and refinancing related fees	(45)	(60)
Net foreign exchange loss	-	(13)
Fees and commissions expense for other services	(4)	(2)
Finance costs	**(49)**	**(78)**
Profit (loss) from interest rate derivatives for trading	1	-
Profit (loss) from currency derivatives for trading	(3)	-
Profit (loss) from financial assets at fair value through profit or loss	**(2)**	**-**
Profit (loss) from derecognition of financial assets at amortized cost	**-**	**-**
Net finance (expense) recognised in profit or loss	**(50)**	**(76)**

There was no profit or loss from derecognition of financial assets at amortized cost during the year.

15. Income tax expenses

Income taxes recognised in profit or loss

In millions of EUR	**2018**	**2017**
Current taxes:		
Current year	(33)	(54)
Total current taxes	**(33)**	**(54)**
Deferred taxes:		
Origination and reversal of temporary differences[(1)]	4	8
Total deferred taxes	**4**	**8**
Total income tax expense from continuing operations recognised in profit or loss	**(29)**	**(46)**

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

Deferred taxes are calculated using currently enacted tax rates expected to apply when the asset is realised or the liability settled. According to Czech legislation, the corporate income tax rate is 19% for fiscal years 2018 and 2017. The Slovak corporate income tax rate is 21% for fiscal year 2018 and 2017. The Hungarian corporate income tax rate is 9% for fiscal year 2018 and 2017. Current year income tax includes also impact of special sector tax effective in Slovakia and Hungary.

Income tax recognised in other comprehensive income

In millions of EUR	2018		
	Gross	**Income tax**	**Net of income tax**
Foreign currency translation differences for foreign operations	4	-	4
Foreign currency translation differences from presentation currency	(4)	-	(4)
Effective portion of changes in fair value of cash-flow hedges	3	-	3
Total	**3**	**-**	**3**

In millions of EUR	2017		
	Gross	**Income tax**	**Net of income tax**
Foreign currency translation differences for foreign operations	(39)	-	(39)
Foreign currency translation differences from presentation currency	42	-	42
Effective portion of changes in fair value of cash-flow hedges	55	(12)	43
Total	**58**	**(12)**	**46**

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

Reconciliation of the effective tax rate

In millions of EUR		**2018**		**2017**
	%		**%**	
Profit before tax		112		165
Income tax using the Company's domestic rate	19.0%	21	19.0%	31
Effect of tax rates in foreign jurisdictions	-	-	1.2%	2
Non-deductible expenses[(1)]	8.9%	10	9.1%	15
Non-taxable income[(2)]	(5.4%)	(6)	(4.9%)	(8)
Effect of special levy for business in regulated services	3.6%	4	3.6%	6
Income taxes recognised in profit or loss	**26.2%**	**29**	**28.0%**	**46**

(1) The basis consists mainly of non-deductible interest expense of EUR 31 million (2017: EUR 44 million).

(2) The basis consists mainly of non-taxable net effect of disposal of Plzeňská energetika, a.s. and PT Real Estate, a.s. in amount of EUR 12 million.

16. Property, plant and equipment

In millions of EUR	**Land and buildings**	**Technical equipment, plant and machinery**	**Other equipment, fixtures and fittings**	**Under construction**	**Total**
Cost					
Balance at 1 January 2018	**1,463**	**914**	**5**	**37**	**2,419**
Effects of movement in foreign exchange	(6)	(4)	-	-	**(10)**
Additions	49	25	-	25	**99**
Disposals	(35)	(6)	-	-	**(41)**
Disposed entities	(29)	(77)	-	(1)	**(107)**
Transfers	11	7	-	(18)	**-**
Balance at 31 December 2018	**1,453**	**859**	**5**	**43**	**2,360**
Depreciation and impairment losses					
Balance at 1 January 2018	**(463)**	**(395)**	**(2)**	**(4)**	**(864)**
Effects of movements in foreign exchange	2	2	-	-	**4**
Depreciation charge for the year	(75)	(50)	(1)	-	**(126)**
Disposals	14	6	-	-	**20**
Disposed entities	12	48	-	-	**60**
Impairment losses recognised/released in profit or loss	(3)	(4)	-	-	**(7)**
Balance at 31 December 2018	**(513)**	**(393)**	**(3)**	**(4)**	**(913)**
Carrying amounts					
At 1 January 2018	**1,000**	**519**	**3**	**33**	**1,555**
At 31 December 2018	**940**	**466**	**2**	**39**	**1,447**

In millions of EUR	**Land and buildings**	**Technical equipment, plant and machinery**	**Other equipment, fixtures and fittings**	**Under construction**	**Total**
Cost					
Balance at 1 January 2017	**1,379**	**856**	**5**	**33**	**2,273**
Effects of movement in foreign exchange	40	32	-	-	**72**
Additions	45	23	-	26	**94**
Disposals	(7)	(9)	-	-	**(16)**
Disposed entities	-	(1)	-	-	**(1)**
Transfer to disposal group held for sale	(3)	-	-	-	**(3)**
Transfers	9	13	-	(22)	**-**
Balance at 31 December 2017	**1,463**	**914**	**5**	**37**	**2,419**
Depreciation and impairment losses					
Balance at 1 January 2017	**(376)**	**(327)**	**(2)**	**(4)**	**(709)**
Effects of movements in foreign exchange	(13)	(17)	-	-	**(30)**
Depreciation charge for the year	(76)	(56)	-	-	**(132)**
Disposals	3	5	-	-	**8**
Impairment losses recognised/released in profit or loss	(1)	-	-	-	**(1)**
Balance at 31 December 2017	**(463)**	**(395)**	**(2)**	**(4)**	**(864)**
Carrying amounts					
At 1 January 2017	**1,003**	**529**	**3**	**29**	**1,564**
At 31 December 2017	**1,000**	**519**	**3**	**33**	**1,555**

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

Idle assets

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

Finance lease liabilities

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

Security

At 31 December 2018 property, plant and equipment with a carrying value of EUR 379 million (2017: EUR 403 million) is subject to pledges to secure bank loans.

17. Intangible assets (including goodwill)

In millions of EUR	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2018	**113**	**49**	**30**	**17**	**5**	**214**
Additions	-	3	33	-	1	**37**
Disposals	-	-	(28)	-	-	**(28)**
Disposed entities	(3)	-	(2)	(3)	-	**(8)**
Transfers	-	1	-	-	(1)	**-**
Balance at 31 December 2018	**110**	**53**	**33**	**14**	**5**	**215**
Amortisation and impairment losses						
Balance at 1 January 2018	**(9)**	**(31)**	**-**	**(10)**	**-**	**(50)**
Amortisation for the year	-	(4)	-	(1)	-	**(5)**
Disposals	-	-	-	-	-	**-**
Disposed entities	3	-	-	3	-	**6**
Impairment losses recognised/released in profit or loss	(3)	-	-	-	-	**(3)**
Balance at 31 December 2018	**(9)**	**(35)**	**-**	**(8)**	**-**	**(52)**
Carrying amount						
At 1 January 2018	**104**	**18**	**30**	**7**	**5**	**164**
At 31 December 2018	**101**	**18**	**33**	**6**	**5**	**163**

In millions of EUR	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2017	**106**	**46**	**27**	**16**	**4**	**199**
Effect of movements in foreign exchange rates	6	-	-	1	1	**8**
Additions	1	2	26	-	1	**30**
Disposals	-	-	(23)	-	-	**(23)**
Transfers	-	1	-	-	(1)	**-**
Balance at 31 December 2017	**113**	**49**	**30**	**17**	**5**	**214**
Amortisation and impairment losses						
Balance at 1 January 2017	**(8)**	**(24)**	**-**	**(10)**	**-**	**(42)**
Effect of movements in foreign exchange rates	(1)	(1)	-	-	-	**(2)**
Amortisation for the year	-	(6)	-	-	-	**(6)**
Disposals	-	-	-	-	-	**-**
Balance at 31 December 2017	**(9)**	**(31)**	**-**	**(10)**	**-**	**(50)**
Carrying amount						
At 1 January 2017	**98**	**22**	**27**	**6**	**4**	**157**
At 31 December 2017	**104**	**18**	**30**	**7**	**5**	**164**

In 2018, the EPE Group purchased emission rights of EUR 23 million (2017: EUR 19 million). The remaining part of EUR 10 million (2017: EUR 7 million) was allocated to the Group by the Ministry of the Environment of the Czech Republic and Hungary.

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

Other intangible assets comprise valuable rights.

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

Impairment testing for cash-generating units containing goodwill

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

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

In millions of EUR	**31 December 2018**
Elektrárny Opatovice, a.s.	90
EP Cargo a.s.	5
EP ENERGY TRADING, a.s.	5
SPV100, s.r.o.	1
Total goodwill	**101**

In millions of EUR	**31 December 2017**
Elektrárny Opatovice, a.s.	90
EP Cargo a.s.	5
EP ENERGY TRADING, a.s.	5
Plzeňská energetika a.s.	3
SPV100, s.r.o.	1
Total goodwill	**104**

In 2018 the EPE group recognised goodwill impairment in amount of EUR 3 million (2017: EUR 0 million) recorded in connection with the sale of 100% shares in Plzeňská energetika, a.s. and commercial negotiations between EP Infrastructure and City of Pilsen in relation to a merger of Plzeňská energetika and Plzeňská teplárenská. The sale of 100% shares in Plzeňská energetika, a.s. took place on 9 May 2018 (see Note 6).

Goodwill and impairment testing

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

The calculation of the recoverable amounts as at 31 December 2018 was based on the following key assumptions:

Cash-flows were projected based on past experience, actual operating results and the one-year business plan followed by additional four years of modelled projections followed by projected results based on estimated growth factor plus a terminal value if relevant. Cash flows for a terminal period were extrapolated using a constant growth rate of 0% – 2%, which does not exceed the long-term average growth rate for the

industry. Other key assumptions considered by management include forecasts of commodity market prices, future electricity and gas prices, investment activity, changes in working capital and changes in the regulatory framework.

The discount rates used in estimating value in use were estimated based on the principle of an average market participant using peer companies (i.e. companies operating in a comparable industry and listed on world markets) as a standard for observing respective betas, debt to equity ratios and size adjustment parameters used for calculation. The resulting pre-tax discount rates ranged from 5.43% to 7.33% (2017: 5.31% to 7.33%). Changes in used discount rates compared to prior year reflect recent market development, namely decrease in risk-free rates and cost of debt used for calculation.

The 2018 and 2017 year testing showed no need for impairment except those described above regarding the impairment of goodwill from Plzeňská energetika, a.s**.**

Additional information on CGU with significant goodwill assigned:

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

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

The EPE Group uses weighted average cost of capital (WACC). The discount rate is a pre-tax measure. Cost of equity is based on the risk-free rate adjusted for a risk premium to reflect both the increase risk of investing in equities generally and the systemic risk of Elektrárny Opatovice, a.s.

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

a. expected refurbishments necessary to comply with applicable regulations (impact especially on electricity output/sales, OPEX and CAPEX);

b. market expectations regarding power and CO2 prices, development based on historical trends;

c. a slight decrease in heat supplies and modest increase of heat prices;

d. the inflation driven development of various other positions, especially overhead costs.

The Group did not identify any CGU for which reasonably possible change in key management assumptions (EBITDA, terminal growth, discount rate) would cause that recoverable amount would decrease below its carrying amount.

18. Equity accounted investees

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

In millions of EUR		Ownership 31 December 2018	Carrying amount 31 December 2018
Associates	**Country**	**%**	
Energotel, a.s	Slovakia	20.00	1
Total			**1**

In millions of EUR		Ownership 31 December 2017	Carrying amount 31 December 2017
Associates	**Country**	**%**	
Energotel, a.s	Slovakia	20.00	1
Total			**1**

In millions of EUR

The Group had no significant share in the profit or loss of associates for the year ended 31 December 2018 (EUR 1 million loss for the year ended 31 December 2017).

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

In millions of EUR

Associates	Revenue	Profit (loss)	Other compre-hensive income	Total compre-hensive income	Assets	Liabilities	Equity
Energotel, a.s.	12	1	-	1	12	5	7
	12	**1**	**-**	**1**	**12**	**5**	**7**

In millions of EUR

Associates	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Energotel, a.s.	5	7	-	5
	5	**7**	**-**	**5**

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

In millions of EUR

Associates	Revenue	Profit (loss)	Other compre-hensive income	Total compre-hensive income	Assets	Liabilities	Equity
Pražská teplárenská Holding a.s.(3)	27	(1)26	-	(1)26	119	-	(2)119
Energotel, a.s.	12	1	-	1	13	7	6
	39	**27**	**-**	**27**	**132**	**7**	**125**

In millions of EUR

Associates	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Energotel, a.s.	6	7	-	7
	6	**7**	**-**	**7**

(1) Profit and Loss item represents primarily dividend income from Pražská teplárenská, a.s.

(2) Carrying amount covers investment in Pražská teplárenská, a.s., which is eliminated in consolidation.

(3) Profit and Loss item represents the amounts from the beginning of the year to the date of the acquisition of remaining 51% share in Pražská teplárenská Holding a.s.

19. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

The following deferred tax assets and (liabilities) have been recognised:

In millions of EUR	**31 December 2018**			**31 December 2017**		
Temporary difference related to:	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Property, plant and equipment	-	(164)	(164)	1	(174)	(173)
Intangible assets	1	-	1	2	-	2
Trade receivables and other assets	2	-	2	1	-	1
Provisions	5	-	5	5	-	5
Employee benefits (IAS 19)	2	-	2	2	-	2
Loans and borrowings	-	(17)	(17)	-	(18)	(18)
Derivatives	7	-	7	6	-	6
Tax losses	2	-	2	2	-	2
Other items	2	(1)	1	1	(2)	(1)
Subtotal	**21**	**(182)**	**(161)**	**20**	**(194)**	**(174)**
Set-off tax	(21)	21	-	(18)	18	-
Total	**-**	**(161)**	**(161)**	**2**	**(176)**	**(174)**

Movements in deferred tax during the year

In millions of EUR

Balances related to:	**Balance at 1 January 2018**	**Recognised in profit or loss**	**Recognised in other compre-hensive income**	**Acquired in business combi-nations**	**Transfer to disposal group held for sale**	**Transfer to discontinued operations**	**Disposed entities**	**FX differences**	**Balance at 31 December 2018**
Property, plant and equipment	(173)	2	-	-	-	-	7	-	(164)
Intangible assets	2	-	-	-	-	-	-	(1)	1
Trade receivables and other assets	1	-	-	-	-	-	-	1	2
Provisions	5	-	-	-	-	-	-	-	5
Employee benefits (IAS 19)	2	-	-	-	-	-	-	-	2
Loans and borrowings	(18)	1	-	-	-	-	-	-	(17)
Derivatives and cash flow hedge	6	1	-	-	-	-	-	-	7
Tax losses	2	(1)	-	-	-	-	-	1	2
Other	(1)	1	-	-	-	-	-	1	1
Total	**(174)**	**4**	**-**	**-**	**-**	**-**	**7**	**2**	**(161)**

In millions of EUR

Balances related to:	**Balance at 1 January 2017**	**Recognised in profit or loss**	**Recognised in other compre-hensive income**	**Acquired in business combi-nations**	**Transfer to disposal group held for sale**	**Transfer to discontinued operations**	**Disposed entities**	**FX differences**	**Balance at 31 December 2017**
Property, plant and equipment	(173)	3	-	-	-	-	-	(3)	(173)
Intangible assets	2	-	-	-	-	-	-	-	2
Trade receivables and other assets	1	-	-	-	-	-	-	-	1
Provisions	4	1	-	-	-	-	-	-	5
Employee benefits (IAS 19)	2	-	-	-	-	-	-	-	2
Loans and borrowings	(7)	1	(12)	-	-	-	-	-	(18)
Derivatives and cash flow hedge	(1)	7	-	-	-	-	-	-	6
Tax losses	3	(1)	-	-	-	-	-	-	2
Other	2	(3)	-	-	-	-	-	-	(1)
Total	**(167)**	**8**	**(12)**	**-**	**-**	**-**	**-**	**(3)**	**(174)**

Unrecognised deferred tax assets

The EPE Group reports the following tax losses carried forward:

In millions of EUR	**31 December 2018**	**31 December 2017**
Tax losses carried forward	4	4
Total	**4**	**4**

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

In millions of EUR	**31 December 2018**	**31 December 2017**
PT Holding Investment B.V.	4	4
Total	**4**	**4**

Considering the nature of revenues and expenses, the company does not expect taxable profit growth to a considerable extent, so no deferred tax was recognised. If a sufficient taxable profit had been achieved in 2018 then the associated tax income (savings) would have been up to EUR 1 million (2017: 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:

	2018	**2019**	**2020**	**2021**	**2022**	**After 2023**	**Total**
Tax losses	-	-	-	-	-	4	**4**

Tax losses expire over a period of 5 years in the Czech Republic, 4 years in Slovakia and 9 years in the Netherlands for standard tax losses. Under current tax legislation, in some countries tax losses are carried forward indefinitely. In Hungary tax losses generated up to the tax year 2014 may be utilized by no later than in 2025, while tax losses generated in and after 2015 may be carried forward for 5 years. Deferred tax assets have not been recognised in respect of these items because, due to the varying nature of the sources of these profits, it is not probable that future taxable profit against which the Group can utilise the benefits from the deferred tax assets will be available.

