


Power Engineering
Transport Infrastructure
Automobile Industry
Waste Management

EP INDUSTRIES

Annual report 2019

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EP INDUSTRIES

EP Industries, a.s.

Consolidated Annual Report for the year ended 31 December 2019

Annual Report 2019

Content

Consolidated sales reached almost CZK 23.5 billion, and EBITDA exceeded CZK 2.9 billion.

Independent Auditor's Report on the Consolidated Annual Report

Deloitte Audit s.r.o.
Churchill I
Italská 2581/67
120 00 Praha 2 – Vinohrady
Czech Republic

Tel: +420 246 042 500
Fax: +420 246 042 555
DeloitteCZ@deloitteCE.com
www.deloitte.cz

Registered by the Municipal Court
in Prague, Section C, File 24349
ID. No.: 49620592
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INDEPENDENT AUDITOR'S REPORT
To the Shareholder of EP Industries, a.s.

Having its registered office at: Pařížská 130/26, Josefov, 110 00 Praha 1

Opinion

We have audited the accompanying consolidated financial statements of EP Industries, a.s. and its subsidiaries (the "Group") prepared on the basis of International Financial Reporting Standards as adopted by the EU, which comprise the consolidated statement of financial position as of 31 December 2019, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

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

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

Other Information in the Consolidated Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Consolidated Annual Report other than the consolidated financial statements and auditor's report thereon. The Board of Directors 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 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 law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these 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 the facts that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

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 of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Company's Board of Directors and Supervisory Board for the Consolidated Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU and for such internal control as the Board of Directors 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 Board of Directors 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 Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 law or regulation, 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 Board of Directors.
- Conclude on the appropriateness of the Board of Directors' 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 the Board of Directors and the Supervisory Board 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.

In Prague on 30 June 2020

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Statutory auditor:

Ladislav Šauer
registration no. 2261

Introduction by the Chairman of the Board of Directors

> Over a short period, we have managed to build a strong and stable company. Thanks to the support of the strong shareholder structure, EPI will continue to achieve excellent results also in future years.

Jiří Nováček Chairman of the Board of Directors

Dear Shareholders, Dear Business Partners, Dear Colleagues, Dear Friends,

Another year has gone by and I am very happy that I can conclude that the group of companies of EP Industries, a.s. (hereinafter "EPI") continues to be one of the leading industrial groups in the Czech Republic, as confirmed by the group's performance, since its consolidated sales reached almost CZK 23.5 billion and EBITDA exceeded CZK 2.9 billion.

Over a short period of time, we have managed to build a strong and stable company. Thanks to the support of the strong shareholder structure, I am convinced that EPI will achieve excellent results in future years as well.

In this respect, it is necessary to emphasise that the current and by extension future success is closely connected to good relationships with our employees. We therefore strive to create the best possible working conditions, we know how to appreciate work results and how to provide corresponding compensation.

EPI's strategy for the future continues to be based on building a strong group in the segments of construction of power and transport infrastructure, automotive industry, waste management and power engineering, providing our investors not just with a stable performance in relation to market development, but also with growth potential. We continue to focus on creating lasting values and strengthening our strategic position on the existing markets.

Additional information:

1. Via its subsidiaries, EPI has the following organisational branches abroad:

   Elektrizace železnic Praha a.s.: Slovakia and Estonia
   ELTRA, s.r.o.: Czech Republic
   AVE Sběrné Suroviny a.s.: Italy
   EGEM s.r.o. (ČR): Slovakia, Germany and Ukraine
   EGEM, s.r.o. (SK): Czech Republic
   I&C Energo a.s.: Slovakia
   Elektrovod, a.s.: Czech Republic
   Slovenské energetické strojárne a.s.: Czech Republic, Ukraine and Turkey
   SES ENERGY, a.s.: Czech Republic

2. In 2019, Elektrizace železnic Praha a.s. and SOR Libchavy spol. s r.o. performed research and development activities.

3. In 2019, EPI acquired no treasury shares or treasury equity investments.

4. No significant events occurred after the balance sheet date other than those disclosed in the notes to the consolidated financial statements (refer to the financial part of this annual report).

5. In the environmental area, EPI complies with all the requirements of valid legislation and other environmental protection requirements.

6. EPI's policies in the area of financial risk management are described in the notes to the consolidated financial statements.

Based on the current development of the situation concerning COVID-19, I am convinced that the pandemic will have no significant direct or indirect impacts on the future economic situation. The management of the Group will continue to monitor the impacts and take all necessary steps to eliminate or mitigate the potential negative effects on the operations and results of the Group and its employees.

I would like to thank all our employees for their work and loyalty, our clients and business partners for our good relations, and our shareholders for their support. I look forward to further cooperation in 2019.

In Prague on 20 June 2020

Jiří Nováček
Chairman of the Board of Directors

Strategic goal: to create lasting values and to strengthen our strategic position in the existing markets.

Report of the Board of Directors on Business Activities and State of Assets

Structure of the Company

EPI Group companies are divided into three pillars based on their primary line of business.

I. POWER ENGINEERING & SERVICES

EGEM s.r.o. – an engineering and supply company focused on designing, construction, reconstruction, repair, servicing and maintenance of power installations including transmission lines and electric components of power sources. The company offers its customers comprehensive services from the proposal of a solution to their requirements, to their realisation, to services related to operation, servicing and maintenance.

PROFI EMG s.r.o. – was created through the merger of PROFI-ELRO s.r.o. and EMG ENERGO s.r.o. with the intention to offer its customers comprehensive services in the areas of designing, assembling, inspecting and servicing extra high, very high, high and low voltage power installations in power engineering, industry and construction. To ensure the quality of work, supplies and services, the company has implemented and certified an integrated quality management system. An important goal of the company is to fulfil orders while minimising environmental impacts.

SEG s.r.o. – deals with assembly activities in the field of electrical installations, production of poles and structures for the power industry and design of electrical installations.

MSEM, a.s. – a modern and dynamic electric engineering company with a long tradition. The company is one of the largest and most important suppliers in the Czech Republic in its field. The primary business activities of the company include construction, reconstruction and repair of power distribution installations (outdoor power lines, cable lines, public lighting, renewable sources) and technological assemblies (high voltage and very high voltage distribution substations, distribution transformer stations).

VČE - montáže, a.s. – project designer and general supplier of low, high and very high voltage power constructions, network telecommunication constructions and professional servicing activities for the power industry. The company's business continues the uninterrupted tradition of network and technological assemblies of Východočeská energetika, a.s., and its legal predecessors.

MONTPROJEKT, a.s. – project designer of low, high and very high voltage power distribution installations (outdoor power lines, cable lines, public lighting, distribution transformer stations).

Elektrovod, a.s. is a provider of bundled services and supplies including the designing and realisation of extra high and very high voltage power installations.

SES ENERGY, a.s. is a major Slovak supplier of assembly work and services for the construction, reconstruction, modernisation and repair of boilers for power plants, heating plants and incineration plants.

SES BOHEMIA ENGINEERING, a.s. focuses on water purification and treatment and on the reconstruction and modernisation of existing power systems.

Energetické opravny, a.s. offers a wide range of activities provided during repairs, modernisations and reconstructions of technological equipment in the power industry and other sectors. Its wide range of activities covers the entire area of boiler room operation, desulphurisation, engine rooms, coal supply, water and heat management systems. The company has sufficient technical, capacity and personnel resources needed for high-quality execution of the offered activities.

SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s. is a major supplier of boilers for the combustion of all types of fuel. The company's production includes the supply of boiler rooms, condensation and regeneration systems, high-pressure and low-pressure pipelines and water treatment and fuel preparation equipment.

I&C Energo a.s. is a major supplier of comprehensive control and management systems, industrial information systems, electrical systems, and a supplier of engineering activities in the nuclear power industry. Its supplies on the Czech and foreign markets are realised in the field of investment supplies, optimisation of power generation plants, and servicing.

ELQA, s.r.o. deals with repairs and maintenance of low and high voltage power, ground and above-ground wires of low and high voltage power, including design and engineering work, as well as building a network of public lighting for municipalities and private investors.

Fintherm a.s. is the largest producer and supplier of pre-insulated pipeline systems in the Czech Republic and at the same time a significant supplier for a number of foreign markets.

II. MANUFACTURING & OTHER

1. AUTOMOTIVE INDUSTRY

SOR Libchavy spol. s r.o. – major Czech manufacturer of buses offering modern types of buses, trolley buses and electric buses based on standardised model lines as well as non-standard versions based on the clients' wishes. At present, it manufactures buses of 8.5 m, 9.5 m, 10.5 m, 12 m and 18 m in length in versions for city, intercity and long-distance operation. The buses are equipped with engines that are fully in line with the emission requirements of the European Union. Aside from the traditional diesel drive, the customer may choose compressed natural gas (CNG) drive, electric or hybrid technology. The company is successful on the domestic as well as the foreign markets. It also provides servicing, repairs and sale of spare parts for buses of the SOR brand.

2. TRANSPORT INFRASTRUCTURE INSTALLATIONS

Elektrizace železnic Praha a.s. – major domestic supplier of constructions and technological units in the area of transport infrastructure. It ensures the development, design, production and assembly of electrification for railways and urban transport. It also provides comprehensive supplies of electro-technological units such as low voltage and high voltage substations, including remote control, traction power stations, heavy-current power lines and lighting.

ELTRA, s.r.o. – major Slovak supplier of construction and supplies in the area of heavy current electrical engineering. It provides development, design, production, supply and assembly of electrification for railways and urban transport.

III. WASTE MANAGEMENT

The Waste Management pillar is composed of the AVE group, which provides comprehensive services in the area of waste management and ensures the highest technological and environmental quality of waste processing, from the collection of waste to its processing or disposal, if its recovery is not possible. The AVE group is one of the leading companies providing services for municipal and private customers in Central and Eastern Europe. Aside from the Czech Republic, the AVE group is also active in Slovakia and Ukraine.

Economic Results and Financial Management

In terms of the economic results, 2019 is seen as a very successful year. Total sales of the EPI Group amounted to CZK 23.5 billion. The operating profit amounted to CZK 1.9 billion, while profit before tax exceeded CZK 1.6 billion.

The Company's financial management during the year was problem-free and stable.

The Environment

In 2019, EPI Group companies were run with the objective of minimising the impact of their activities on the environment. Most companies have an environmental management system in place in line with the ČSN EN ISO 9000 and 14 000 standards. Compliance with legislative requirements in the area of environmental protection is naturally a priority for the Company.

Human Resources

The group companies have qualified employees with expert skills that allow the companies to be successful in the competition in their respective segments.

The Company has long focused on working with employees with a high potential, who become personnel reserves and are trained for the potential future performance of management roles or for the positions of expert specialists.

Trade unions are active within the Company. The Company's management maintains regular contact with their representatives, who are informed about all significant matters having an impact on employees.

Outlook on Future Periods

The EPI Group is built on strong foundations and it can therefore use future opportunities to grow. We place emphasis on following new trends and the innovations arising from them. In addition, we do not rule out future acquisitions or sales that could bring synergistic effects for the operation of the Group.

Based on the development of the COVID-19 situation so far, we are convinced that the pandemic will not have significant direct or indirect impacts on the economic situation of the Company. The Group's management will continue to closely follow the potential effects of the measures related to COVID-19 and will take all the possible steps to mitigate any potential negative impacts on the Group's operations, results and employees.

Success is dependent on good relationships with our employees. We strive to create the best possible working conditions, and we know how to appreciate and fairly evaluate their efforts.

Report on relations

Report on relations

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

prepared by the Board of Directors of EP Industries, a.s. (the "Company"), with its registered office at Pařížská 130/26, Josefov, 110 00 Prague 1, Corporate ID No.: 292 94 746, in accordance with Section 82 of Act No. 90/2012 Coll., on Business Corporations, as amended.

(THE "REPORT")

I. PREAMBLE

The Report has been prepared under Section 82 of Act No. 90/2012 Coll., on Business Corporations, as amended (the "**Business Corporations Act**").

The Report has been submitted for review to the Company's Supervisory Board in accordance with Section 83 (1) of the Business Corporations Act. The Supervisory Board's position will be communicated to the Company's General Meeting deciding on the approval of the Company's ordinary financial statements and on the distribution of the Company's profit or the settlement of its loss.

The Report has been prepared for the 2019 accounting period.

II. STRUCTURE OF RELATIONS

CONTROLLED ENTITY

The controlled entity is EP Industries, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 292 94 746, recorded in the Commercial Register maintained by the Municipal Court in Prague, File B, Insert 21734.

CONTROLLING ENTITIES

DIRECTLY CONTROLLING ENTITY:

EP INDUSTRIES HOLDING LIMITED
(former: AKNARDOM HOLDING LIMITED)
Registered office: Kyriakou Matsi, 16 EAGLE HOUSE, 8th floor, Agioi Omologities, Nicosia, P.C. 1082, Republic of Cyprus
Registration number: HE310311

INDIRECTLY CONTROLLING ENTITIES:

NERUNA LTD
Registered office: 1061 Nicosia, Klimentos, 41-43, Klimentos Tower, Republic of Cyprus
Registration number: HE298229

BLYCONO SERVICES LIMITED
Registered office: Klimentos, 41-43, KLIMENTOS TOWER, 1061, Nicosia, Cyprus
Registration number: HE366053

OTHER CONTROLLED ENTITIES

Entities controlled by the same controlling entities are disclosed in note 33 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 concerning 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; and
- Managing, acquiring and disposing of the Company's ownership interests and other assets.

METHOD AND MEANS OF CONTROL

The controlling entities hold a majority share of voting rights in EP Industries, a.s. over which they exercise a controlling influence.