20. Inventories

In millions of EUR	**31 December 2018**	**31 December 2017**
Fossil fuel	18	26
Raw material and supplies	7	6
Spare parts	6	8
Work in progress	1	1
Total	**32**	**41**

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

21. Trade receivables and other assets

In millions of EUR	**31 December 2018**	**31 December 2017**
Trade receivables	161	155
Accrued income	98	138
Advance payments	37	41
Estimated receivables	1	35
Uninvoiced supplies	(2) -	19
Receivables from government grants(1)	4	17
Other receivables and assets	3	13
Allowance for bad debts	(23)	(20)
Total	**281**	**398**
Non-current	7	23
Current	274	375
Total	**281**	**398**

(1) Receivables from government grants represents committed but not received government grants (for detail see note 30).
(2) Uninvoiced supplies in amount of EUR 17 million were reclassified to contract assets.

In 2018, no receivables were written off through profit or loss (2017: EUR 1 million).

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

As at 31 December 2018 trade receivables and other assets amounting to EUR 273 million are not past due (2017: EUR 390 million); the remaining net balance of EUR 8 million is overdue (2017: EUR 8 million).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 35 – Risk management policies and disclosures.

22. Cash and cash equivalents

In millions of EUR	**31 December 2018**	**31 December 2017**
Current accounts with banks	173	345
Bills of exchange	-	25
Term deposits	19	1
Total	**192**	**371**

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

As at 31 December 2018 cash and cash equivalents of EUR 64 million are subject to pledges (2017: EUR 269 million). According to the bond documentation cash balances at specific entities are pledged in favour of the bondholders in case the Company defaults on bonds payments. As such, the pledged cash is readily available to the EPE Group and does not represent restricted cash.

23. Tax receivables

In millions of EUR	**31 December 2018**	**31 December 2017**
Value added tax receivables	5	5
Current income tax receivables	5	9
Energy tax	1	2
Total	**11**	**16**

24. Assets and liabilities held for sale

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

In millions of EUR	**31 December 2018**	**31 December 2017**
Land and buildings	-	4
Total	**-**	**4**

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

In millions of EUR	**31 December 2018**	**31 December 2017**
Deferred tax liability	-	1
Total	**-**	**1**

As at 31 December 2017 balances of assets held for sale and liabilities held for sale were represented by Nová Invalidovna, a.s. and Michelský trojúhelník, a.s. These entities did not represent business but a group of land plots and unused non-production buildings and were sold during the year 2018.

25. Equity

Share capital and share premium

The authorised, issued and fully paid share capital as at 31 December 2018 consisted of 19,549,548 ordinary shares with a par value of CZK 665 each (2017: 19,549,548 ordinary shares with a par value of CZK 665 each).

On 30 November 2017 EP Energy, a.s. merged with EP Hungary, a.s. The merger resulted in an increase in the Company's share capital by CZK 156 million (EUR 6 million) by increasing the par value of ordinary shares from CZK 657 to CZK 665 each.

The shareholder is entitled to receive dividends and to cast 1 vote per 1 share of nominal value CZK 657 at meetings of the Company's shareholders.

31 December 2018	**Number of shares 665 CZK**	**Ownership %**	**Voting rights %**
EP Infrastructure, a.s.	19,549,548	100.00	100.00
Total	**19,549,548**	**100.00**	**100.00**

31 December 2017	**Number of shares 665 CZK**	**Ownership %**	**Voting rights %**
EP Infrastructure, a.s.	19,549,548	100.00	100.00
Total	**19,549,548**	**100.00**	**100.00**

The reconciliation of the number of shares outstanding at the beginning and at the end of the period is hereby provided.

	Number of shares	
	31 December 2018	**31 December 2017**
Shares outstanding at the beginning of the period	19,549,548	19,549,548
Shares outstanding at the end of the period	**19,549,548**	**19,549,548**

Reserves recognised in equity comprise the following items:

In millions of EUR	**31 December 2018**	**31 December 2017**
Non-distributable reserves	1	1
Translation reserve	(34)	(34)
Hedging reserve	(5)	(8)
Other capital reserves	(344)	(326)
Total	**(382)**	**(367)**
Other capital funds from capital contributions	23	23
Reserves	**(359)**	**(344)**

Translation reserve

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

Other capital reserves

As stated in section 3 (a) viii – Pricing differences, in 2009 the Group accounted for pricing differences that arose both from establishment of the Group as at 10 August 2009 and acquisition of certain new subsidiaries in the subsequent periods prior to 31 December 2010. Such subsidiaries were acquired under common control of Energetický a průmyslový holding, a.s. and therefore excluded from scope of IFRS 3, which defines recognition of goodwill raised from business combinations as the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Acquirees under common control are recorded at the book value, which is presented in the consolidated financial statements of Energetický a průmyslový holding, a.s. (i.e. including historical goodwill less potential impairment). The difference between the cost of acquisition, carrying values of net assets and original goodwill carried forward as at the acquisition date was recorded in consolidated equity as pricing differences.

In 2010 other capital reserves decreased by EUR 47 million in relation to the disposal of Pražská energetika, a.s. (associate), previously acquired under common control. The amount corresponds to pricing differences assigned directly to the disposed associate and its direct parent company (Honor Invest, a.s.). The increase in other capital reserves was recognised against retained earnings.

In 2011 other capital reserves decreased by EUR 32 million in relation to the acquisition of LIGNITE INVESTMENTS 1 LIMITED which was contributed by EPH to the Company's share capital.

In 2013 other capital reserves decreased by EUR 1 million in relation to the disposal of 47.06% share in PRVNÍ MOSTECKÁ a.s. as a part of the step acquisition process and the increase in share capital originating from the revaluation of Czech Energy Holding, a.s. during the merger with EP Energy, a.s.

In 2017 other capital reserves decreased by EUR 6 million as a result of increase in share capital originating from the revaluation of EP Hungary, a.s. during the merger with EP Energy, a.s.

In 2018 other capital reserves decreased by EUR 18 million in relation to the disposal of Plzeňská energetika, a.s., previously acquired under common control. The amount corresponds to pricing differences assigned directly to the disposed associate and its direct parent company (EP Energy, a.s.).

Hedging reserves

The effective portion of fair value changes in financial derivatives designated as cash flow hedges are recognised in equity. The balance as of 31 December 2018 represents primarily derivative agreements to hedge an electricity price and a foreign exchange rate concluded by EP ENERGY TRADING, a.s. and Budapesti Erőmű Zrt. (as was also in 2017) and swaps for hedging interest rate concluded by the Company.

26. Earnings per share

Basic earnings per share

Basic earnings per share in EUR per 1 share of CZK 665 (2017: in EUR per 1 share of CZK 665) nominal value equal 2.86 (2017: 2.71).

Basic earnings per share from continuing operations in EUR per 1 share of CZK 665 (2017: in EUR per 1 share of CZK 665) nominal value equal 2.86 (2017: 2.71).

The calculation of basic earnings per share as at 31 December 2018 was based on profit attributable to ordinary shareholders of EUR 56 million (2017: EUR 53 million), and a weighted average number of ordinary shares outstanding of 19,550 thousand (2017: 19,550 thousand).

Weighted average number of ordinary shares 2018

In thousands of pieces	**Nominal**	**Weighted**
Issued ordinary shares	19,550	19,550
Total	**19,550**	**19,550**

Weighted average number of ordinary shares 2017

In thousands of pieces	**Nominal**	**Weighted**
Issued ordinary shares	19,550	19,550
Total	**19,550**	**19,550**

Dilutive earnings per share

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

27. Non-controlling interest

31 December 2018 *In millions of EUR*	**Pražská teplárenská a.s. and its subsidiaries[5]**	**Stredoslovenská energetika, a.s. and its subsidiaries[3]**	**Other individually immaterial subsidiaries**	**Total**
Non-controlling percentage	**0.00%**	**51.00%[4]**		
Business activity	Production and distribution of heat	Distribution of electricity		
Country[1]	Czech Republic	Slovakia		
Carrying amount of NCI at 31 December 2018	**-**	**420**	**2**	**422**
Profit (loss) attributable to non-controlling interest	**-**	**26**	**1**	**27**
Dividends declared	**(1)**	**(3)**	**-**	**(4)**
Statement of financial position information[2]				
Total assets	-	1,120		
of which: non-current	-	*711*		
current	-	*409*		
Total liabilities	-	297		
of which: non-current	-	*115*		
current	-	*182*		
Net assets	**-**	**823**	**-**	**-**
Statement of comprehensive income information[2]				
Total revenues	136	1,019		
of which: dividends received	-	-		
Profit after tax	11	52		
Total other comprehensive income for the year, net of tax	-	-		
Total comprehensive income for the year[2]	**11**	**52**	**-**	**-**
Net cash inflows (outflows)[2]	**-**	**94**		

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 33 – Group entities).
(2) Financial information derived from financial statements prepared in accordance with IFRS (including FV adjustments arising from the acquisition by the Group).
(3) Including Stredoslovenská distribučná, a.s. (former Stredoslovenská energetika – Distribúcia, a.s.)
(4) Even though the Group holds less than half of the voting rights it assumes its control over the subgroups through shareholders' agreements and management control.
(5) On 12 October 2018 the Group acquired remaining 2% shares in Pražská teplárenská, a.s. as a part of compulsory sell-out procedure ("squeeze-out"). Statement of comprehensive income information represent profit from the beginning of the year till the date of "squeeze-out", the statement of financial position information as of 31 December 2018 is due to completed squeeze-out procedure not presented.

31 December 2017 *In millions of EUR*	**Pražská teplárenská a.s. and its subsidiaries**	**Stredoslovenská energetika, a.s. and its subsidiaries[3]**	**Other individually immaterial subsidiaries**	**Total**
Non-controlling percentage	**2.00%**	**51.00%**		
Business activity	Production and distribution of heat	Distribution of electricity		
Country[1]	Czech Republic	Slovakia		
Carrying amount of NCI at 31 December 2017	**6**	**397**	**2**	**405**
Profit (loss) attributable to non-controlling interest	**6**	**58**	**2**	**66**
Dividends declared	**(14)**	**(40)**	**-**	**(54)**
Statement of financial position information[2]				
Total assets	346	1,095		
of which: non-current	*280*	*766*		
current	*66*	*329*		
Total liabilities	65	316		
of which: non-current	*35*	*140*		
current	*30*	*176*		
Net assets	**281**	**779**	**-**	**-**
Statement of comprehensive income information[2]				
Total revenues	204	1,001		
of which: dividends received	-	-		
Profit after tax	25	115		
Total other comprehensive income for the year, net of tax	-	-		
Total comprehensive income for the year[2]	**25**	**115**	**-**	**-**
Net cash inflows (outflows)[2]	**(35)**	**1**		

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 37 – Group entities).
(2) Financial information derived from individual financial statements prepared in accordance with IFRS (including FV adjustments arising from the acquisition by the Group).
(3) Including Stredoslovenská distribučná, a.s. (former Stredoslovenská energetika – Distribúcia, a.s.)

28. Loans and borrowings

In millions of EUR	**31 December 2018**	**31 December 2017**
Issued debentures at amortised cost	502	1,102
Loans payable to credit institutions	31	27
Loans payable to other than credit institutions	252	-
of which owed to the parent company/ultimate parent company	*252*	-
of which owed to other related companies	-	-
Total	**785**	**1,129**
Non-current	274	515
of which owed to the parent company/ultimate parent company	*249*	-
of which owed to other related companies	-	-
Current	511	614
of which owed to the parent company/ultimate parent company	*3*	-
Total	**785**	**1,129**

The weighted average interest rate on loans and borrowings (excl. debentures) for 2018 was 2.09% (2017: 3.07%).

Issued debentures at amortised costs

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

In millions of EUR	**Principal**	**Accrued interest**	**Unamortised fee**	**Maturity**	**Interest rate (%)**	**Effective interest rate (%)**
EP Energy 2019 notes	499	5	(2)	01/11/2019	5.875	6.301
Total	**499**	**5**	**(2)**	**-**	**-**	**-**

i. 2019 notes

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

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

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

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

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

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

The Group expects that Notes will be redeemed using combination of own resources and loan provided by parent Company upon their maturity.

ii. 2018 notes

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

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

Other loans and borrowings

Terms and debt repayment schedule

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

In millions of EUR	**Currency**	**Nominal interest rate**	**Year of maturity (up to)**	**Balance at 31 December 2018**	**Due within 1 year**	**Due in 1–5 years**	**Due in following years**
Unsecured bank loan	EUR	variable*	2020	12	-	12	-
Unsecured bank loan	EUR	variable*	2022	252	3	249	-
Unsecured bank loan	EUR	fixed	2023	13	4	9	-
Unsecured bank loan	EUR	fixed	2019	1	1	-	-
Unsecured bank loan	EUR	fixed	2020	5	1	4	-
Total interest-bearing liabilities				**283**	**9**	**274**	**-**

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

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

In millions of EUR	**Currency**	**Nominal interest rate**	**Year of maturity (up to)**	**Balance at 31 December 2017**	**Due within 1 year**	**Due in 1–5 years**	**Due in following years**
Secured bank loan	CZK	fixed	2021	1	-	1	-
Secured bank loan	EUR	variable*	2021	1	-	1	-
Unsecured bank loan	EUR	fixed	2023	15	3	10	2
Unsecured bank loan	EUR	fixed	2019	3	2	1	-
Unsecured bank loan	EUR	fixed	2020	7	2	5	-
Total interest-bearing liabilities				**27**	**7**	**18**	**2**

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

Fair value information

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

In millions of EUR	**31 December 2018**		**31 December 2017**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Issued debentures at amortised costs	502	515	1,102	1,104
Loans payable to credit institutions	31	32	27	28
Loans payable to other than credit institutions	252	252	-	-
Total	**785**	**799**	**1,129**	**1,132**

Significant investing and financing activities not requiring cash:

In millions of EUR	**31 December 2018**	**31 December 2017**
Investing activities	-	58
Financing activities	-	-
Total	**-**	**58**

For the year 2018 there were no non-cash investing activities (2017: non-cash investing activities included EPE loan provided to EP Infrastructure, a.s. which was set-off against dividends declared by EP Energy, a.s. in amount of EUR 58 million).