IV. OVERVIEW OF ACTS UNDER SECTION 82 (2) (D) OF ACT NO. 90/2012 COLL., ON BUSINESS CORPORATIONS

During the 2019 accounting period, no act was carried out in the interest or at the initiative of the controlling entity that would relate to assets exceeding 10% of the controlled entity's equity as presented in the latest financial statements.

V. AGREEMENTS CONCLUDED BETWEEN EP INDUSTRIES, A.S. AND OTHER RELATED PARTIES

V.1. THE FOLLOWING LOAN AGREEMENTS WERE EFFECTIVE IN 2019:

On 29 June 2007, a loan agreement was signed between SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s. as the debtor and a third party as the creditor. On 24 July 2012, the receivable was assigned to EP Industries, a.s. as the new creditor.

On 9 December 2009, a loan agreement including effective amendments was signed between SOR Libchavy spol. s r.o. as the creditor and a third party as the debtor. In line with the demerger by spin-off project, the liability was assigned to EP Industries, a.s. (former EP Industry, a.s.) in 2011.

On 20 October 2011, a loan agreement including effective amendments was signed between EP Industries, a.s. as the debtor and SOR Libchavy spol. s r.o. as the creditor.

On 26 October 2011, a loan agreement including effective amendments was signed between EP Industries, a.s. as the debtor and SEG s.r.o. as the creditor.

On 26 October 2011, a loan agreement including effective amendments was signed between EP Industries, a.s. as the debtor and VČE – montáže, a.s. as the creditor.

On 26 October 2011, a loan agreement including effective amendments was signed between EP Industries, a.s. as the debtor and MSEM, a.s. as the creditor.

On 29 November 2011, a loan agreement including effective amendments was signed between EP Industries, a.s. as the debtor and Herington Investments Limited as the creditor.

On 23 January 2012, a loan agreement including effective amendments was signed between EP Industries, a.s. (former EP Industry, a.s.) as the creditor and SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s. as the debtor.

On 26 June 2012, a loan agreement including effective amendments was signed between EP Industries, a.s. as the creditor and TAHOBA INVESTMENTS LIMITED a.s. as the debtor.

On 2 July 2012, a loan agreement including effective amendments was signed between EP Industries, a.s. as the creditor and SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s. as the debtor.

On 8 October 2014, a loan agreement including effective amendments was signed between EP Industries, a.s. as the creditor and PIRAMEL ENTERPRISES LIMITED as the debtor.

On 22 October 2014, an agreement on replacing selected contracts (loan agreement) including effective amendments was signed between EP Industries, a.s. as the debtor and EGEM s.r.o. as the creditor.

On 22 October 2014, an agreement on replacing selected contracts (loan agreement) including effective amendments was signed between EP Industries, a.s. as the debtor and PROFI EMG s.r.o. as the creditor.

On 23 October 2014, a loan agreement including effective amendments was signed between EP Industries, a.s. as the debtor and Energetické montáže Holding, a.s. as the creditor.

On 12 January 2015, a loan agreement including effective amendments was signed between EP Industries, a.s. as the creditor and TAHOBA INVESTMENTS LIMITED as the debtor.

On 18 May 2015, a loan agreement including effective amendments was signed between Poisson Investments a.s. as the creditor and PI 1 a.s. as the debtor. On 11 June 2018, by an agreement on the assignment of a receivable for consideration, the debt was assigned to EP Industries, a.s. On 27 June 2019, an agreement to change the subject of a receivable was signed between EP Industries, a.s. as the creditor and PI 1 a.s. as the debtor, which replaced the above-mentioned loan agreement.

On 22 July 2015, a loan agreement was signed between EP Industries, a.s. as the debtor and Energetické montáže Holding, a.s. as the creditor.

On 15 March 2016, a loan agreement including effective amendments was signed between EP Industries, a.s. as the creditor and SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s. as the debtor.

On 5 April 2016, a loan agreement including effective amendments was signed between EP Industries, a.s. as the debtor and Elektrizace železnic Praha a.s. as the creditor.

On 6 May 2016, a loan agreement including effective amendments was signed between EP Industries, a.s. as the creditor and SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s. as the debtor.

On 12 December 2016, a loan agreement including effective amendments was signed between EP Industries, a.s. as the creditor and ESTABAMER LIMITED as the debtor.

On 14 December 2016, a loan agreement including effective amendments was signed between EP Industries, a.s. as the debtor and EGEM s.r.o. as the creditor.

On 14 December 2016, a loan agreement was signed between EP Industries, a.s. as the debtor and PROFI EMG s.r.o. as the creditor.

On 20 December 2016, a loan agreement including effective amendments was signed between EP Industries, a.s. as the debtor and EGEM s.r.o. as the creditor.

On 15 January 2017, a loan agreement including effective amendments was signed between EP Industries, a.s. as the creditor and SES BOHEMIA ENGINEERING, a.s. as the debtor.

On 31 August 2017, a loan agreement including effective amendments was signed between EP Industries, a.s. as the creditor and Energetické opravny, a.s. as the debtor.

On 18 December 2017, a loan agreement including effective amendments was signed between EP Industries, a.s. as the debtor and AVE CEE Holding GmbH as the creditor.

On 27 December 2017, a loan agreement including effective amendments was signed between EP Industries, a.s. as the creditor and EP INDUSTRIES HOLDING LIMITED as the debtor.

On 26 January 2018, an agreement on a financial loan including effective amendments was signed between EP Industries, a.s. as the creditor and BAULIGA a.s. as the debtor.

On 5 December 2018, a loan agreement including effective amendments was signed between EP Industries, a.s. as the creditor and Slovenské energetické strojárne a.s. as the debtor.

On 21 December 2018, an agreement on a financial loan was signed between EP Industries, a.s. as the creditor and ED Holding a.s. as the debtor.

On 8 March 2019, a loan agreement was signed between EP Industries, a.s. as the creditor and EP INDUSTRIES HOLDING LIMITED as the debtor.

On 28 March 2019, a loan agreement was signed between EP Industries, a.s. as the creditor and EP INDUSTRIES HOLDING LIMITED as the debtor.

On 29 April 2019, a loan agreement was signed between EP Industries, a.s. as the creditor and Fintherm a.s. (former Uponor Infra Fintherm a.s.) as the debtor.

On 16 May 2019, a loan agreement was signed between EP Industries, a.s. as the creditor and Fintherm a.s. (former Uponor Infra Fintherm a.s.) as the debtor.

On 12 June 2019, a loan agreement was signed between EP Industries, a.s. as the debtor and AVE CEE Holding GmbH as the creditor.

On 12 June 2019, a loan agreement was signed between EP Industries, a.s. as the debtor and AVE CZ odpadové hospodářství s.r.o. as the creditor.

On 27 September 2019, a loan agreement was signed between EP Industries, a.s. as the debtor and ELTRA, s.r.o. as the creditor.

On 30 September 2019, a loan agreement was signed between EP Industries, a.s. as the debtor and ELTRA, s.r.o. as the creditor.

On 1 October 2019, an agreement on a financial loan including effective amendments was signed between EP Industries, a.s. as the creditor and PI 1 a.s. as the debtor.

IN 2019, THE FOLLOWING AGREEMENTS ON THE SET-OFF/ ASSIGNMENT OF RECEIVABLES WERE CONCLUDED:

On 9 January 2019, an agreement on the assignment of debt was signed between EP Industries, a.s. as the assignee and ELQA, s.r.o. as the assignor.

On 9 January 2019, an agreement on the assignment of debt was signed between EP Industries, a.s. as the assignee and ELQA, s.r.o. as the assignor.

On 7 March 2019, an agreement on set-off of receivables was signed between EP Industries, a.s. and EP INDUSTRIES HOLDING LIMITED.

On 2 July 2019, an agreement on the set-off of receivables was signed between EP Industries, a.s. and ELQA, s.r.o.

On 27 June 2019, an agreement to change the subject of a debt was signed between EP Industries, a.s. and PI 1 a.s.

On 15 November 2019, an agreement on set-off of receivables was signed between EP Industries, a.s. and EP INDUSTRIES HOLDING LIMITED.

On 16 December 2019, an agreement on debt remission was signed between EP Industries, a.s. and ESTABAMER LIMITED.

On 20 December 2019, an Agreement on Assignment and Set-Off of Receivables and Termination of the Loan Agreement was signed between SOR Libchavy spol. s r.o. as the assignor, BAULIGA a.s. as the assignee in respect of EP Industries, a.s.

On 30 December 2019, an agreement on debt remission was signed between EP Industries, a.s. as the creditor and SES ENERGY, a.s. as the debtor.

THE FOLLOWING CONTRACTS AND AMENDMENTS WERE EFFECTIVE IN 2019:

On 30 September 2013, an agreement on providing meeting rooms was signed between EP Industries, a.s. and the companies listed below:
EGEM s.r.o
MSEM, a.s.
PROFI EMG s.r.o.
SEG s.r.o.
SOR Libchavy spol. s r.o.
VČE - montáže, a.s.

On 31 October 2013, an agreement on controlling and analytical advisory services was signed between EP Industries, a.s. and the companies listed below:
EGEM s.r.o
Elektrizace železnic Praha, a.s.
MSEM, a.s.
SEG s.r.o.
SOR Libchavy spol. s r.o.
VČE - montáže, a.s.

On 31 October 2013, an agreement on financial advisory services was signed between EP Industries, a.s. and the companies listed below:
EGEM s.r.o
Elektrizace železnic Praha, a.s.
Energetické opravny, a.s.
MSEM, a.s.
MONTPROJEKT, a.s.
PROFI EMG s.r.o.
SEG s.r.o.
VČE - montáže, a.s.

On 27 November 2013, an agreement on the joint course of action was signed between EP Industries, a.s. and the companies listed below:
TAHOBA INVESTMENTS LIMITED

On 31 December 2013, an agreement on providing advisory services concerning the administrative and legal matters was signed between EP Industries, a.s. and the companies listed below:
EGEM s.r.o
Elektrizace železnic Praha, a.s.
Energetické opravny, a.s.
MSEM, a.s.
MONTPROJEKT, a.s.
PROFI EMG s.r.o.
SEG s.r.o.
SOR Libchavy spol. s r.o.
VČE - montáže, a.s.

On 28 December 2018, an agreement on erasing a debt was signed between EP Industries, a.s. as the creditor and SES ENERGY, a.s. as the debtor.

On 27 September 2019, Facility Agreement was signed between EP Industries, a.s., ELTRA, s.r.o. and SLOVENSKÁ SPORITELŇA, a.s.

On 30 September 2019, Intragroup Facility Agreement was signed between EP Industries, a.s. and ELTRA, s.r.o.

V.2. OTHER LEGAL ACTS MADE BETWEEN EP INDUSTRIES, A.S. AND OTHER RELATED PARTIES

Aside from the above, no other agreements were concluded and no supplies or considerations were provided between EP Industries, a.s. and the related parties.

EP Industries, a.s. did not adopt or carry out any other legal acts or measures in the interest or at the initiative of the related parties.

V.3. TRANSACTIONS, RECEIVABLES AND PAYABLES OF EP INDUSTRIES, A.S. IN RESPECT OF RELATED PARTIES

Receivables and payables of EP Industries, a.s. in respect of related parties as of 31 December 2019 are disclosed in the notes to the financial statements, which form part of the consolidated annual report.

VI.

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

- Agreements between related parties;
- Supplies and considerations provided to related parties;
- Other legal acts carried out in the interest of related parties; and
- All measures taken or implemented in the interest or at the initiative of related parties.

All transactions between EP Industries, a.s. and the controlling entity and entities controlled by the same entity were concluded under arm's length terms. The Board of Directors of EP Industries, a.s. declares that EP Industries, a.s. incurred no damage as a result of the actions of the controlling entity or of any entity controlled by the same entity and that the contractual and other relations with related parties resulted in no loss or property advantage or disadvantage to EP Industries, a.s.

In Prague on 30 March 2020

Jiří Nováček
Chairman of the Board of Directors

Hana Krejčí
Member of the Board of Directors

> The operating profit amounted to CZK 1.9 billion, while profit before tax exceeded CZK 1.6 billion.

Consolidated Financial Statements

EP INDUSTRIES

Consolidated Financial Statements

For the Year Ended 31 December 2019

PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED BY THE EU

ANNUAL REPORT 2019

Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2019

CZK million

	Note	2019	2018 restated
Sales: Technical-engineering & services	6	9 883	7 102
Sales: Industrial waste	6	3 301	2 885
Sales: Manufacturing and other	6	10 286	9 769
Total sales		**23 470**	**19 756**
Cost of sales: Technical-engineering & services	7	-5 414	-4 278
Cost of sales: Industrial waste	7	-2 235	-2 269
Cost of sales: Manufacturing and other	7	-6 516	-5 881
Total cost of sales		**-14 165**	**-12 428**
		9 305	**7 328**
Personnel expenses	8	-4 841	-3 698
Depreciation and amortisation	13, 14	-1 025	-743
Repairs and maintenance		-274	-216
Negative goodwill	5	7	-
Taxes and charges		-48	-39
Other operating income	9	467	354
Other operating expenses	10	-1 635	-1 646
Profit/(loss) from operations		**1 956**	**1 340**
Finance income	11	112	109
Finance expense	11	-559	-438
Profit/(loss) from financial instruments and derivatives	11	81	60
Net finance income/(expense)		**-366**	**-269**
Gain/(loss) on the sale and disposal of subsidiaries, special purpose entities, joint ventures and associates	5	9	-
Profit/(loss) before income tax		**1 599**	**1 071**
Income tax	12	-431	-377
Profit/(loss) for the period		**1 168**	**694**
Items that are or may be later reclassified to profit or loss:			
Foreign currency translation differences for foreign operations		-26	14
Fair value remeasurement reserve		1	5
Other comprehensive income for the period, net of tax		**-25**	**19**
Total comprehensive income for the period		**1 143**	**713**