Reconciliation of movements of liabilities to cash flow arising from financing activities

	Liabilities				Equity				
In millions of EUR	**Loans from credit institutions**	**Loans from other than credit institutions**	**Bank overdraft**	**Issued debentures**	**Share capital/ premium**	**Reserves**	**Retained earnings**	**Non-controlling interest**	**Total**
Balance at 1 January 2018	**27**	**-**	**-**	**1,102**	**627**	**(344)**	**82**	**405**	**1,899**
Changes from financing cash flows									
Proceeds from loans and borrowings	-	250	12	-	-	-	-	-	**262**
Repayment of borrowings	(8)	-	-	(598)	-	-	-	-	**(606)**
Transaction costs related to loans and borrowings	-	(1)	-	-	-	-	-	-	**(1)**
Dividend paid	-	-	-	-	-	-	(42)	(4)	**(46)**
Total change from financing cash flows	**(8)**	**249**	**12**	**(598)**	**-**	**-**	**(42)**	**(4)**	**(391)**
Changes arising from obtaining or losing of control of subsidiaries	-	-	-	-	-	(18)	15	(6)	**(9)**
Total effect of changes in foreign exchange rates	-	(1)	-	(1)	-	-	-	-	**(2)**
Other changes									
Liability related									
Interest expense	1	4	-	39	-	-	-	-	**44**
Interest paid	(1)	-	-	(42)	-	-	-	-	**(43)**
Total liability-related other changes	**-**	**3**	**-**	**(2)**	**-**	**-**	**-**	**-**	**1**
Total equity-related other changes	**-**	**-**		**-**	**-**	**3**	**54**	**27**	**84**
Balance at 31 December 2018	**19**	**252**	**12**	**502**	**627**	**(359)**	**109**	**422**	**1,584**

In millions of EUR	Liabilities			Equity				
	Loans from credit institutions	**Loans from other than credit institutions**	**Issued debentures**	**Share capital/ premium**	**Reserves**	**Retained earnings**	**Non-controlling interest**	**Total**
Balance at 1 January 2017	**38**	**14**	**1,098**	**621**	**(382)**	**143**	**464**	**1,996**
Changes from financing cash flows								
Proceeds from issue of share capital	-	-	-	6	(6)	-	-	**-**
Proceeds from loans and borrowings	-	13	-	-	-	-	-	**13**
Repayment of borrowings	(12)	-	-	-	-	-	-	**(12)**
Dividend paid	-	-	-	-	-	(33)	(54)	**(87)**
Total change from financing cash flows	**(12)**	**13**	**-**	**6**	**(6)**	**(33)**	**(54)**	**(86)**
Changes arising from obtaining or losing of control of subsidiaries	-	(14)	-	-	-	-	-	**(14)**
Total effect of changes in foreign exchange rates	1	-	1	-	51	-	-	**53**
Other changes								
Liability related								
Interest expense	1	-	58	-	-	-	-	**59**
Interest paid	(1)	-	(55)	-	-	-	-	**(56)**
Set-off with dividends received	-	(13)	-	-	-	-	-	**(13)**
Set-off with loans provided	-	-	-	-	-	(58)	-	**(58)**
Total liability-related other changes	**-**	**(13)**	**3**	**-**	**-**	**(58)**	**-**	**(68)**
Total equity-related other changes	**-**	**-**	**-**	**-**	**(7)**	**30**	**(5)**	**18**
Balance at 31 December 2017	**27**	**-**	**1,102**	**627**	**(344)**	**82**	**405**	**1,899**

29. Provisions

In millions of EUR	**Employee benefits**	**Provision for emission rights**	**Provision for lawsuits and litigations**	**Provision for restoration and decommissioning**	**Other**	**Total**
Balance at 1 January 2018	**13**	**28**	**-**	**3**	**11**	**55**
Provisions made during the year	2	29	-	1	1	**33**
Provisions used during the year	(1)	(28)	-	-	(2)	**(31)**
Provisions reversed during the year	(1)	-	-	(1)	-	**(2)**
Disposed entities	-	-	-	-	(2)	**(2)**
Reclassification	-	-	1	-	(1)	**-**
Balance at 31 December 2018	**13**	**29**	**1**	**3**	**7**	**53**
Non-current	**13**	**-**	**1**	**3**	**1**	**18**
Current	**-**	**29**	**-**	**-**	**6**	**35**

In millions of EUR	**Employee benefits**	**Provision for emission rights**	**Provision for restoration and decommissioning**	**Other**	**Total**
Balance at 1 January 2017	**12**	**24**	**3**	**9**	**48**
Provisions made during the year	2	27	-	2	**31**
Provisions used during the year	-	(23)	-	-	**(23)**
Provisions reversed during the year	(1)	-	-	-	**(1)**
Balance at 31 December 2017	**13**	**28**	**3**	**11**	**55**
Non-current	**13**	**-**	**2**	**3**	**18**
Current	**-**	**28**	**1**	**8**	**37**

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 judgment.

Employee benefits

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

As at 31 December 2018 the provision for employee benefits in amount of EUR 13 million (2017: EUR 13 million) was recorded mainly by Stredoslovenská energetika, a.s. and Stredoslovenská distribučná, a.s. (former Stredoslovenská energetika – Distribúcia, a.s.).

The provision recorded by Stredoslovenská energetika, a.s. and Stredoslovenská distribučná, a.s. (former Stredoslovenská energetika – Distribúcia, a.s.) amounts totally to EUR 11 million (2017: EUR 11 million). The SSE Group has the following retirement plan with defined benefit and defined contribution plans:

Pension Plans

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

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

Unfunded pension plan with defined benefit

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

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

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

Other benefits

The Group also pays benefits for work and life anniversaries:

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

Provision for emission rights

Provision for emission rights is recognised regularly during the year based on the estimated number of tonnes of CO2 emitted. It is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

30. Deferred income

In millions of EUR	**31 December 2018**	**31 December 2017**
Government grants	33	48
Other deferred income	21	84
Total	**54**	**132**
Non-current	47	119
Current	7	13
Total	**54**	**132**

Balance of government grants in amount of EUR 33 million (2017: EUR 48 million) is mainly represented by Elektrárny Opatovice, a.s. of EUR 22 million (2017: EUR 38 million), Alternative Energy, s.r.o. of EUR 4 million (2017: EUR 5 million) and United Energy, a.s. of EUR 6 million (2017: EUR 5 million). These companies were provided with government grants to reduce emission pollutions and to build a biogas facility.

Balance of other deferred income in amount of EUR 21 million (2017: EUR 84 million) is mainly represented by EP Cargo, a.s. as a compensation raised from unrealized business case representing an acquired asset in amount of EUR 14 million (2017: EUR 15 million), which is recognized as income over useful life of the asset.

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

31. Financial instruments

Financial instruments and other financial assets

In millions of EUR	**31 December 2018**	**31 December 2017 (restated)**
Assets carried at amortised cost		
Loans to other than credit institutions	6	7
of which owed by other Group related companies	*6*	*7*
Total	**6**	**7**
Assets carried at fair value		
Hedging: *of which*	24	6
Commodity derivatives cash flow hedge	*24*	*6*
Risk management purpose: *of which*	3	1
Currency forwards reported as trading	-	*1*
Commodity derivatives reported as trading	*3*	-
Equity instruments at fair value through OCI: *of which*	1	*1
*Shares and interim certificates at fair value through OCI**	*1*	**1*
Total	**28**	**8**
Non-current	11	7
Current	23	8
Total	**34**	**15**

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

The weighted average interest rate on loans to other than credit institutions as at 31 December 2018 was 1.60% (2017: 1.70%).

Financial instruments and other financial liabilities

In millions of EUR	**31 December 2018**	**31 December 2017**
Liabilities carried at fair value		
Hedging: ***of which***	33	12
Interest rate swaps cash flow hedge	*12*	*10*
Currency forwards cash flow hedge	-	*2*
Commodity derivatives cash flow hedge	*21*	-
Risk management purpose: *of which*	3	7
Commodity derivatives reported as trading	*3*	*7*
Total	**36**	**19**
Non-current	12	11
Current	24	8
Total	**36**	**19**

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

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*	512	(510)	24	(33)
Interest rate swaps cash flow hedge	*253*	*(253)*	-	*(12)*
Commodity derivatives cash flow hedge	*220*	*(218)*	*24*	*(21)*
Currency forwards cash flow hedge	*39*	*(39)*	-	-
Risk management purpose: *of which*	177	(180)	3	(3)
Currency forwards reported as trading	*170*	*(173)*	-	-
Commodity derivatives reported as trading	*7*	*(7)*	*3*	*(3)*
Total	**689**	**(690)**	**27**	**(36)**

In millions of EUR	**31 December 2017 Nominal amount buy**	**31 December 2017 Nominal amount sell**	**31 December 2017 Positive fair value**	**31 December 2017 Negative fair value**
Hedging: *of which*	428	(424)	6	(12)
Interest rate swaps cash flow hedge	*304*	*(304)*	-	*(10)*
Commodity derivatives cash flow hedge	*6*	-	*6*	-
Currency forwards cash flow hedge	*118*	*(120)*	-	*(2)*
Risk management purpose: *of which*	226	(225)	1	(7)
Currency forwards reported as trading	*168*	*(167)*	*1*	-
Commodity derivatives reported as trading	*58*	*(58)*	-	*(7)*
Total	**654**	**(649)**	**7**	**(19)**

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

Commodity derivatives are recognised in respect of contracts for purchase and sale of electricity, which are denominated in CZK and EUR with maturity up to 1 year and where the contractual condition of derivatives does not meet the “own use exemption” as noted in IAS 39.5.

Sensitivity analysis relating to the fair values of financial instruments is included in the Note 35 – Risk management policies and disclosures.

Fair value hierarchy for financial instruments carried at fair value

In general, financial instruments carried at fair value are measured based on quoted market prices at the reporting date. If the market for a financial instrument is not active, fair value is established using valuation techniques. In applying valuation techniques, management uses estimates and assumptions that are

consistent with available information that market participants would use in setting a price for the financial instrument.

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

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

	31 December 2018			
In millions of EUR	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value:				
Hedging: *of which*	**-**	**24**	**-**	**24**
Commodity derivatives cash flow hedge	-	*24*	-	*24*
Risk management purpose: of which	**-**	**3**	**-**	**3**
Commodity derivatives reported as trading	-	*3*	-	*3*
Equity instruments at fair value through OCI: of which	**-**	**-**	**1**	**1**
Shares and interim certificates at fair value through OCI	-	-	*1*	*1*
Total	**-**	**27**	**1**	**28**
Financial liabilities carried at fair value:				
Hedging: *of which*	**-**	**33**	**-**	**33**
Interest rate swaps cash flow hedge	-	*12*	-	*12*
Commodity derivatives cash flow hedge	-	*21*	-	*21*
Risk management purpose: *of which*	**-**	**3**	**-**	**3**
Commodity derivatives reported as trading	-	*3*	-	*3*
Total	**-**	**36**	**-**	**36**

	31 December 2017 (restated)			
In millions of EUR	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value:				
Hedging: *of which*	-	6	-	**6**
Commodity derivatives cash flow hedge	-	*6*	-	***6***
Risk management purpose: of which	-	*1*	-	**1**
Currency forwards reported as trading	-	1	-	***1***
Equity instruments at fair value through OCI: of which	**-**	**-**	1	**1**
Shares and interim certificates at fair value through OCI	-	-	*1*	*1*
Total	**-**	**7**	**1**	**8**
Financial liabilities carried at fair value:				
Hedging: *of which*	-	12	-	**12**
Currency forwards cash flow hedge	-	*2*	-	***2***
Interest rate swaps cash flow hedge	-	*10*	-	***10***
Risk management purpose: *of which*	-	7	-	**7**
Commodity derivatives reported as trading	-	*7*	-	***7***
Total	**-**	**19**	**-**	**19**

There were no transfers between fair value levels as of either 31 December 2018 or 31 December 2017.

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

In millions of EUR	**Carrying value amount**	**Fair value**
Financial assets	**31 December 2018**	**31 December 2018**
Loans to other than credit institutions	6	6
Financial instruments held at amortised costs	**6**	**6**
Financial liabilities		
Loans and borrowings	**785**	**799**

In millions of EUR	**Carrying value amount**	**Fair value**
Financial assets	**31 December 2017**	**31 December 2017**
Loans to other than credit institutions	7	7
Financial instruments held at amortised costs	**7**	**7**
Financial liabilities		
Loans and borrowings	**1,129**	**1,132**

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

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

Transactions with emission rights

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

Forward operations

As at 31 December 2018 the EPE Group is contractually obliged to purchase 2,175,207 pieces (2017: 3,033,421 pieces) of emission rights at an average price 16.26 EUR/piece (2017: 5.85 EUR/piece).

32. Trade payables and other liabilities

In millions of EUR	**31 December 2018**	**31 December 2017**
Trade payables	138	141
Advance payments received	(1)2	64
Estimated payables	29	28
Payroll liabilities	16	17
Other tax liabilities	16	13
Accrued expenses	2	3
Uninvoiced supplies	2	1
Other liabilities	3	9
Total	**208**	**276**
Non-current	-	4
Current	208	272
Total	**208**	**276**

(1) Advanced payments received in amount of EUR 39 million were reclassified to contract liabilities.

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

Beginning 1 January 2018 the part of balance of advance payments received (EUR 39 million as of 31 December 2018) related to customers' contract was restated as Contract liabilities on a separate line in the statement of financial position (see Note 2(e)).

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

33. Financial commitments and contingencies

Off balance sheet liabilities

In millions of EUR	**31 December 2018**	**31 December 2017**
Granted pledges – securities	611	905
Commitments	280	255
Other granted pledges	727	1,154
Total	**1,618**	**2,314**

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

Commitments

Majority of commitments is represented by contracts to purchase physical energy in following years by SSE Group in amount of EUR 236 million (2017: EUR 239 million), where physical delivery of the energy will be realised in future and EUR 19 million is related to contracts for purchase of non-current assets. Remaining EUR 23 million arise from different type of service contracts.

Other granted pledges

In millions of EUR	**31 December 2018**	**31 December 2017**
Loans granted[(1)]	255	411
Property, plant and equipment	379	403
Cash and cash equivalents[(2)]	64	269
Trade receivables	17	51
Inventories	12	20
Total	**727**	**1,154**

(1) Total balance of pledged granted loans includes intercompany loans of EUR 249 million (2017: EUR 404 million).

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

Off balance sheet assets

In millions of EUR	**31 December 2018**	**31 December 2017**
Received promises	357	372
Total	**357**	**372**

Received promises

Received promises mainly comprise the contracts for the future supply of energy in amount of EUR 219 million (2017: EUR 239 million) and regulatory contingent assets related to green energy of EUR 138 million (2017: EUR 97 million) recognised by SSE Group.

Regulatory contingent assets related to green energy

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

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

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

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

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

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

34. Operating leases

During the year ended 31 December 2018 EUR 9 million (2017: EUR 9 million) was recognised as an expense in profit or loss in respect of operating leases.