	Note	2019	2018 restated
Profit/(loss) attributable to:			
Owners of the Company		958	511
Non-controlling interest		210	183
Profit/(loss) for the period		**1 168**	**694**
Total comprehensive income attributable to:			
Owners of the Company		934	528
Non-controlling interest	22	209	185
Total comprehensive income for the period		**1 143**	**713**

The notes to the consolidated financial statements on pages 44 to 137 form an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

As of 31 December 2019
CZK million

	Note	2019	2018 restated
Assets			
Property, plant and equipment	13	4 894	3 874
Intangible assets	14	216	299
Goodwill	14	4 530	4 397
Financial instruments and other financial assets	25	90	27
Restricted cash	19	286	288
Trade receivables and other assets	17	441	428
Accruals and deferrals		29	46
Deferred tax assets	15	114	68
Total non-current assets		**10 600**	**9 427**
Inventories	16	1 398	1 242
Trade receivables and other assets	17	6 773	5 790
Financial instruments and other financial assets	25	937	863
Accruals and deferrals		143	83
Tax receivables	20	280	175
Of which corporate income tax receivables	*20*	*65*	*47*
Restricted cash	19	9	9
Cash and cash equivalents	18	1 950	2 205
Assets held for sale	30	87	134
Total current assets		**11 577**	**10 501**
Total assets		**22 177**	**19 928**

	Note	2019	2018 restated
Equity			
Share capital	21	1 036	1 036
Share premium	21	845	845
Capital and other reserves	21	-1 923	-1 895
Retained earnings		2 309	1 611
Total equity attributable to equity holders		**2 267**	**1 597**
Non-controlling interest	22	739	786
Total equity		**3 006**	**2 383**
Liabilities			
Loans and borrowings	23	5 315	4 607
Financial instruments and financial liabilities	25	670	1 083
Provisions	24	972	545
Deferred income	27	78	83
Deferred tax liabilities	15	119	154
Trade payables and other liabilities	26	306	682
Total non-current liabilities		**7 460**	**7 154**
Trade payables and other liabilities	26	6 351	6 029
Loans and borrowings	23	3 781	3 242
Financial instruments and financial liabilities	25	1 172	747
Provisions	24	206	219
Deferred income	27	71	75
Current income tax liability		130	79
Total current liabilities		**11 711**	**10 391**
Total liabilities		**19 171**	**17 545**
Total equity and liabilities		**22 177**	**19 928**

The notes to the consolidated financial statements on pages 44 to 137 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2019

CZK million

	Attributable to owners of the Company								
	Share capital	Share premium	Non-distributable reserves	Translation reserve	Revaluation reserve	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2019	**1 036**	**845**	**99**	**-49**	**-**	**-1 945**	**1 611**	**1 597**	**786**	**2 383**
Adjustment on the initial application of IFRS 16 (net of tax)							-26	-26	-9	-35
Adjusted balance at the beginning of the year (A)	**1 036**	**845**	**99**	**-49**	**-**	**-1 945**	**1 585**	**1 571**	**777**	**2 348**
Total comprehensive income for the year:										
Profit or loss (B)	-	-	-	-	-	-	958	**958**	210	**1 168**
Other comprehensive income:										
Foreign currency translation differences for foreign operations	-	-	-	-25	-	-	-	**-25**	-1	**-26**
Revaluation reserve included in OCI	-	-	-	-	1	-	-	**1**	-	**1**
Total other comprehensive income (C)	**-**	**-**	**-**	**-25**	**1**	**-**	**-**	**-24**	**-1**	**-25**
Total comprehensive income for the period (D) = (B + C)	**-**	**-**	**-**	**-25**	**1**	**-**	**958**	**934**	**209**	**1 143**
Contributions by and distributions to owners:										
Dividends to equity holders	-	-	-	-	-	-	-238	**-238**	-242	**-480**
Transfer to non-distributable reserves	-	-	1	-	-	-	-1	**-**	-	**-**
Total contributions by and distributions to owners (E)	**-**	**-**	**1**	**-**	**-**	**-**	**-239**	**-238**	**-242**	**-480**
Changes in ownership interests in subsidiaries without change of controlling interest:										
Effect of changes resulting from disposal of subsidiaries	**-**	**-**	**-**	**-5**	**-**	**-**	*5*	**-**	*-5*	**-5**
Changes in ownership interests in subsidiaries (F)	**-**	**-**	**-**	**-5**	**-**	**-**	**5**	**-**	**-5**	**-5**
Total transactions with owners (G) = (E + F)	**-**	**-**	**1**	**-5**	**-**	**-**	**-234**	**-238**	**-247**	**-485**
Balance at 31 December 2019 (H) = (A + D + G)	**1 036**	**845**	**100**	**-79**	**1**	**-1 945**	**2 309**	**2 267**	**739**	**3 006**

The notes to the consolidated financial statements on pages 44 to 137 form an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2018 (restated)

CZK million

	Attributable to owners of the Company								
	Share capital	Share premium	Non-distributable reserves	Translation reserve	Revaluation reserve	Other capital reserves	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2018 (A)	**1 036**	**1 589**	**99**	**-61**	**-5**	**-1 945**	**2 998**	**3 711**	**910**	**4 621**
Total comprehensive income for the year:										
Profit or loss (B)	-	-	-	-	-	-	511	**511**	183	**694**
Other comprehensive income:										
Foreign currency translation differences for foreign operations	-	-	-	12	-	-	-	**12**	2	**14**
Revaluation reserve included in OCI	-	-	-	-	5	-	-	**5**	-	**5**
Total other comprehensive income (C)	**-**	**-**	**-**	**12**	**5**	**-**	**-**	**17**	**2**	**19**
Total comprehensive income for the period (D) = (B + C)	**-**	**-**	**-**	**12**	**5**	**-**	**511**	**528**	**185**	**713**
Contributions by and distributions to owners:										
Decrease in share capital by equity holders	-	-744	-	-	-	-	-	**-744**	-	**-744**
Dividends to equity holders	-	-	-	-	-	-	-1 900	**-1 900**	-334	**-2 234**
Total contributions by and distributions to owners (E)	**-**	**-744**	**-**	**-**	**-**	**-**	**-1 900**	**-2 644**	**-334**	**-2 978**
Changes in ownership interests in subsidiaries without change of controlling interest:										
Effect of changes resulting from business combinations	-	-	-	-	-	-	-	-	49	**49**
Effect of changes in ownership on non-controlling interest	-	-	-	-	-	-	*2*	**2**	*-24*	**-22**
Changes in ownership interests in subsidiaries (F)	**-**	**-**			**-**	**-**	**2**	**2**	**25**	**27**
Total transactions with owners (G) = (E + F)	**-**	**-744**	**-**	**-**	**-**	**-**	**-1 898**	**-2 642**	**-309**	**-2 951**
Balance at 31 December 2018 (H) = (A + D + G)	**1 036**	**845**	**99**	**-49**	**-**	**-1 945**	**1 611**	**1 597**	**786**	**2 383**

The notes to the consolidated financial statements on pages 44 to 137 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the Year Ended 31 December 2019

CZK million

	Note	2019	2018 restated
OPERATING ACTIVITIES			
Profit/(loss) for the period		**1 168**	**694**
Adjustment for:			
Income tax	12	431	382
Depreciation and amortisation	13, 14	1 025	743
Impairment (gains)/losses on tangible and intangible assets	13, 14	-5	310
(Gain)/loss from impairment of financial assets	11	9	-65
(Gain)/loss from the sale of tangible and intangible assets	9	-21	-27
(Gain)/loss from the sale of inventories	9	-146	-114
(Gain)/loss on the sale and disposal of subsidiaries, special purpose entities, joint ventures, associates and non-controlling interests	5	-9	-
(Gain)/loss on financial instruments	11	-90	5
Net interest expense	11	453	232
Change in provisions for the impairment of trade receivables and other assets, written-off items		182	-10
Change in fair value of financial assets		1	-
Change in provisions		383	12
Negative goodwill	5	-7	-
Other non-cash operations		35	90
Unrealised exchange rate (gains)/losses, net		-75	-11
Operating profit/(loss) before changes in working capital		**3 334**	**2 241**
Changes in trade receivables and other assets		-1 168	-1 447
Changes in inventories (including sales)		48	192
Changes in assets held for sale and related liabilities		-	-2
Changes in restricted accounts		2	-32
Changes in trade payables and other liabilities		378	1 251
Cash generated by (used in) operating activities		**2 594**	**2 203**
Interest paid		-470	-305
Income tax paid		-470	-383
Cash flows generated by (used in) operating activities		**1 654**	**1 515**

	Note	2019	2018 restated
INVESTMENT ACTIVITIES			
Change in financial instruments other than at fair value		26	-103
Change in borrowings		-601	-159
Sales of property, plant and equipment and intangible assets		153	217
Acquisition of property, plant and equipment and intangible assets		-916	-590
Sales of financial instruments		77	-221
Acquisition of financial instruments		-66	-6
Acquisition of subsidiaries and special purpose entities (net of acquired cash)	5	-284	-1 437
Net cash (outflow)/inflow from the sale of subsidiaries and special purpose entities (net of received dividends)		-4	-
Effect arising from the change in size of non-controlling interests		-	-22
Interest received		25	6
Cash flows generated by (used in) investment activities		**-1 590**	**-2 315**
FINANCIAL ACTIVITIES			
Borrowings received		10 499	2 990
Loans repaid		-10 068	-2 435
Change in provisions for impairment on financial assets, written-off items		-	-
Payment of finance lease liabilities		-310	-3
Dividends paid out		-450	-334
Cash flows generated by (used in) financial activities		**-329**	**218**
Net increase (decrease) in cash and cash equivalents		-265	-582
Balance of cash and cash equivalents at the beginning of the year		**2 205**	**2 788**
Effect of exchange rate fluctuations on cash		10	-1
Balance of cash and cash equivalents at the end of the year		**1 950**	**2 205**

The notes to the consolidated financial statements on pages 44 to 137 form an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. General Information

EP Industries, a.s. ("Parent Company", "Company" or "EPI") is a joint-stock company with its registered office at Pařížská 130/26, Josefov, 110 00 Prague 1, Czech Republic. The Company was created as a result of the demerger of companies by spin-off from the original company Energetický a průmyslový holding, a.s. ("EPH") with the effective date of 30 September 2011.

EP Industries, a.s. was created based on an agreement of the shareholders of Energetický a průmyslový holding, a.s. to separate investments in industrial assets from power assets. All industrial businesses were therefore separated from the EPH group to the EPI group, which focuses on investments in industry and activities outside of the power sector. The main pillars of the EPI group's business are technical engineering activities and services.

The Company's primary activities are corporate investments in companies operating in the segments of power engineering, transport infrastructure and waste management.

The Company's consolidated financial statements for the year ended 31 December 2019 include the financial statements of the Parent Company and its subsidiaries (together referred to as the "Group" or the "EPI Group"). A list of entities in the Group is provided in Note 34 – Group Entities.

As of 31 December 2019 and 31 December 2018, the following entity was the Company's sole shareholder:

	Equity investment		Voting rights
	CZK million	%	%
EP INDUSTRIES HOLDING LIMITED	1 036	100,00	100,00
Total	**1 036**	**100,00**	**100,00**

The shareholders of EP INDUSTRIES HOLDING LIMITED as of 31 December 2019 and 2018 were as follows:

	Equity investment		Voting rights
	CZK million	%	%
EPI Holding, a.s.	497	48,00	48,00
BLYCONO SERVICES LIMITED	164	15,84	15,84
NERUNA LIMITED	375	36,16	36,16
Total	**1 036**	**100,00**	**100,00**

Board of Directors as of 31 December 2018:

- Jiří Nováček (Chairman of the Board of Directors)
- Hana Krejčí (Member of the Board of Directors)
- Pavel Horský (Member of the Board of Directors)

2. Basis of Preparation

A STATEMENT OF COMPLIANCE

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

The consolidated financial statements were approved by the Board of Directors on 20 June 2020.

B BASIS OF MEASUREMENT

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

- Derivative financial instruments;
- Financial instruments at fair value through profit or loss; and
- 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 disclosed in the following paragraphs are applied consistently by all Group entities in the individual reporting periods.

IFRS 16 was applied in these financial statements of the Group for the first time. Changes in significant accounting policies are described in Note 2(e) – Recently issued accounting standards.

C FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated financial statements are presented in Czech crowns ("CZK") which is the Company's functional currency. All financial information presented in Czech crowns has been rounded to the nearest million.

D USE OF JUDGEMENTS AND ESTIMATES

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

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

I. ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

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

- Notes 5 and 14 – accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill;
- Note 6 – revenues;
- Note 24 – recognition and measurement of provisions;
- Notes 23, 25 and 32 – measurement of loans and borrowings and financial instruments;
- Note 35 – litigation.

FAIR VALUE MEASUREMENT

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 material 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 the 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 of assets and liabilities included in Level 1 that are observable on the market either directly (i.e. 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 at a different level of the fair value hierarchy, then the fair value measurement is categorised in its entirety at the same fair value level as the lowest level input that is significant to the entire measurement.

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

II. JUDGEMENTS

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

- Note 2 (e) – judgments related to recognition of revenue from customers;
- Notes 6 and 14 – accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill; and
- Note 24 – recognition and measurement of provisions.

E RECENTLY ISSUED ACCOUNTING STANDARDS

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

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

IFRS 16 Leases

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

The Group applied IFRS 16 using the modified retrospective approach, whereby the cumulative impact of initial application is reported in retained earnings as of 1 January 2019. Accordingly, comparative figures for 2018 have not been restated, i.e. they are reported as previously in line with IAS 17 and related interpretations. Changes in accounting policies are described in more detail below.