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

35. Risk management policies and disclosures

This section provides details of the Group's exposure to financial and operational risks and the way it manages such risk. The most important types of financial risks to which the Group is exposed are credit risk, liquidity risk, interest rate risk, foreign exchange risk and concentration risk.

As part of its operations, the Group is exposed to different market risks, notably the risk of changes in interest rates, exchange rates and commodity prices. To minimise this exposure, the Group enters into derivatives contracts to mitigate or manage the risks associated with individual transactions and overall exposures, using instruments available on the market.

(a) Credit risk

i. Exposure to credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and loans and advances.

The Group has established a credit policy under which each new customer requesting products/services over a certain limit (which is based on the size and nature of the particular business) is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group uses credit databases for analysis of creditworthiness of new customers and after deemed creditworthy they are also subject to Risk committee approval. The Group's policy is also to require suitable collateral to be provided by customers such as a bank guarantee or a parent company guarantee. The exposure to credit risk is monitored on an ongoing basis.

Additional aspects mitigating credit risk

The Group operates mainly as an energy and power distribution company, and thus has a specific customer structure. The distribution companies represent a comparatively low credit risk. The large clients are dependent upon electricity supplies which significantly mitigates the credit risks. In addition, bank guarantees and advance payments are required before active operation with traders. Retail customers are typically required to pay prepayments what leads to reduction of the credit risk. Previous experience shows that such elements are very favourable in terms of credit risk mitigation.

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

The Group establishes an allowance for impairment that represents its estimate of expected credit losses. The Group measures loss allowances at an amount equal to lifetime ECLs except for those financial assets for which credit risk has not increased significantly since initial recognition. For trade receivables and contract assets, the Group has elected to measure loss allowances at an amount equal to lifetime ECLs.

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

Credit risk by type of counterparty

As at 31 December 2018

In millions of EUR	**Corporate (non-financial institutions)**	**State, government**	**Banks**	**Other**	**Total**
Assets					
Cash and cash equivalents	-	-	192	-	**192**
Restricted cash	-	-	3	-	**3**
Contract assets	29	-	-	-	**29**
Trade receivables and other assets	270	-	-	11	**281**
Financial instruments and other financial assets	34	-	-	-	**34**
Total	**333**	**-**	**195**	**11**	**539**

As at 31 December 2017

In millions of EUR	**Corporate (non-financial institutions)**	**State, government**	**Banks**	**Other**	**Total**
Assets					
Cash and cash equivalents	-	-	371	-	**371**
Restricted cash	-	-	1	-	**1**
Trade receivables and other assets	376	17	-	5	**398**
Financial instruments and other financial assets	13	-	2	-	**15**
Total	**389**	**17**	**374**	**5**	**785**

Credit risk by location of debtor

As at 31 December 2018 *In millions of EUR*	**Czech Republic**	**Slovakia**	**United Kingdom**	**Germany**	**Hungary**	**Other**	**Total**
Assets							
Cash and cash equivalents	70	118	-	-	4	-	**192**
Restricted cash	1	-	-	-	2	-	**3**
Contract assets	27	2	-	-	-	-	**29**
Trade receivables and other assets	82	171	1	-	21	6	**281**
Financial instruments and other financial assets	34	-	-	-	-	-	**34**
Total	**214**	**291**	**1**	**-**	**27**	**6**	**539**

As at 31 December 2017 *In millions of EUR*	**Czech Republic**	**Slovakia**	**United Kingdom**	**Germany**	**Hungary**	**Other**	**Total**
Assets							
Cash and cash equivalents	334	24	-	-	13	-	**371**
Restricted cash	-	-	-	-	1	-	**1**
Trade receivables and other assets	153	217	6	4	12	6	**398**
Financial instruments and other financial assets	9	-	-	-	6	-	**15**
Total	**496**	**241**	**6**	**4**	**32**	**6**	**785**

ii. Impairment losses

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

Loss allowances are measured on either of the following bases:

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

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

The ECL model is based on the principle of expected credit losses. For the purposes of designing the ECL model, the portfolio of financial assets is split into segments. Financial assets within each segment are allocated to three stages (Stage I – III) or to a group of financial assets that are impaired at the date of the first recognition purchase or originated credit-impaired financial assets ("POCI"). At the date of the initial recognition, the assets is include in Stage I or POCI. Subsequent allocation to stages is as follows: assets with significant increase in credit risk (SICR) since initial recognition (Stage II), respectively credit impaired assets (Stage III).

The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime ECLs. For more info see note 2(e).

Credit risk – impairment of financial assets

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

In millions of EUR	**12-month ECL**	**Lifetime ECL not credit-impaired**	**Lifetime ECL credit-impaired**	**Purchased credit-impaired**	**Total**
Balance at 31 December 2017 – IAS39	**-**	**-**	**(20)**	**-**	**(20)**
Impact of adopting IFRS 9	(1)	(1)	-	-	(2)
Restated balance at 1 January 2018	**(1)**	**(1)**	**(20)**	**-**	**(22)**
Impairment losses recognised during the year	-	(2)	-	-	**(2)**
Reversal of impairment losses recognised during the year	-	-	1	-	**1**
Balance at 31 December 2018	**(1)**	**(3)**	**(19)**	**-**	**(23)**

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	**-**	**-**	**(20)**	**(20)**
Impact of adopting IFRS 9	(1)	-	(1)	(2)
Restated balance at 1 January 2018	**(1)**	**-**	**(21)**	**(22)**
Impairment losses recognised during the year	-	-	(2)	**(2)**
Reversals of impairment losses recognised during the year	-	-	1	**1**
Balance at 31 December 2018	**(1)**	**-**	**(22)**	**(23)**

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

As at 31 December 2018

In millions of EUR	**Contract assets**	**Loans to other than credit institutions**	**Trade receivables and other assets**	**Total**
Before maturity (net)	29	6	273	**308**
After maturity (net)	-	-	8	**8**
Total	**29**	**6**	**281**	**316**
A – Assets (gross)				
- before maturity	29	7	274	**310**
- after maturity <30 days	-	-	5	**5**
- after maturity 31–180 days	-	-	2	**2**
- after maturity 181–365 days	-	-	3	**3**
- after maturity >365 days	-	-	19	**19**
Total assets (gross)	**29**	**7**	**303**	**339**
B – Loss allowances for assets				
- before maturity	-	(1)	(1)	**(2)**
- after maturity 31–180 days	-	-	(1)	**(1)**
- after maturity 181–365 days	-	-	(2)	**(2)**
- after maturity >365 days	-	-	(18)	**(18)**
Total loss allowances	**-**	**(1)**	**(22)**	**(23)**
Total assets (net)	**29**	**6**	**281**	**316**

As at 31 December 2017

In millions of EUR	**Loans to other than credit institutions**	**Trade receivables and other assets**	**Total**
Before maturity (net)	7	390	**397**
After maturity (net)	-	8	**8**
Total	**7**	**398**	**405**
A – Assets for which a provision has been created (overdue and impaired)			
- gross	-	23	**23**
- specific loss allowance[1]	-	(20)	**(20)**
Net	**-**	**3**	**3**
B – Assets for which a provision has not been created (overdue but not impaired)			
- after maturity <30 days	-	2	**2**
- after maturity 31–180 days	-	2	**2**
- after maturity >365 days	-	1	**1**
Net	**-**	**5**	**5**
Total	**-**	**8**	**8**

1) *All companies within the Group carried out the detailed analysis of trade receivables and other assets and based on the results of this analysis create a specific loss allowance. The Group carefully assessed the need to create a collective loss allowance and*

concluded that the impact of the collective loss allowance is immaterial to these financial statements. Therefore no collective loss allowance was recognized as at 31 December 2017.

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

In millions of EUR	**Loans to other than credit institutions**	**Trade receivables and other assets**	**Total**
Balance at 1 January 2017	**-**	**(18)**	**(18)**
Impairment losses recognised during the year	-	(1)	**(1)**
Reversals of impairment losses recognised during the year	-	1	**1**
Differences due to foreign currency translation	-	(2)	**(2)**
Balance at 31 December 2017	**-**	**(20)**	**(20)**

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

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

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.

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

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

(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 the earliest possible repayment date is shown. Those liabilities that do not have a contractual maturity date are grouped together in the “undefined maturity” category.

Maturities of financial liabilities

As at 31 December 2018

In millions of EUR	**Carrying amount**	**Contractual cash flows**[1]	**Up to 3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Undefined maturity**
Liabilities							
Loans and borrowings	**785**	803	5	512	286	-	-
Trade payables and other liabilities	[2]**206**	212	200	10	-	-	2
Financial instruments and other financial liabilities	**36**	35	3	21	-	11	-
out of which Derivatives - inflow	*-*	*500*	*102*	*118*	*30*	*250*	*-*
outflow	***(36)***	*(535)*	*(105)*	*(139)*	*(30)*	*(261)*	*-*
Total	**1,027**	**1,050**	**208**	**543**	**286**	**11**	**2**

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.
(2) Advances received in amount of EUR 2 million are excluded from the carrying amount as these items will cause no future cash outflow.
(3) Contract liabilities in amount of EUR 102 million are not shown in the table above as these items are not expected to cause any future cash outflow.

As at 31 December 2017

In millions of EUR	**Carrying amount**	**Contractual cash flows**[1]	**Up to 3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Undefined maturity**
Liabilities							
Loans and borrowings	**1,129**	1,192	14	662	513	3	-
Trade payables and other liabilities	[2]**262**	262	236	19	4	-	3
Financial instruments and other financial liabilities	**19**	19	3	5	-	11	-
out of which Derivatives - inflow	*-*	*541*	*148*	*74*	*19*	*300*	*-*
outflow	***(19)***	*(543)*	*(149)*	*(75)*	*(19)*	*(300)*	*-*
Total	**1,410**	**1,473**	**253**	**686**	**517**	**14**	**3**

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.
(2) Advances received in amount of EUR 14 million are excluded from the carrying amount as these items will cause no future cash outflow.

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

As at 31 December 2018 the Group has undrawn credit facilities in amount of EUR 88 million that could be used to mitigate liquidity risk.

(c) Interest rate risk

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

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

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

Financial information relating to interest bearing and non-interest bearing assets and liabilities and their contractual maturity or re-pricing dates as at 31 December 2018 is as follows:

In millions of EUR	**Up to 1 year**	**1 year to 5 years**	**Over 5 years**	**Undefined maturity (or non-interest bearing)**	**Total**
Assets					
Cash and cash equivalents	192	-	-	-	**192**
Restricted cash	3	-	-	-	**3**
Trade receivables and other assets	-	-	-	281	**281**
Financial instruments and other financial assets[1]	3	6	-	25	**34**
out of which Derivatives - inflow	-	-	-	*189*	***189***
outflow	-	-	-	*(167)*	***(167)***
Total	**198**	**6**	**-**	**306**	**510**
Liabilities					
Loans and borrowings[2]	524	261	-	-	**785**
Trade payables and other liabilities	1	-	-	207	**208**
Contract liabilities	-	-	-	102	**102**
Financial instruments and financial liabilities[1]	11	-	-	25	**36**
out of which Derivatives - inflow	*253*	-	-	*247*	*500*
outflow	*(3)*	-	*(250)*	*(270)*	*(523)*
Total	**536**	**261**	**-**	**334**	**1,131**
Net interest rate risk position	**(338)**	**(255)**	**-**	**(28)**	**(621)**
Net interest rate risk position (incl. IRS)	**(88)**	**(255)**	**(250)**	**(29)**	**(622)**

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

Notional amounts of financial instruments are included in Note 31 – Financial instruments.

Interest rate risk exposure as at 31 December 2017 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	345	-	-	26	**371**
Restricted cash	-	-	-	1	**1**
Trade receivables and other assets	-	-	-	398	**398**
Financial instruments and other financial assets[1]	-	7	-	8	**15**
out of which Derivatives - inflow	-	-	-	*112*	***112***
outflow	-	-	-	*(105)*	***(105)***
Total	**345**	**7**	**-**	**433**	**785**
Liabilities					
Loans and borrowings[2]	610	516	3	-	**1,129**
Trade payables and other liabilities	-	-	-	276	**276**
Financial instruments and financial liabilities[1]	-	-	10	9	**19**
out of which Derivatives - inflow	*304*	-	-	*238*	*542*
outflow	-	-	*(304)*	*(240)*	*(544)*
Total	**610**	**516**	**13**	**285**	**1,424**
Net interest rate risk position	**(265)**	**(509)**	**(13)**	**148**	**(639)**
Net interest rate risk position (incl. IRS)	**39**	**(509)**	**(317)**	**148**	**(639)**

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

Notional amounts of financial instruments are included in Note 31 – Financial instruments.

Sensitivity analysis

The Group performs stress test using a standardised market interest rate shock for financial assets and liabilities to be repriced in up to 1 year time, i.e. an immediate decrease/increase in market interest rates by 100 basis points ('bp') along the whole yield curve is applied to the market interest rate positions of the portfolio.

At the reporting date, a change of 100 basis points in market interest rates would have no material impact on profit. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

The analysis stated above does not cover the impact of change in market interest rates on the fair value of derivatives.

(d) Foreign exchange risk

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

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

Various types of derivatives are used to reduce the exchange rate risk on foreign currency assets, liabilities and expected future cash flows. These include forward exchange contracts, most with a maturity of less than one year.

These contracts are also normally agreed with a notional amount and expiry date equal to that of the underlying financial liability or the expected future cash flows, so that any change in the fair value and/or future cash flows of these contracts stemming from a potential appreciation or depreciation of the 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 single Companies level.

As at 31 December 2018, the exposure to foreign exchange risk translated to millions of EUR was as follows:

In millions of EUR	**CZK**	**HUF**	**EUR**	**PLN**	**Total**
Assets					
Cash and cash equivalents	27	4	160	1	**192**
Restricted cash	1	2	-	-	**3**
Financial instruments and other financial assets	7	-	27	-	**34**
Trade receivables and other assets	57	29	194	1	**281**
	92	**35**	**381**	**2**	**510**
Off balance assets					
Received promises and guarantees	-	-	357	-	**357**
Receivables from derivative operations	125	43	521	-	**689**
	125	**43**	**878**	**-**	**1,046**
Liabilities					
Loans and borrowings	-	-	785	-	**785**
Contract liabilities	24		78		**102**
Financial instruments and other financial liabilities	12	3	21	-	**36**
Trade payables and other liabilities	69	29	110	1	**208**
	105	**32**	**994**	**1**	**1,132**
Off balance liabilities					
Commitments	-	-	280	-	**280**
Payables related to derivative operations	128	40	522	-	**690**
	128	**40**	**802**	**-**	**970**
Net foreign exchange risk position	**(13)**	**3**	**(613)**	**1**	**(622)**

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

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

In millions of EUR	**CZK**	**HUF**	**EUR**	**PLN**	**Total**
Assets					
Cash and cash equivalents	217	13	141	-	**371**
Restricted cash	-	1	-	-	**1**
Trade receivables and other assets	125	20	253	-	**398**
Financial instruments and other financial assets	8	6	1	-	**15**
	350	**40**	**395**	**-**	**785**
Off balance assets					
Received promises and guarantees	-	-	372	-	**372**
Receivables from derivative operations	262	37	355	-	**654**
	262	**37**	**727**	**-**	**1,026**
Liabilities					
Loans and borrowings	2	-	1,127	-	**1,129**
Financial instruments and other financial liabilities	11	-	8	-	**19**
Trade payables and other liabilities	123	23	130	-	**276**
	136	**23**	**1,265**	**-**	**1,424**
Off balance liabilities					
Commitments	-	-	255	-	**255**
Payables related to derivative operations	313	31	305	-	**649**
	313	**31**	**560**	**-**	**904**
Net foreign exchange risk position	**214**	**17**	**(870)**	**-**	**(639)**

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

The following significant exchange rates applied during the period:

	31 December 2018		**31 December 2017**	
CZK	**Average rate**	**Reporting date spot rate**	**Average rate**	**Reporting date spot rate**
EUR 1	25.643	25.725	26.33	25.54
HUF 1	0.08045	0.08015	0.08517	0.08230

Sensitivity analysis

A strengthening (weakening) of the Czech crown, as indicated below, against the EUR at the reporting date would have increased (decreased) equity by the amounts shown in the following table. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably likely at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

Effect in millions of EUR	**2018 Profit (loss)**	**2017 Profit (loss)**
EUR (5% strengthening)	36	49

Effect in millions of EUR	**2018 Other comprehensive income**	**2017 Other comprehensive income**
EUR (5% strengthening)	-	55

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 rights, 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 rights on a forward basis.

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

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

Commodity derivatives primarily represents forwards on purchase or sale of electricity (for more details refer to Note 31 – Financial instruments).

Sensitivity analysis

An increase/decrease in the price of electricity by 5% would have no material impact on profit from the related commodity derivatives presented in Note 31 – Financial instruments.

(f) Regulatory risk

The Group is exposed to risks resulting from the state regulation of electricity selling prices by the states in which it undertakes business activities. In Slovakia electricity prices for households and small enterprises is regulated providing for a capped profit margin per MWh.

The sale of electricity to mid-sized and large customers is the subject matter of composite electricity supply contracts. Such contracts usually determine the price for the supply of the commodity. The price of the distribution and other components is determined based on the Slovak Regulatory Office for Network Industries's ("RONI") price decisions for distribution companies and the market and transmission system operator. For small enterprises and households, composite electricity supply contracts define the products for which price lists are issued in accordance with the RONI's price decisions for the regulated entity as a supplier of electricity. The RONI sets a maximum margin per MWh to be charged by the supplier. Improper regulation could negatively influence operating performance and cash flows.

The Czech Energy Regulatory Office ("ERO") issues pricing decisions that set forth mandatory guidelines applicable to the calculation of heat prices. These rates are comprised of (i) the economically justified costs necessary for production and distribution of heat, (ii) appropriate profit, and (iii) VAT. Furthermore, the ERO sets the limit price for heat which allows the Company's subsidiaries to set their own heat price on the condition that it is lower than the limit price and follows the calculation principles. Nevertheless, the ERO also has the right to review retroactively the operations of a heat producer for the previous 5 years with respect to the heat price setting mechanism applied by that particular entity. If the entity is not able fully to support the pricing mechanism applied, ERO can impose significant penalties which might have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects. The fact that the price of heat is not set by the ERO as a fixed amount per unit, gives rise to a degree of uncertainty on the part of the operator as there is the possibility that the calculation it carried out will be assessed as incorrect by the ERO.

As regards electricity produced by cogeneration plants, the ERO also stipulates the amount of subsidy for electricity from high-efficiency cogeneration sources in its price decision in the form of a green bonus, which is set per MWh and granted on an annual or hourly basis. The price decision distinguishes between a basic tariff (which applies to cogeneration plants in general) and additional tariff (which applies only to some of them). The respective tariff is set in the price decision in CZK per MWh and has different levels depending on the size of the plant, overall time of its use during a year and the fuel it uses. It is common that the ERO issues the price decision annually, in the autumn for the coming calendar year.

(g) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

The Group manages its capital based on the net leverage defined as Net Debt / EBITDA.

In millions of EUR	**31 December 2018**	**31 December 2017**
Gross Debt[1]	770	1,124
Less: Cash and cash equivalents	192	371
Net debt	**578**	**753**
EBITDA	296	380
Net debt to EBITDA	**1.95**	**1.98**

1) Represents Gross debt without considering accrued interest and unamortized part of financing fees, discounts, premiums (if any)

The Group targets to keep the ratio below 3.00x of EBITDA. The terms EBITDA, Net debt, Gross Debt, Cash and Cash equivalents, Net debt to EBITDA included in this report do not represent the terms EBITDA, Net debt, Gross Debt, Cash and Cash equivalents, Net debt to EBITDA as may be defined by any documentation for any financial liabilities of the EP Energy Group.

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

In millions of EUR	**31 December 2018**	**31 December 2017**
Total liabilities	1,402	1,807
Less: cash and cash equivalents	192	371
Net debt	**1,210**	**1,436**
Total equity attributable to equity holders of the Company	377	365
Less: amounts accumulated in equity relating to cash flow hedges	(5)	(8)
Adjusted capital	**372**	**357**
Debt to adjusted capital	**3.25**	**4.02**

(h) Hedge accounting

The balance as at 31 December 2018 represents primarily derivative agreements to hedge on interest rate and an electricity price and a foreign exchange rate.

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

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

In millions of EUR	**Commodity derivatives – cash flow hedge**	**Interest rate swaps – cash flow hedge**	**Total**
Balance at 1 January 2018	**(6)**	**(2)**	**(8)**
Revaluation of cash flow hedges	5	(2)	3
Deferred tax – cash flow hedges revaluation	-	-	-
Balance at 31 December 2018	**(1)**	**(4)**	**(5)**

Cash flow hedges – hedge of interest rate risk

The Group applies hedge accounting for hedging instruments designed to hedge interest rate risk of its debt financing. The hedging instruments are interest rate swaps used by the Group in order to hedge risk related to repricing of interest rates on its financing. As a result of the hedge relationship on the Group level, the Group recorded a change in an interest rate cash flow hedge reserve of negative EUR 2 million (2017: EUR 52 million). For risk management policies, refer to Note 35 (c) – Risk management policies and disclosures.

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

In millions of EUR	**31 December 2018 Negative fair value**	**31 December 2018 Nominal amount hedged (buy)**	**31 December 2018 Nominal amount hedged (sell)**
Up to 3 months	-	3	3
3 months to 1 year	-	-	-
1–5 years	-	-	-
Over 5 years	12	250	250
Total	**12**	**253**	**253**

Cash flow hedges – hedge of foreign currency risk and commodity price risk of revenues of power production with financial derivatives

The Group applies hedge accounting for hedging instruments designed to hedge the commodity price risk and the foreign currency risk of cash-flows from Group's power production sold to or commodities purchased from the third parties. This includes commodity derivatives with net settlement for commodity risk. As a result of the hedge relationship, the Group recorded a change in cash flow hedge reserve of EUR 5 million (2017: negative EUR 9 million negative). For risk management policies, refer to Note 35 (d) and (e) – Risk management policies and disclosures.

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

In millions of EUR	**31 December 2018 Positive fair value**	**31 December 2018 Negative fair value**	**31 December 2018 Nominal amount hedged (buy)**	**31 December 2018 Nominal amount hedged (sell)**
Up to 3 months	-	-	2	2
3 months to 1 year	19	21	192	107
1–5 years	5	-	26	87
Over 5 years	-	-	-	22
Total	**24**	**21**	**220**	**218**

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

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

36. Related parties

Identity of related parties

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

(a) The summary of outstanding balances with related parties as at 31 December 2018 and 31 December 2017 was as follows:

In millions of EUR	**Accounts receivable and other financial assets 2018**	**Accounts payable and other financial liabilities 2018**	**Accounts receivable and other financial assets 2017**	**Accounts payable and other financial liabilities 2017**
Ultimate shareholder[1]	-	-	-	-
Companies controlled by ultimate shareholder	37	301	17	28
Companies under significant influence by ultimate shareholder	3	9	3	9
Associates	6	-	7	-
Other related parties	-	-	-	-
Total	**46**	**310**	**27**	**37**

1) Daniel Křetínský represents the ultimate shareholder.

In addition, in 2018 the Group reported EUR 66 million off-balance sheet in loan commitments, which were from companies under significant influence by ultimate shareholders (2017: EUR 10 million off-balance sheet in loan commitments, which were from companies under significant influence by ultimate shareholders).

(b) The summary of transactions with related parties during the year ended 31 December 2018 and 31 December 2017 was as follows:

In millions of EUR

	Revenues 2018	**Expenses 2018**	**Revenues 2017**	**Expenses 2017**
Ultimate shareholder[1]	-	-	-	-
Companies controlled by ultimate shareholder	209	247	61	147
Companies under significant influence by ultimate shareholder	33	85	31	90
Associates	-	-	15	-
Other related parties	-	-	-	-
Total	**242**	**332**	**107**	**237**

1) Daniel Křetínský represents the ultimate shareholder.

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

Transactions with the key management personnel

For the financial years ended 31 December 2018 and 2017 the EPE Group´s key management personnel is represented by members of the Board of Directors of the following major entities: EP Energy, a.s., Stredoslovenská energetika, a.s., Elektrárny Opatovice, a.s., Pražská teplárenská a.s., United Energy, a.s., and EP ENERGY TRADING, a.s. (2017: plus Plzeňská energetika, a.s.)

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

In millions of EUR	**2018**	**2017**
Nr. of personnel	34	50
Compensation, fees and rewards	2	2
Total	**2**	**2**

Other remuneration of Group management (management of all components within the Group) is included in Note 9 – Personnel expenses.

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

37. Group entities

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

		31 December 2018		31 December 2017		2018	2017
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso-lidation method	Conso-lidation method
EP Energy, a.s.	Czech Republic	-	-	-	-	-	-
AISE, s.r.o.	Czech Republic	80	Direct	80	Direct	Full	Full
Pražská teplárenská a.s.[5]	Czech Republic	100	Direct	47.42	Direct	Full	Full
PT Koncept, a.s.[4]	Czech Republic	100	Direct	100	Direct	Full	Full
Termonta Praha a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Transit, a.s.[3]	Czech Republic	100	Direct	100	Direct	Full	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
PT měření, a.s.[5]	Czech Republic	100	Direct	47.42	Direct	Full	Full
PT Holding Investment B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Pražská teplárenská Holding a.s.*	Czech Republic	100	Direct	100	Direct	Full	Full
NPTH, a.s.*	Czech Republic	100	Direct	-	-	Full	-
Pražská teplárenská a.s.[5]	Czech Republic	-	-	47.42	Direct	-	Full
PT Koncept, a.s.[4]	Czech Republic	-	-	100	Direct	-	Full
Termonta Praha a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Transit, a.s.[3]	Czech Republic	-	-	100	Direct	-	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	-	-	100	Direct	-	Full
PT Real Estate, a.s.	Czech Republic	-	-	47.42	Direct	-	Full
RPC, a.s.	Czech Republic	-	-	100	Direct	-	Full
Pod Juliskou, a.s.	Czech Republic	-	-	100	Direct	-	IFRS5
Nová Invalidovna, a.s.	Czech Republic	-	-	100	Direct	-	IFRS5
Michelský trojúhelník, a.s.	Czech Republic	-	-	100	Direct	-	Full
Nové Modřany, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties I, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties II, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties III, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties IV, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT měření, a.s.[5]	Czech Republic	-	-	47.42	Direct	-	Full
United Energy, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy Moldova, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy Invest, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EVO – Komořany, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
GABIT spol. s.r.o.	Czech Republic	100	Direct	100	Direct	At cost	At cost
Severočeská teplárenská, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Sourcing, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP ENERGY TRADING, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Plzeňská energetika a.s.	Czech Republic	-	-	100	Direct	-	Full
VTE Moldava II, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
MR TRUST s.r.o. *	Czech Republic	100	Direct	100	Direct	Full	Full
Arisun, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Greeninvest Energy, a.s.	Czech Republic	41.70	Direct	41.70	Direct	IFRS 5	IFRS 5
POWERSUN a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Triskata, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
VTE Pchery, s.r.o.	Czech Republic	64	Direct	64	Direct	Full	Full
CHIFFON ENTERPRISES LIMITED*	Cyprus	100	Direct	100	Direct	Full	Full
Claymore Equity, s. r. o. *	Slovakia	100	Direct	80	Direct	Full	Full
Alternative Energy, s.r.o.	Slovakia	90	Direct	90	Direct	Full	Full
Elektrárny Opatovice, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
V A H O s.r.o.	Czech Republic	100	Direct	100	Direct	At cost	At cost
NPTH, a.s. *	Czech Republic	-	-	100	Direct	-	Full
Pražská teplárenská a.s.[5]	Czech Republic	-	-	50.58	Direct	-	Full
PT Koncept, a.s.[4]	Czech Republic	-	-	100	Direct	-	Full
Termonta Praha a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Transit, a.s.[3]	Czech Republic	-	-	100	Direct	-	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	-	-	100	Direct	-	Full

		31 December 2018		31 December 2017		2018	2017
	Country of incorporation	**Owner-ship %**	**Owner-ship interest**	**Owner-ship %**	**Owner-ship interest**	**Conso-lidation method**	**Conso-lidation method**
PT Real Estate, a.s.[6]	Czech Republic	-	-	50.58	Direct	-	Full
RPC, a.s.	Czech Republic	-	-	100	Direct	-	Full
Pod Juliskou, a.s.	Czech Republic	-	-	100	Direct	-	IFRS5
Nová Invalidovna, a.s.	Czech Republic	-	-	100	Direct	-	IFRS5
Michelský trojúhelník, a.s.	Czech Republic	-	-	100	Direct	-	Full
Nové Modřany, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties I, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties II, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties III, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT Properties IV, a.s.	Czech Republic	-	-	100	Direct	-	Full
PT měření, a.s.[5]	Czech Republic	-	-	50.58	Direct	-	Full
Stredoslovenská energetika Holding, a.s. (Stredoslovenská energetika a.s.)[7]	Slovakia	49	Direct	49	Direct	Full	Full
Stredoslovenská distribučná, a.s.[2]	Slovakia	100	Direct	100	Direct	Full	Full
Elektroenergetické montáže, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SSE - Metrológia s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Stredoslovenská energetika - Projekt Development, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SSE-Solar, s.r.o.	Slovakia	100	Direct	100	Direct	Full	IFRS 5
SPX, s.r.o.	Slovakia	33.33	Direct	33.33	Direct	Equity	Equity
Energotel,a.s.	Slovakia	20	Direct	20	Direct	Equity	Equity
SSE CZ, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
SPV100, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SSE – MVE, s.r.o.	Slovakia	100	Direct	-	-	Full	-
Stredoslovenská energetika, a.s. (Stredoslovenská energetika Obchod, a.s.)[8]	Slovakia	100	Direct	-	-	Full	-
EP ENERGY HR d.o.o.	Croatia	100	Direct	100	Direct	Full	Full
EP Cargo a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Budapesti Erömü Zrt.	Hungary	95.62	Direct	95.62	Direct	Full	Full
KÖBÁNYAHÖ Kft.	Hungary	25	Direct	25	Direct	At cost	At cost
ENERGZET SERVIS a.s.	Czech Republic	100	Direct	100	Direct	Full	Full

* *Holding entity*

(1) EP Hungary, a.s. merged with EP Energy, a.s. as of 30 November 2017. EP Energy, a.s. is the successor company.

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

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

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

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

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

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

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

The structure above is listed by ownership of companies at the different levels within the Group.

38. Litigations and claims

Elektrárny Opatovice, a.s.