DEFINITION OF A LEASE

In its previous practice, the Group determined upon the origination of a contract whether the contract constituted or contained a lease under IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. Now the Group assesses whether a contract constitutes or contains a lease according to the new definition of a lease. A contract constitutes or contains a lease if it transfers the right to use the identified asset to a customer for a specific term in exchange for a consideration. Control occurs if the customer is entitled to receive substantially all the economic benefits from the use of the identified asset and the right to control the use of the asset.

On the transition to IFRS 16, the Group selected a practical expedient consisting in the possibility to adopt the previous assessment determining which transactions constitute a lease. The Group applied IFRS 16 only to contracts that were previously determined to be leases. Contracts that had not been determined as leases under IAS 17 and IFRIC 4 were not reassessed.

The Group decided not to report right-of-use assets and lease liabilities with respect to low-value assets and short-term leases (with lease term of 12 months or less). With respect to these leases, the Group reports lease payments as expenses.

The entity applies this standard to all leases, including leases with right of use as part of a sublease, with the exception of leases for the purpose of exploration or use of deposits of minerals, oil, natural gas and similar renewable sources; leases of biological assets held by the lessee within the scope of IAS 41 *Agriculture;* provision of service concessions within the scope of IFRIC 12 *Service Concession Arrangements*; intellectual property licences provided by the lessor within the scope of IFRS 15 *Revenue from Contracts with Customers* and intangible assets within the scope of IAS 38 *Intangible Assets.*

LESSOR ACCOUNTING

The lessor classifies a lease either as a finance lease or as an operating lease. A lease is classified as a finance lease if substantially all the risks and benefits arising from the ownership of the underlying asset are transferred. A lease is classified as an operating lease if substantially all the risks and benefits arising from the ownership of the underlying asset are not transferred.

With respect to finance leases, the lessor reports the assets in the statement of financial position as a receivable corresponding to the net financial investment in the lease. Over the lease term, financial income is reported in the statement of comprehensive income.

With respect to operating leases, the lessor reports the underlying asset in the statement of financial position. Over the lease term, lease payments are reported on a straight-line basis as income, and depreciation of the underlying asset as expenses.

LESSEE ACCOUNTING

IFRS 16 removes the lessor's obligation to classify leases as either operating or finance leases. There is a possibility of exemption for short-term leases (lease term of 12 months or less) and leases of low-value assets (lower than the equivalent of EUR 5,000). The Group decided not to report right-of-use assets for these leases. Lease payments are reported on a straight-line basis over the lease term as expenses.

As of the commencement date of the lease arrangement, the lessee offsets the right-of-use asset against the lease liability valued at the present value of lease payments that have not been paid as of that date. Lease payments are discounted using the implicit interest rate of the lease, if this rate can be readily determined. If this rate cannot be readily determined, the Group's incremental borrowing rate is used. The incremental borrowing rate is determined based on the interest rates of selected external financial sources and adjustments reflecting the lease term.

The lease liability is then measured at amortised cost based on the effective interest rate method. The lease liability is remeasured if a change occurs in:

- Future lease payments based on a change in an index or rate;
- Estimated future amounts due as part of the guaranteed residual value;
- Assessment of exercising a purchase, extension or termination option; or
- Substantially fixed lease payments.

When a lease liability is remeasured, the carrying amount of the right-of-use asset is adjusted accordingly. If the value of the right-of-use asset has decreased to zero, the adjustment is reported in profit or loss.

The Group reports right-of-use assets as part of property, plant and equipment on the same line as the underlying assets of the same nature that it owns. On initial recognition, right-of-use assets are valued at cost and subsequently at cost net of any accumulated depreciation and impairment losses and adjusted for some remeasurements of this lease liability.

The gross value of right-of-use assets is given below.

In CZK million

	Land and buildings	Technical devices, machinery and equipment
Balance at 1 January 2019	278	597
Balance at 31 December 2019	233	558

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

SERVICE PART OF THE LEASE PAYMENT

Group companies that recognise leases of vehicles do not separate the service fee from lease payments. The lease liability is calculated using aggregate lease payments. With respect to other lease contracts, the service fee is separated from the lease payments. The service fee is reported in the statement of comprehensive income as a short-term expense, the remaining portion is used to calculate the lease liability.

LEASE TERM

The lease term is determined from the lease commencement date based on the arrangements on the non-cancellable lease term.

Lease contract with an indefinite lease term (or a with a notice period of more than 12 months) cannot be considered as short-term leases for which the reporting exemption could be applied. For the purposes of determining the value of the asset, the non-cancellable lease term is determined as the notice period. If the non-cancellable term is set as shorter than 12 months, the Company applies the exemption and assesses the transaction as a short-term lease.

LEASE OF LAND OR LEASE OF LAND AND BUILDING

Renting of land not affected by IAS 41 or IAS 2 always represents a lease. With respect to leases of a building and land, the total rental is divided proportionally into rental for the building and rental for the land in line with the fair value.

SUBLEASE

The classification of subleases into finance and operating subleases is governed primarily by the original contract. If the primary contract is short-term, it always represents an operating lease arrangement, and the characteristics of the actual sublease are assessed. When assessing the classification, the value of the right-of-use asset is taken into account, not the value of the underlying asset. If the lessee provides or expects to provide a sublease, the primary lease arrangement does not meet the condition of a lease of low-value assets.

SALE AND LEASE-BACK

If the entity (seller-lessee) transfers the asset to another entity (buyer-lessor) and leases the asset back from the buyer-lessor, then the seller-lessee and buyer-lesser report a transfer and lease contract based on an assessment whether the transfer of the assets represents a sale or not.

EXTENSION OPTION

The Group used judgement to determine the lease term of certain lease contracts where the Group is the lessee and which contain an extension option. The assessment of whether it is reasonably certain that the Group will exercise these options has an impact on the lease term, which significantly affects the amount of reported lease liabilities and right-of-use assets.

TRANSITION

Upon transition to IFRS 16, the Group reported additional right-of-use assets and additional lease liabilities, and the difference, which was immaterial, was recognised in retained earnings. The impact of the transition is described in more details below.

As of 1 January 2019, the weighted average of the incremental borrowing rate used to discount lease liabilities amounted to 4.02%.

In CZK million

	1 January 2019
Right-of-use assets reported in property, plant and equipment	875
Deferred tax asset	9
Lease liabilities reported as part of Loans and borrowings	919
Profit or loss of prior years	-35

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

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

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

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

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

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

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

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

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

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

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

The Interpretation provides a framework to consider, recognise and measure the accounting impact of taxable profit (tax loss), tax bases, unused tax losses, unutilised 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.

IFRIC 23 will not have a material impact on the Group's financial statements.

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

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

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

II. STANDARDS ADOPTED BY THE EU BUT NOT YET EFFECTIVE

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

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

Amendments to References to the Conceptual Framework in IFRSs set out amendments to IFRSs, 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. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and make other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

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 yet adopted by the EU))

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 revenues in the form of dividends, lower costs or other economic benefits to investors and others. Moreover, the amendment adds a supplementary guidance and an optional concentration test.