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

Stredoslovenská energetika Holding, a.s. Group ("SSE Group")

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

Regulatory proceedings by ERO against Pražská teplárenská ("PT")

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

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

39. Subsequent events

On 11 March 2019, EP Energy offered to purchase up to EUR 41.503.059 aggregate principal amount of its €498,650,000 5.875% Senior Secured Notes due 2019 (the "Notes") to comply with its obligation to make "Collateral Sale Offers" under the indenture governing the Notes. The Collateral Sale Offer related to net proceeds from the sale of 100% of the shares in Plzeňská energetika a.s. to its parent company, EP Infrastructure, a.s. Following the collateral sale offer completion, EP Energy shall be using the proceeds for its general corporate purposes like, but not limited to, repayment of the indebtedness, capital expenditures, etc.

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

Date:	Signature of the authorised representative	
5 April 2019	Marek Spurný Member of the Board of Directors	Pavel Horský Member of the Board of Directors

VI. Independent Auditor´s Report to the Statutory Financial Statements

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

This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

Independent Auditor's Report to the Shareholder of EP Energy, a.s.

Opinion

We have audited the accompanying separate financial statements of EP Energy, a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the separate balance sheet as at 31 December 2018, and the separate income statement, the separate statement of changes in equity and the separate cash flow statement for the year then ended, and notes to the separate financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the separate financial statements.

In our opinion, the accompanying separate financial statements give a true and fair view of the unconsolidated financial position of the Company as at 31 December 2018, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with 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 Separate Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Key Audit Matters

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

Valuation of investments in subsidiaries and associates

Refer to Note 2 (Significant accounting policies used by the Company) and 5 (Non-current financial assets).

Key audit matter	How the key audit matter was addressed
The Company acts as a holding company and its main assets are investments in (unquoted) subsidiaries and associates. **These investments are measured at cost. At each balance sheet date, the Company tests whether the investments have been impaired.** **The valuation of these unquoted investments depends on assumptions and estimates of their future development determined by the Company and especially on estimates on the investments' future financial performance and discount factors. Hence, the valuation is connected with a significant level of uncertainty.** **As a result, the valuation of the investments constitutes a significant audit area.**	In this area, among other things, we conducted the following audit procedures: Inquiring with the Company, we ascertained why the Company uses concrete assumptions and estimates affecting the valuation models used for the investments. Our internal valuation specialist in the area of enterprise valuation evaluated the methodology used in the valuation, compared it with the methods used on the market, evaluated the main assumptions and estimates, including the used discount factors, and compared them with market standards in the industry. We critically evaluated the assumptions and estimates used for the compilation of the financial plans of the significant subsidiaries and associates in the context of our knowledge of those entities. We evaluated the historical reliability of the estimates related to future development by comparing the estimated financial plans for 2018 used in the valuation models prepared in 2017 to the actual results for 2018. We also compared the cash-flow plans included in the 2018 valuation models to the cash-flow plans included in the 2017 valuation models. We critically evaluated the Company's explanation of any significant deviations. We evaluated whether the events occurring after the balance sheet date up to the issuance of the audit report had a significant negative impact on the assumptions and estimates used in the valuation models.

Additionally, we evaluated whether the information presented in the notes to the separate financial statements was adequate and in compliance with Czech accounting legislation.

Other Information

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

As described in Note 2 (j) to the separate financial statements, EP Energy, a.s. will not issue a separate annual report as all information about the Company required to be disclosed in a separate annual report will be included in the consolidated annual report. Consequently, the auditor's report does not include our statement on the other information.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the separate financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these 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 separate financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the separate financial statements, including the disclosures, and whether the separate financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

Statutory Auditor Responsible for the Engagement

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

Prague
15 March 2019

KPMG Česká republika Audit

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

Karel Charvát
Partner
Registration number 2032

VII. Statutory Financial Statements and Notes to the Statutory Financial Statements

EP Energy, a.s.

STATUTORY FINANCIAL STATEMENTS

Year ended 31 December 2018

BALANCE SHEET
full version

As of
31.12.2018
(in CZK thousand)

EP Energy, a.s.
Corporate ID 292 59 428

Pařížská 130/26
Josefov
110 00 Praha 1

		31.12.2018			31.12.2017
		Gross	**Adjustment**	**Net**	**Net**
	TOTAL ASSETS	**44 394 222**	**464 482**	**43 929 740**	**53 817 772**
B.	**Fixed assets**	**34 419 150**	**425 148**	**33 994 002**	**34 339 613**
B.I.	***Intangible fixed assets***	**277**	**277**		
B.I.2.	*Valuable rights*	**277**	**277**		
B.I.2.1.	Software	277	277		
B.II.	***Tangible fixed assets***	**605**	**541**	**64**	**139**
B.II.2.	Tangible movable assets and sets of tangible movable assets	605	541	64	139
B.III.	***Non-current financial assets***	**34 418 268**	**424 330**	**33 993 938**	**34 339 474**
B.III.1.	Equity investments - controlled or controlling entity	34 417 969	424 330	33 993 639	34 339 474
B.III.7.	*Other non-current financial assets*	**299**		**299**	
B.III.7.2.	Prepaymens for non-current financial assets	299		299	
C.	**Current assets**	**9 974 962**	**39 334**	**9 935 628**	**19 477 909**
C.II.	***Receivables***	**8 364 815**	**39 334**	**8 325 481**	**12 068 727**
C.II.1.	Long-term receivables	**1 405 748**	**39 334**	**1 366 414**	**7 050 497**
C.II.1.2.	Receivables - controlled or controlling entity	1 399 648	39 334	1 360 314	7 044 397
C.II.1.5.	*Receivables - other*	**6 100**		**6 100**	**6 100**
C.II.1.5.4.	Sundry receivables	6 100		6 100	6 100
C.II.2.	***Short-term receivables***	**6 959 067**		**6 959 067**	**5 018 230**
C.II.2.1.	Trade receivables	265		265	2 354
C.II.2.2.	Receivables - controlled or controlling entity	6 917 963		6 917 963	4 982 938
C.II.2.4.	*Receivables - other*	**40 839**		**40 839**	**32 938**
C.II.2.4.3.	State - tax receivables	29 499		29 499	25 494
C.II.2.4.4.	Short-term prepayments made	6 234		6 234	252
C.II.2.4.6.	Sundry receivables	5 106		5 106	7 192
C.III.	***Current financial assets***				**650 000**
C.III.2.	Other current financial assets				650 000
C.IV.	***Cash***	**1 610 147**		**1 610 147**	**6 759 182**
C.IV.1.	Cash on hand	33		33	33
C.IV.2.	Cash at bank	1 610 114		1 610 114	6 759 149
D.	**Other assets**	**110**		**110**	**250**
D.1.	Deferred expenses	110		110	250

		31.12.2018	31.12.2017
	TOTAL LIABILITIES & EQUITY	**43 929 740**	**53 817 772**
A.	**Equity**	**16 461 891**	**20 550 097**
A.I.	***Share capital***	**13 000 449**	**13 000 449**
A.I.1.	Share capital	13 000 449	13 000 449
A.II.	***Share premium and capital funds***	**4 700 606**	**4 750 493**
A.II.1.	Share premium	3 213 312	3 213 312
A.II.2.	*Capital funds*	**1 487 294**	**1 537 181**
A.II.2.1.	Other capital funds	2 279	2 279
A.II.2.2.	Gains or losses from the revaluation of assets and liabilities (+/-)	87 412	137 229
A.II.2.3.	Gains or losses from the revaluation upon transformations of business corporations (+/-)	1 398 191	1 398 191
A.II.2.4.	Gains or losses from transformations of business corporations (+/-)	-588	-588
A.IV.	***Retained earnings (+/-)***	**1 719 325**	**1 084 588**
A.IV.1.	Accumulated profits or accumulated loss brought forward (+/-)	1 719 325	1 084 588
A.V.	***Profit or loss for the current period (+/-)***	**-2 958 489**	**1 922 432**
A.VI.	Profit share prepayments declared (-)		-207 865
B.+C.	**Liabilities**	**27 467 508**	**33 267 675**
C.	**Payables**	**27 467 508**	**33 267 675**
C.I.	***Long-term payables***	**7 656 448**	**13 937 754**
C.I.1.	*Bonds issued*		**12 735 521**
C.I.1.2.	Other bonds		12 735 521
C.I.6.	Payables - controlled or controlling entity	6 431 250	
C.I.8.	Deferred tax liability	924 066	953 234
C.I.9.	*Payables - other*	**301 132**	**248 999**
C.I.9.3.	Sundry payables	301 132	248 999
C.II.	***Short-term payables***	**19 811 060**	**19 329 921**
C.II.1.	*Bonds issued*	**12 953 376**	**15 520 152**
C.II.1.2.	Other bonds	12 953 376	15 520 152
C.II.2.	Payables to credit institutions	319 403	
C.II.4.	Trade payables	24 823	20 145
C.II.6.	Payables - controlled or controlling entity	6 511 832	3 708 172
C.II.8.	*Other payables*	**1 626**	**81 452**
C.II.8.3.	Payables to employees		224
C.II.8.4.	Social security and health insurance payables	41	42
C.II.8.5.	State - tax payables and subsidies	83	83
C.II.8.6.	Estimated payables	62	1 199
C.II.8.7.	Sundry payables	1 440	79 904
D.	**Other liabilities**	**341**	
D.1.	Accrued expenses	341	

PROFIT AND LOSS ACCOUNT
structured by the nature of expense method

Year ended
31.12.2018
(in CZK thousand)

EP Energy, a.s.
Corporate ID 292 59 428

Pařížská 130/26
Josefov
110 00 Praha 1

		Year ended 31.12.2018	Year ended 31.12.2017
I.	Sales of products and services	68	1 320
A.	Purchased consumables and services	27 777	47 312
A.2.	Consumed material and energy	50	32
A.3.	Services	27 727	47 280
D.	Staff costs	4 285	8 959
D.1.	Payroll costs	3 600	6 921
D.2.	Social security and health insurance costs and other charges	685	2 038
D.2.1.	Social security and health insurance costs	684	2 036
D.2.2.	Other charges	1	2
E.	Adjustments to values in operating activities	75	-11 817
E.1.	Adjustments to values of intangible and tangible fixed assets	75	102
E.1.1.	Adjustments to values of intangible and tangible fixed assets - permanent	75	102
E.3.	Adjustments to values of receivables		-11 919
III.	Other operating income	578	5 944
III.3.	Sundry operating income	578	5 944
F.	Other operating expenses	-732	14 198
F.3.	Taxes and charges	-850	399
F.4.	Reserves relating to operating activities and complex deferred expenses		-804
F.5.	Sundry operating expenses	118	14 603
*	**Operating profit or loss (+/-)**	**-30 759**	**-51 388**
IV.	Income from non-current financial assets - equity investments	8 343 291	2 876 921
IV.1.	Income from equity investments - controlled or controlling entity	8 343 291	2 876 921
G.	Costs of equity investments sold	10 440 831	289 793
VI.	Interest income and similar income	451 259	549 395
VI.1.	Interest income and similar income - controlled or controlling entity	450 167	545 110
VI.2.	Other interest income and similar income	1 092	4 285
I.	Adjustments to values and reserves relating to financial activities	283	-290 322
J.	Interest expenses and similar expenses	1 090 404	1 471 707
J.1.	Interest expenses and similar expenses - controlled or controlling entity	113 562	12 781
J.2.	Other interest expenses and similar expenses	976 842	1 458 926
VII.	Other financial income	386 341	1 146 418
K.	Other financial expenses	558 341	1 076 745
*	**Financial profit or loss (+/-)**	**-2 908 968**	**2 024 811**
**	**Profit or loss before tax (+/-)**	**-2 939 727**	**1 973 423**
L.	Income tax	18 762	50 991
L.1.	Due income tax	18 762	50 991
**	**Profit or loss net of tax (+/-)**	**-2 958 489**	**1 922 432**
***	**Profit or loss for the current period (+/-)**	**-2 958 489**	**1 922 432**
*	Net turnover for the current period	9 181 537	4 579 998

STATEMENT OF CHANGES IN EQUITY

Year ended
31.12.2018
(in CZK thousand)

EP Energy, a.s.
Corporate ID 292 59 428

Pařížská 130/26
Josefov
110 00 Praha 1

	Share capital	Share premium	Gains or losses from the revaluation of assets	Gains or losses from the revaluation upon transformations of business corporations	Funds from profit, reserve fund	Capital funds	Accumulated profits brought forward	Profit or loss for the current period	Profit share prepayments declared	TOTAL EQUITY
Balance at 1 January 2017	**13 000 449**	**3 213 312**	**12 577**	**1 398 191**	**-588**	**2 279**	**3 676 006**		**-719 343**	**20 582 883**
Distribution of profit or loss							-1 259 743		1 259 743	
Profit share prepayments declared									-748 265	-748 265
Dividends declared							-1 331 675			-1 331 675
Gains or losses from the revaluation of assets			-524 764							-524 764
Effect from hedge accounting			649 486							649 486
Profit or loss for the current period								1 922 432		1 922 432
Balance at 31 December 2017	**13 000 449**	**3 213 312**	**137 299**	**1 398 191**	**-588**	**2 279**	**1 084 588**	**1 922 432**	**-207 865**	**20 550 097**
Distribution of profit or loss							1 922 432	-1 922 432		
Profit share prepayments declared							-207 865		207 865	
Dividends declared							-1 079 830			-1 079 830
Gains or losses from the revaluation of assets			74 458							74 458
Effect from hedge accounting			-124 345							-124 345
Profit or loss for the current period								-2 958 489		-2 958 489
Balance at 31 December 2018	**13 000 449**	**3 213 312**	**87 412**	**1 398 191**	**-588**	**2 279**	**1 719 325**	**-2 958 489**		**16 461 891**

CASH FLOW STATEMENT

Year ended
31.12.2018
(in CZK thousand)

EP Energy, a.s.
Corporate ID 292 59 428

Pařížská 130/26
Josefov
110 00 Praha 1

		Year ended 31.12.2018	Year ended 31.12.2017
P.	**Opening balance of cash and cash equivalents**	**6 759 182**	**10 045 900**
	Cash flows from ordinary activities (operating activities)		
Z.	Profit or loss from ordinary activities before tax	-2 939 727	1 973 423
A.1.	Adjustments for non-cash transactions	2 910 304	-2 331 263
A.1.1.	Depreciation of fixed assets	75	102
A.1.2.	Change in provisions and reserves	283	-303 045
A.1.3.	Profit/(loss) on the sale of fixed assets	5 528 668	288 610
A.1.4.	Revenues from profit shares	-3 431 128	-2 875 738
A.1.5.	Interest expense and interest income	639 145	922 312
A.1.6.	Adjustments for other non-cash transactions	173 261	-363 504
A.*	**Net operating cash flow before changes in working capital**	**-29 423**	**-357 840**
A.2.	Change in working capital	619 178	-654 363
A.2.1.	Change in operating receivables and other assets	-13 353	25 932
A.2.2.	Change in operating payables and other liabilities	-17 469	-30 295
A.2.4.	Change in current financial assets	650 000	-650 000
A.**	**Net cash flow from operations before tax**	**589 755**	**-1 012 203**
A.3.	Interest paid	-1 102 251	-1 466 791
A.4.	Interest received	400 043	498 974
A.5.	Income tax paid from ordinary operations	-22 721	14 109
A.***	**Net operating cash flows**	**-135 174**	**-1 965 911**
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-382 146	-137
B.2.	Proceeds from fixed assets sold	1 058 245	1 184
B.3.	Loans and borrowings to related parties	778 426	-3 392 217
	Received profit shares	842 086	2 504 795
B.***	**Net investment cash flows**	**2 296 611**	**-886 375**
	Cash flow from financial activities		
C.1.	Change in payables from financing	-6 235 622	105 968
C.2.	Impact of changes in equity	-1 074 850	-540 400
C.2.6.	Profit shares paid	-1 074 850	-540 400
C.***	**Net financial cash flows**	**-7 310 472**	**-434 432**
F.	**Net increase or decrease in cash and cash equivalents**	**-5 149 035**	**-3 286 718**
R.	**Closing balance of cash and cash equivalents**	**1 610 147**	**6 759 182**

EP Energy, a.s.

Notes to the Czech statutory financial statements (non-consolidated, translated from the Czech original)

Year ended 31 December 2018
(amounts are shown in thousands of Czech crowns "TCZK")

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EP Energy, a.s.

Notes to the Czech statutory financial statements (non-consolidated, translated from the Czech original)

Year ended 31 December 2018
(amounts are shown in thousands of Czech crowns "TCZK")

1. Incorporation and Description of the Business

EP Energy, a.s. ("the Company" or "EPE") was established on 16 December 2010 by subscribing the registered capital in the form of a non-monetary contribution of 100% of shares of Plzeňská energetika a.s., Honor Invest, a.s., EP Renewables a.s. (formerly Czech Wind Holding, a.s.), První energetická a.s., ROLLEON a.s., Czech Energy Holding, a.s. and of a 51% share in AISE, s.r.o.

The Company's principal activity is the management of its own assets.

Ownership structure

The shareholders of the Company as at 31 December 2018 are:

EP Infrastructure, a.s., Id. No.: 024 13 507	100%

Registered office

EP Energy, a.s.
Pařížská 130/26
Josefov
110 00 Praha 1
Czech Republic

Identification number

292 59 428

Members of the Board of Directors and Supervisory Board as at 31 December 2018

Members of the Board of Directors	*Members of the Supervisory Board*
Ing. Mgr. Tomáš David (Chairman)	Ing. Jan Špringl (Chairman)
Mgr. Petr Sekanina (Vice-Chairman)	Ing. Milan Jalový
William David George Price	Ing. Filip Bělák
Pavel Horský	
Jiří Feist	
Marek Spurný	

2. Basis of accounting and general accounting policies applied by the Company

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

The financial statements have been prepared on the historical cost principle.

All amounts are shown in thousands of Czech crowns unless otherwise stated.

(a) Tangible and intangible fixed assets

Fixed assets are understood to be assets with a useful life longer than one year costing more than TCZK 40 for tangible assets on an individual basis and more than TCZK 60 for intangible assets on an individual basis. Tangible fixed assets costing up to TCZK 40 and intangible fixed assets costing up to TCZK 60 are not recognised in the balance sheet and are expensed in the year that they are acquired.

Purchased tangible and intangible fixed assets are stated at acquisition cost less accumulated depreciation and potential adjustments.

Temporary impairment of tangible and intangible fixed assets is shown through adjustments, which are reported in the correction column of the balance sheet along with depreciation.

The cost of technical improvement increases the cost of tangible and intangible fixed assets. Repair and maintenance costs are charged to current year expenses.

Depreciation

Tangible and intangible fixed assets are depreciated based on their acquisition cost and estimated useful lives on a straight-line and monthly basis. Depreciation starts in the month following the month in which a relevant asset is put into use and ends in the month in which the asset is disposed. For technical improvements that become part of the depreciated assets, depreciation starts in the month in which a relevant technical improvement is put into use (this does not apply to technical improvements made to fixed assets of another).

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

Asset	Number of years
Computer systems	3 - 5 years
Fixtures and fittings	3 - 10 years
Other tangible fixed assets	5 - 20 years
Software	3 years

Gains or losses from the sale or disposal of fixed assets are determined as the difference between revenues from sale and the net book value of the relevant assets as at the date of sale and are charged to profit or loss.

(b) Non-current financial assets

Non-current financial assets comprise equity investments in subsidiaries and associated companies, debt securities that the Company has the intent and ability to hold to maturity, and other long-term securities for which the Company's intent is not known upon acquisition.

Securities are initially stated at cost defined under Section 48 of Decree No. 500/2002 Coll. The cost of securities does not comprise interest on loans taken for their acquisition and expenses associated with their holding.

Equity investments contributed to the Company's registered capital were valued by an independent expert appointed by the court.

As at the balance sheet date, equity investments are recognised at acquisition cost, and if a particular investment has been impaired, an adjustment is established.
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 the revaluation of assets and liabilities in equity.

(c) Receivables

Receivables are accounted for at their nominal value. Assigned receivables are stated at acquisition cost including other related costs (Section 25 of Act No. 563/1991 Coll.). As at the balance sheet date, temporary impairment of doubtful receivables is accounted for using adjustments that are debited to expenses and are shown in the correction column in the balance sheet. Adjustments are established to receivables that are more than 180 days overdue and to receivables identified based on an analysis of the credit status of individual customers.
The value of receivables from provided loans is increased by uncollected interest (except for default interest).

(d) Loans received

Short-term and long-term loans are initially recorded at their nominal value. Upon the preparation of the financial statements the loan balances are increased by unpaid interest charged by banks or other parties. The Company classifies as short-term any part of long-term loans that is due within one year of the balance sheet date.

(e) Derivatives

Trading derivatives
As at the balance sheet date, derivatives held for trading are recognised at fair value under "Sundry receivables" or "Sundry payables", and gains (losses) from changes in their fair values are recorded in profit or loss.

Hedging derivatives
The Company uses hedging derivatives (interest rate swaps) to mitigate interest rate risks relating to payments of interest on loans received. Hedging derivatives are recognised at fair value. The hedge is fully in line with the Company's risk management strategy. All interest rate swap transactions are documented and their effectiveness is evaluated on a continuous basis.

The realised portion of financial derivatives is recognised under Other financial expenses/revenues in the income statement. As at the balance sheet date, the unrealised portion is recorded in the revaluation of assets and liabilities and recognised as part of equity.

Cash flow hedges – hedging foreign exchange risk with non-derivative financial liabilities

The Company applies hedge accounting in order to hedge the risk of changes in exchange rates from highly probable future transactions denominated in foreign currency with defined non-derivative financial liabilities serving as hedging instruments. The hedge is in line with Company's risk management strategy. All hedging transactions are documented and the effectiveness of each transaction is regularly reviewed.

In the case of cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity 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, or the designation is revoked, then the hedge accounting is discontinued prospectively. If the forecast transaction is no longer expected to occur, the balance in equity is reclassified to profit or loss.

(f) Foreign currency transactions

The Company applies the Czech National Bank official rate effective on the date of acquisition of an asset or the occurrence of a liability to foreign currency transactions. During the year foreign exchange gains and losses are only recognised when realised at the time of settlement.

As at the balance sheet date, foreign currency monetary assets and liabilities are translated at the prevailing Czech National Bank official rates. All foreign exchange gains and losses are recognised in financial revenues or expenses.

(g) Recognition of expenses and revenues

Revenues and expenses are recognised on an accrual basis, i.e. in the period to which they relate in terms of substance and timing. In compliance with the principle of prudence, provisions and adjustments are created to cover all risks, losses and impairment known as at the balance sheet date and are debited to expenses.

(h) External financing costs

Costs incurred to obtain external financing (including other associated costs) are charged to current year expenses on a one-off basis.

(i) 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 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 units to which the duty to have their financial statements audited applies. Deferred tax is based on all temporary differences between the carrying and tax value of assets and liabilities, and other temporary differences (tax losses carried forward, if any), multiplied by the tax rate expected to be valid for the period in which the tax asset/liability is utilised.

A deferred tax asset is recognised only if it is probable that it will be utilised in future accounting periods.

(j) Consolidation

The Company prepares its consolidated financial statements in accordance with the International Financial Reporting Standards as adopted by the EU. The Czech version of the consolidated financial statements, along with the consolidated annual report, will be published in the Commercial Register. The Company does not prepare an annual report as at the date of issue of these separate financial statements, as it intends to include the relevant information in the consolidated annual report.

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

(k) Loans, bonds and other short-term financial assistance

The Company classifies as short-term any part of long-term loans, bonds and financial assistance that is due within one year of the balance sheet date.

(l) Dividends

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established. Profit share prepayments received are recognised in revenues for the current period, i.e. in the period in which a decision to distribute profit share prepayments was made.

3. Change in accounting policies and procedures

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

4. Cash flow statement

The cash flow statement was prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance.

Cash and cash equivalents can be analysed as follows:

(in TCZK)

	Balance at 31/12/2018	Balance at 31/12/2017
Cash on hand	33	33
Cash at bank	1 610 114	6 759 149
Total cash and cash equivalents	**1 610 147**	**6 759 182**

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

5. Non-current financial assets

As at 31 December 2018 and 31 December 2017

Equity investments - controlled or controlling entity				
Company name	**Total profit (+) / loss (-) for 1/1/2018 - 31/12/2018 (in thousands of CZK/ EUR/HRK/HUF)**	**Equity at 31/12/2018 (in thousands of CZK/ EUR/HRK/HUF)**	**Net amount of investment at 31/12/2018 (in TCZK)**	**Net amount of investment at 31/12/2017 (in TCZK)**
AISE, s.r.o.*	16 245 (CZK)	62 305 (CZK)	34 381	34 381
ARISUN, s.r.o. *	219 (EUR)	518 (EUR)	31 238	31 238
Elektrárny Opatovice, a.s.*	-290 735 (CZK)	3 752 835 (CZK)	8 178 032	8 178 032
EP Cargo, a.s.*	39 784 (CZK)	41 984 (CZK)	266 700	266 700
EP ENERGY HR d.o.o.*	-110 (HRK)	-570 (HRK)	69	69
EP ENERGY TRADING, a.s.*	78 597 (CZK)	1 370 115 (CZK)	1 042 576	1 042 576
ENERGZET SERVIS a.s.*	-389 (CZK)	15 322 (CZK)	2 000	2 000
Greeninvest Energy, a.s.*	31 484 (CZK)	80 766 (CZK)	50 817	50 817
CHIFFON ENTERPRISES LIMITED*	-93 (EUR)	-670 (EUR)	-	-
VTE Moldava II, a.s.*	-1 291 (CZK)	38 289 (CZK)	87 695	87 695
NPTH, a.s.*	-	-	-	9 622 510
Plzeňská energetika a.s.*	-	-	-	818 321
Powersun, a.s.*	23 058 (CZK)	79 312 (CZK)	152 184	152 184
PT Holding Investment B.V.*	159 392 (EUR)	305 374 (EUR)	36 058	36 058
Stredoslovenská energetika Holding,, a.s.**	76 039 (EUR)	630 893 (EUR)	8 870 205	8 806 566
Triskata, s.r.o.*	252 (EUR)	647 (EUR)	36 086	36 086
United Energy, a.s.*	19 698 (CZK)	1 000 722 (CZK)	4 626 947	4 626 947
VTE Pchery, s.r.o.*	3 176 (CZK)	13 177 (CZK)	51 602	51 602
EP Sourcing, a.s.*	41 522 (CZK)	51 522 (CZK)	112 452	112 452
Budapesti Erőmű Zrt ("BERT")*	4 038 819 (HUF)	7 991 102 (HUF)	198 676	383 240
Pražská teplárenská, a.s.	561 546 (CZK)	6 467 481 (CZK)	10 134 777	-
PT měření, a.s.	2 901 (CZK)	69 861 (CZK)	81 144	-
Total			**33 993 639**	**34 339 474**

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

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

Except for AISE, s.r.o. (80%), Greeninvest Energy, a.s. (41.7%), Stredoslovenská energetika Holding, a.s. (49%), VTE Pchery, s.r.o. (64 %) and Budapesti Erőmű Zrt (95.62%), all equity investments are fully owned.

Registered offices of the companies as at 31 December 2018:

AISE, s.r.o.	Pekárenská 400, Zlín, Czech Republic
ARISUN, s.r.o.	Pribinova 25, Bratislava, Slovakia
Pražská teplárenská, a.s.	Partyzánská 7, Praha 7, Czech Republic
PT měření, a.s.	Střelničná 2221/50, Libeň, Praha 8
Budapesti Erőmű Zrt	Budafoki ut 52, 1117 Budapest, Hungary
Elektrárny Opatovice, a.s.	Opatovice nad Labem – Pardubice 2, Czech Republic
EP Cargo, a.s.	náměstí Hrdinů 1693/4a – Praha 4 – Nusle, Czech Republic
EP ENERGY HR d.o.o.	Svačičeva 10, Grad Split, Split, Croatia
EP ENERGY TRADING, a.s.	Klimentská 1216/46, Praha 1, Czech Republic
ENERGZET SERVIS a.s.	Příkop 843/4, Zábrdovice, 602 00 Brno, Czech Republic
Greeninvest Energy, a.s.	Příkop 843/4, Zábrdovice, 602 00 Brno, Czech Republic
CHIFFON ENTERPRISES LIMITED	Strovolos 59-61,Savvides Centere 2021, Nicosia, Cyprus
VTE Moldava II, a.s.	Pařížská 130/26, Josefov, Praha 1, Czech Republic
Powersun, a.s.	Pařížská 130/26, Josefov, Praha 1, Czech Republic
PT Holding Investment B.V.	Schiphol Boulevard 477 Tower C4, 1118 BK Schiphol, Netherlands
Stredoslovenská energetika Holding, a.s.	Pri Rajčianke 8591/4B, Bratislava, Slovakia
Triskata, s.r.o.	Pribinova 25, 811 09 Bratislava, Slovakia
United Energy, a.s.	Teplárenská 2, 434 03 Most – Komořany, Czech Republic
VTE Pchery, s.r.o.	Pařížská 130/26, Josefov, Praha 1, Czech Republic
EP Sourcing, a.s.	Teplárenská 2, 434 03 Most – Komořany, Czech Republic

Adjustments were created to the following investments: EP ENERGY TRADING, a.s. (TCZK 175 061), ARISUN s.r.o. (TCZK 11 161), VTE Moldava II, a.s. (TCZK 201 826), Triskata, a.s. (TCZK 10 381), VTE Pchery, s.r.o. (TCZK 5 703), and CHIFFON ENTERPRISES LIMITED (TCZK 20 199).

In 2018, non-current financial assets changed as follows:

On 26 April 2018, Budapesti Erőmű Zrt, a subsidiary company, declared a capital funds repayment of MHUF 2 400 (TCZK 195 528), which were settled against the provided loan.

On 10 May 2018, EP Infrastructure ("EPIF") purchased a 100% equity investment in Plzeňská energetika a.s. from EP Energy, a.s. ("EPE").

On 11 July 2018, EP Energy commenced the group reorganisation aimed to simplify ownership structures and to make cash flows more efficient. At the beginning of this process, NPTH, a.s. ("NPTH") and Pražská teplárenská

Holding, a.s. ("PTH") declared dividends. On 23 July 2018, EPE purchased 98% of shares in Pražská teplárenská a.s. ("PT") and PT měření, a.s. ("PTM") from NPTH and PTH. In October 2018, minority shareholders of these companies were squeezed-out and EPE become a full owner of PT and PTM. On 15 October 2018, EPE sold 100% of shares in NPTH, a.s. to PTH. In December 2018, dividends were declared by PTH Investments B.V. At the end of the 2018 accounting period the reorganisation was not fully completed, accordingly, a loss was reported in the accounting period (see Note 10).

As part of the complete reorganisation, in 2019 dividends from the subsidiaries will be declared to EP Energy. The expected amount is BCZK 2.5.

6. Long-term receivables

Long-term receivables – controlled or controlling entity primarily include loans provided to related parties (see Note 13(a)).

As at 31 December 2018, the Company created an adjustment of TCZK 39 334 (as at 31/12/2017: TCZK 39 050) for these receivables.

7. Short-term receivables

Short-term receivables primarily comprise loans provided to related parties and cash-pool receivables (see Note 13(b)).

Ageing structure of trade receivables

None of trade receivables are due in more than five years as at the balance sheet date.

As at 31 December 2018, sundry receivables include positive fair values from derivatives (as shown in the table below).

Fixed-term contract presented in Sundry receivables in TCZK	Counterparty	Due date	Fair value at 31/12/2018	Fair value at 31/12/2017	Nominal value (in TEUR)
Currency forward (trading)	ČSOB	22/3/2019	4 326	-	21 000
Total derivatives			**4 326**	**-**	

8. State - tax receivables

The Company reports a receivable relating to value added tax and a receivable relating to corporate income tax prepayments. On this line is also presented an income tax provision as at 31 December 2018 amounting to TCZK 19 678 (as at 31/12/2017: TCZK 54 500) (see Note 19).

9. Short-term investments

In 2017, other short-term investments include a note/bill acquired by the Company that was repaid in 2018.

10. Equity

The change in "Gains or losses from the revaluation of assets and liabilities" is due to foreign exchange differences arising from the revaluation of foreign currency ownership interests.

On 29 June 2018, Company's general meeting approved the transfer of the 2017 profit to retained earnings (TCZK 1 922 432). It also confirmed the dividends paid in form of profit share prepayments totalling TCZK 207 865 and established a dividend of TCZK 1 079 830 that was paid in cash.

Changes in fair value recorded in accounting group 41 (Gains or losses from the revaluation of assets and liabilities) during the accounting period

	Revaluation of equity investments denominated in foreign currency	Cash flow hedges (foreign exchange risk)	Cash flow hedges (foreign exchange risk) – deferred tax	Interest rate swap (hedge)	Interest rate swap (hedge) – deferred tax	Total
Balance at 31/12/2017	**-632 199**	**1 007 325**	**-191 392**	**-57 328**	**10 893**	**137 299**
Revaluation of equity investments denominated in foreign currency	74 458	-	-	-	-	**74 458**
Utilisation of cash flow hedge	-	-5 419	-	-	-	**-5 419**
Revaluation of cash flow hedge	-	-99 900	-	-	-	**-99 900**
Deferred tax – cash flow hedge	-	-	20 011	-	-	**20 011**
Change in fair value of the interest rate swap	-	-	-	-48 193	-	**-48 193**
Deferred tax – interest rate swap	-	-	-	-	9 156	**9 156**
Balance at 31/12/2018	**-557 741**	**902 006**	**-171 381**	**-105 521**	**20 049**	**87 412**

During the accounting period from 1 January 2018 to 31 December 2018, own shares or own interests were not acquired.

A loss of EPE in 2018 was mainly caused by a one-off loss of MCZK 2 773 incurred as a result of the reorganisation of the subsidiaries within the EPE Group; see Note 5.

As at the date of the approval of these financial statements the distribution of current year's loss is not prepared yet. The proposal will be prepared by the board of directors for the Company's shareholders and further discussed and approved at the General Meeting.

11. Long-term payables

As at 31 December 2017, long-term payables comprised bonds issued totalling MEUR 499 quoted on the Irish stock exchange repayable on 1 November 2019, bearing an interest rate of 5.875% p.a. As at 31 December 2018, they are presented in Other short-term bonds, see Note 12. The Company expects that these bonds will be, similarly to bonds totalling MEUR 598 repaid in April 2018, paid by the combination of own funds and a loan granted by the parent company EP Infrastructure.

Interest on the bonds is payable twice a year retrospectively on 1 May and 1 November of each year.

As at 31 December 2018, long-term payables comprise a loan received from the parent company of TCZK 6 431 250 repayable in 2022. The loan was used to repay the bonds totalling MEUR 598; see above. The loan is presented in Payables – controlled or controlling entity (as at 31/12/2017: TCZK 0).

A deferred tax liability of TCZK 924 066 (at 31/12/2017: TCZK 953 234) is described in detail in Note 19.

Cash flow hedge – hedging the foreign exchange risk with non-derivative financial liabilities

The Company applies hedge accounting to hedging instruments designated to hedge foreign exchange risks of revenues denominated in foreign currency (EUR). The Company designated relevant parts of the nominal value of loans received and bonds denominated in EUR amounting to MEUR 540 as hedging instruments (2017: MEUR 540). Hedged cash flows from dividends from subsidiaries in EUR, considered highly probable by the Company, are expected between 2019 and 2032; the part for 2016-2018 was already utilised. The impact on profit or loss is also expected in that period. As at 31 December 2018, TCZK 902 006 (as at 31/12/2017: TCZK 1 007 325) from this hedge relationship was recognised in the Company's equity including a related deferred tax of TCZK 171 381 (as at 31/12/2017: TCZK 191 392). In 2018, as a result of the utilisation of cash flow hedge, TCZK 5 419 of the amount recorded in equity in connection with the application of hedge accounting was reclassified to revenues (2017: TCZK 38 625).

As at 31 December 2018, the following liabilities from derivatives (sundry payables) are presented in long-term payables (see the table below).

Fixed-term contracts reported in Sundry payables in TCZK	Counterparty	Due date	Fair value at 31/12/2018	Nominal value (in TEUR)	Due date	Fair value at 31/12/2017	Nominal value (in TEUR)
Interest rate swap (hedge)	ČSOB	29/12/2022	56 511	50 000	3/11/2025	84 581	100 000
Interest rate swap (hedge)	ČSOB	29/12/2022	118 830	100 000	3/11/2025	84 011	100 000
Interest rate swap (hedge)	ČSOB	29/12/2022	119 153	100 000	3/11/2025	73 769	100 000
Total derivatives			**294 494**			**242 361**	

Cash flow hedge – hedging the interest rate risk with interest rate swap

The Company applies hedge accounting for interest rate swaps that are used for hedging of interest expense on current and planned financing of the Company. Hedged interest expense arising from financing of Company's operations are considered highly probable and expected between 2018 and 2022. The impact on profit or loss is also expected in that period. As at 31 December 2018, TCZK -105 521 (as at 31/12/2017: TCZK -57 328) from this hedge relationship was recognised in the Company's equity including a related deferred tax of TCZK 20 049 (as at 31/12/2017: TCZK 10 893).

Due to the new EPIF financing structure, the Company has adjusted the structure of interest rate swap hedging instruments to be in line with these new financing conditions. Nominal value of the hedge decreased by MEUR 50 and the due dates were shortened. Derivatives were settled in cash, the effect of hedging is recognised in the income statement on a gradual basis. In 2018, as a result of unwind of hedge TCZK 20 362 was transferred to expenses and TCZK 57 250 thousand to revenues. Accrued interest as at 31 December 2018 is TCZK 14 529.

12. Short-term payables

Short-term payables primarily include principals of bonds due in 2019 of TCZK 12 827 771 (as at 31/12/2017: TCZK 15 284 004) and accrued interest on bonds of TCZK 125 605 (as at 31/12/2017: TCZK 236 148).

Payables to credit institutions comprise a short-term cash-pool overdraft.

Payables to related parties arising from received loans of TCZK 6 511 832 (as at 31/12/2017: TCZK 3 708 172) are described in more detail in Note 13(d).

As at 31 December 2018, sundry payables also include negative values from derivatives (as shown in the table below).

Fixed-term contract presented in Sundry payables in TCZK	Counterparty	Due date	Fair value at 31/12/2018	Fair value at 31/12/2017	Nominal value (in TEUR)
Currency forward (trading)	UniCredit Bank	2/1/2019	1 215	-	16 086
Total derivatives			**1 215**	**-**	

13. Related parties

In compliance with Section 39b(8) of Decree No. 500/2002 Coll., the Company does not disclose transactions (revenues and expenses) between related entities within the EPE consolidated group that are wholly owned by the Company.

(a) Long-term receivables from provided loans

31 December 2018

Company name	Due date	Balance at 31/12/2018
Arisun, a.s.	2024	12 201
Alternative Energy, s.r.o.	2021	184 899
Greeninvest Energy, a.s.	2022	183 070
POWERSUN a.s.	2024	95 829
Triskata, s.r.o.	2024	8 260
VTE Moldava II, a.s.	2024	150 830
MR TRUST s.r.o.	2024	6 942
Claymore Equity, s.r.o.	2020	141
Budapesti Erőmű Zrt (BERT)	2020	641 200
VTE Pchery, s.r.o.	2024	116 276
Total at 31/12/2018		**1 399 648**

Based on an internal analysis of the credit status of the counterparties, the Company created an adjustment of TCZK 39 334 (as at 31/12/2017: TCZK 39 050).

31 December 2017

Company name	Due date	Balance at 31/12/2017
Arisun, a.s.	2024	16 938
Alternative Energy, s.r.o.	2021	179 810
Elektrárny Opatovice, a.s.	2019	4 406 467
EP ENERGY TRADING, a.s.	2020	200 000
Greeninvest Energy, a.s.	2022	169 744
POWERSUN a.s.	2024	107 815
Triskata, s.r.o.	2024	13 025
United Energy, a.s.	2019	1 135 214
VTE Moldava II, a.s.	2024	16 290
MR TRUST s.r.o.	2024	4 125
Budapesti Erőmű Zrt (BERT)	2020	740 700
VTE Pchery, s.r.o.	2024	93 319
Total at 31/12/2017		**7 083 447**

(b) Short-term receivables from provided loans and cash pool

Company name	Balance at 31/12/2018	Balance at 31/12/2017
Short-term receivables from provided loans		
EP Energy HR d.o.o.	1 929	1 660
EP ENERGY TRADING, a.s.	-	2 167
Elektrárny Opatovice, a.s.	4 485 002	632 586
Chiffon Enterprises Limited	283 704	265 122
United Energy, a.s.	1 047 869	7 977
VTE Moldava II, a.s.	-	124 024
Budapesti Erőmű Zrt (BERT)	13 760	-
PT Holding Investment B.V.	-	3 102 000
Total - *Short-term receivables from provided loans*	**5 832 264**	**4 135 536**
Short-term receivables – cash pool		
Subsidiaries	986 288	768 339
Related companies	99 411	79 063
Total - *Short-term receivables – cash pool*	**1 085 699**	**847 402**
Total	**6 917 963**	**4 982 938**

(c) Long-term payables from received loans

The Company received a loan from EP Infrastructure, a.s. of TCZK 6 431 250 denominated in EUR and repayable in 2022.

(d) Short-term payables from received loans

Company name	Balance at 31/12/2018	Balance at 31/12/2017
Short-term payables from received loans		
Pražská teplárenská Holding a.s.	2 480 016	360 036
EP Infrastructure, a.s.	87 097	-
Total - *Short-term payables from received loans*	**2 567 113**	**360 036**
Short-term payables – cash pool		
Subsidiaries	2 645 843	2 320 428
Related companies	1 298 876	1 027 708
Total - *Short-term payables – cash pool*	**3 944 719**	**3 348 136**
Total	**6 511 832**	**3 708 172**

(e) Interest income and expense

	2018		2017	
	Interest income	Interest expense	Interest income	Interest expense
Controlling entities	3 122	87 821	4 442	-
Subsidiaries	434 795	5 484	539 410	11 907
Related companies	12 250	20 257	1 258	874
Total	**450 167**	**113 562**	**545 110**	**12 781**

(f) Income from equity investments - controlled or controlling entity

Dividend income

Company name	2018	2017
Stredoslovenská energetika Holding, a.s.	81 744	997 659
PT Holding Investment B.V.	635 369	696 274
EP Sourcing, a.s.	56 883	190 918
AISE, s.r.o.	8 000	15 200
EP Cargo, a.s	16 664	232 962
Plzeňská energetika a.s.	270 000	-
Energzet a.s.	2 198	-
NPTH, a.s.	2 360 270	742 724
Total	**3 431 128**	**2 875 737**

Income from sale of equity investments

Company name	2018	2017
EP Infrastructure a.s.	1 058 245	-
Pražská teplárenská Holding a.s.	3 853 918	-
Total	**4 912 163**	**-**

Income from sale of equity investments is described in more detail in Note 5.

14. Cost of services

These costs primarily include costs incurred for legal and accounting advisory and services rendered by experts.

15. Other interest and similar expense

Other interest and similar expense primarily comprise interest on bonds.

16. Other financial expenses and revenues

Other financial revenues or expenses primarily include foreign exchange gains and revenues from derivatives or foreign exchange losses and expenses for derivatives revaluation.

17. Employees and executives

As at 31 December 2018, the Company had 1 employee (at 31/12/2017: 1 employee).

Remuneration paid to directors and supervisory board members of EP Energy, a.s. for the performance of their functions was TCZK 3 300 (as at 31/12/2017: TCZK 1 533).

Social security and health insurance liabilities are not overdue.

18. Fees payable to statutory auditors

This information will be disclosed in the notes to the consolidated financial statements as at 31 December 2018.

19. Income tax

Current tax

The current income tax estimate and overview of income tax prepayments as at 31 December 2018 and as at 31 December 2017 are shown below:

	Balance at 31/12/2018	**Balance at 31/12/2017**
Current income tax estimate	19 679	54 500
Current income tax prepayments	48 849	79 711
Income tax provision (+) / State - tax receivables (-)	**-29 170**	**-25 211**

Expenses of TCZK 18 762 related to current income tax on ordinary activities for 2018 represent the income tax provision created of TCZK 19 679 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 917.

Expenses of TCZK 50 991 related to current income tax on ordinary activities for 2017 represent the difference between the tax liability for 2017 (TCZK 54 500) and the release of the income tax provision created as at 31 December 2016 and the tax liability for 2016 (TCZK -3 509).

Deferred tax

The deferred tax liability consists of the following items:

Deferred tax arising from	Balance at 31/12/2018	Balance at 31/12/2017
Revaluation of fixed assets as part of the mergers	781 749	781 749
Non-current financial investments	-9 015	-9 015
Revaluation of hedging instruments	151 332	180 500
Total	**924 066**	**953 234**

In accordance with the accounting policies described in Note 2 (i), a tax rate of 19% was used to calculate deferred tax (2017 – 19%).

20. Significant off-balance sheet transactions

A total of 50% plus 1 share of the Company and of other selected subsidiaries and cash (bank accounts, receivables from selected subsidiaries) are pledged in favour of bond holders. Other types of security are provided to the same creditors directly by subsidiaries.

The Company reports an off-balance sheet liability from derivative transactions in the nominal value of TCZK 7 386 475 (as at 31/12/2017: TCZK 11 035 438). The Company reports an off-balance sheet receivable from derivative transactions in the nominal value of TCZK 7 371 030 (as at 31/12/2017: TCZK 11 038 238).

The Company reports off-balance sheet liability from guarantees provided to group companies totalling TCZK 787 099 (as at 31/12/2017: TCZK 531 391) and an accepted bank stand-by credit of TCZK 2 253 098 (as at 31/12/2017: TCZK 2 554 000).

21. Significant subsequent events

Apart from matters disclosed in the notes to the financial statements, the Company's management is not aware of any events that have occurred subsequent to the balance sheet date that would have a material impact on the financial statements as at 31 December 2018.

Prepared on: 15 March 2019

Pavel Horský
Member of the Board of Directors

Marek Spurný
Member of the Board of Directors