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

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

The amendment clarifies the definition of "material" and ensures that the definition is consistent across all IFRS Standards. The amended definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decision that the primary users make 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.

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

Insurance contracts combine features of both a financial instrument and a service contract. In addition, many insurance contracts generate cash flows with substantial variability over a long period. To provide useful information about these features, IFRS 17 combines measurement of the future cash flows at present value with the recognition of profit over the period that services are provided under the contract; it presents insurance contracts results separately from insurance finance income or expenses,

and requires an entity to make an accounting policy choice of whether to recognise all insurance finance income or expenses in profit or loss or to recognise some of that income or expenses in other comprehensive income.

Given the nature of the Group's primary business activities, this standard will probably have no impact on the Group's financial statements.

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

The amendments modify some specific hedge accounting requirements in order to provide relief from the potential impacts of uncertainty caused by the interest rate benchmark reform (such as interest rates on the interbank market). The amendments additionally require entities to provide investors with additional information on their hedge relations that are directly affected by these uncertainties.

The Group is currently assessing the impact of the amendments on its accounting policies.

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

3. Significant Accounting Policies

A BASIS OF CONSOLIDATION

The Group recognises business combinations using the acquisition method when control is transferred to the Group. The amount paid on acquisition is measured at fair value, as well as the net value of identifiable assets. The arising goodwill is tested for impairment annually. Negative goodwill is immediately reported in the income statement. Transactions costs are expensed, with the exception of cases related to debt or equity securities.

I. SUBSIDIARIES

Subsidiaries are entities controlled by the Company. Control (controlling influence) exists when the Company has power over the investee, it is exposed to variable revenues based on its involvement in this entity and it is able to use its control over this entity to influence the amount of its revenues. The existence and impact of potential voting rights that are substantive is considered in 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 or not control is actually exercised. The financial statements of subsidiaries are included in the consolidated financial statements from the date of commencement of control until the date of termination of control.

II. EQUITY-ACCOUNTED ENTITIES

Associates are enterprises in which the Group has a significant yet not controlling influence over financial and operating policies. Investments in associates are accounted for under the equity method and 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 on which the significant influence commences until the date of its termination. When the Group's share of losses exceeds the carrying amount of the investment in an associate, the carrying amount is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group's obligations towards the associate have incurred, or where the Group 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 at the date of acquisitionless accumulated depreciation and/or potential impairment). No new goodwill or negative goodwill is recognised on these acquisitions.

IV. NON-CONTROLLING INTERESTS

Acquisitions of non-controlling interests are accounted for as transactions with shareholders as equity holders; therefore no goodwill and no gain or loss arising from such transactions is recognised.

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 an equity transaction.

V. TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intra-group balances and transactions as well as any unrealised income and expenses arising therefrom are eliminated in preparing the consolidated financial statements. Unrealised gains on transactions with associates and entities under common control are eliminated against investments to the extent of the

Group's interest in the respective entity. Unrealised losses are eliminated in the same way as unrealised gains solely to the extent that there is no evidence of potential impairment.

VI. UNIFICATION OF ACCOUNTING POLICIES

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

VII. PRICING DIFFERENCES

In 2011, the Group accounted for pricing differences which arose from establishment of the Group as of 30 September 2011. The creation of the EPI group was accounted for similarly to the acquisition of subsidiaries under common control of the Energetický a průmyslový holding, a.s. group, and therefore excluded from the scope of IFRS 3, which defines the recognition of goodwill raised from a 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. Business combinations under common control are reported at the historical value reported in the financial statements of Energetický a průmyslový holding, a.s. (i.e. including historical goodwill less potential impairment). The difference between the cost of acquisition and carrying values of net assets of the acquiree and original goodwill carried forward at the acquisition date was recorded to consolidated equity as pricing differences presented within other capital reserves.

VIII. DISPOSAL OF SUBSIDIARIES, ASSOCIATES AND SPECIAL PURPOSE ENTITIES

Gain or loss from the sale of investments in subsidiaries and associates is recognised in the statement of comprehensive income 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, associates and special purpose entities in the statement of comprehensive income.

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

B FOREIGN CURRENCY

I. FOREIGN CURRENCY TRANSLATION

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 Czech crowns, which is the Company's functional and presentation currency. Transactions in foreign currencies are translated to the respective functional currencies of Group entities using 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 using the exchange rate at the reporting date; where the functional currency includes Czech crowns, the exchange rate of the Czech National Bank is used.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical (acquisition) cost, are translated to the respective functional currency of Group entities using the foreign exchange rate at the transaction date. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the respective functional currencies using the foreign exchange rates at the date of determining fair value.

Foreign exchange differences arising on foreign currency translation are recognised in profit or loss, except for differences arising on the remeasurement of available-for-sale equity instruments (this does not include permanent impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss), a financial instrument designated as a hedge of the net investment in a foreign operation, or cash flow hedges to the extent that the hedge is effective, in which case foreign exchange differences arising on foreign currency translation are recognised in other comprehensive income.

A summary of the main foreign exchange rates applicable for the reporting period is presented in Note 32 – 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 not a fully 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.

C NON-DERIVATIVE FINANCIAL ASSETS

I. CLASSIFICATION

On initial recognition, a financial asset is classified as measured at amortised cost, fair value through other comprehensive income – debt instrument, fair value through other comprehensive income – equity instrument or fair value through profit or loss (FVTPL). 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 *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 meet SPPI test and business model test are normally classified by the Group as financial asset at amortised cost.

A debt instrument 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 share 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, upon initial recognition, irrevocably designate a financial asset that would be otherwise measured at amortised cost or at FVOCI as measured at fair value through profit or loss if doing so eliminates or significantly reduces 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 a different basis.

II. RECOGNITION

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

III. MEASUREMENT

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

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

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

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

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

IV. DERECOGNITION

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

V. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

D NON-DERIVATIVE FINANCIAL LIABILITIES

The Group has the following non-derivative financial liabilities: loans and borrowings, bank overdrafts, trade and other payables. Such financial liabilities are initially recognised at fair value at the settlement date plus any directly attributable transaction costs except for financial liabilities at fair value through profit or 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 the respective contractual obligations have been discharged, cancelled or have expired.

E DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivatives are initially recognised at fair value, with attributable transaction costs presented directly in the statement of comprehensive income. Subsequent to the initial recognition derivatives are measured at fair value, with relating changes accounted for in a manner described below.

OTHER NON-TRADING DERIVATIVES

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

SEPARABLE EMBEDDED DERIVATIVES

Financial and non-financial contracts that are financial liabilities within the scope of IFRS 9 (that are not themselves measured at fair value through profit or loss) are subject to an assessment in order to determine whether they contain embedded derivatives.

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

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

CASH FLOW HEDGES AND FAIR VALUE HEDGES

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

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

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

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

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

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

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 maturity of no more than three months.

G INVENTORIES

Inventories are measured at the lower of cost and net realisable value. The net realisable value is an estimated sales price in arm's length conditions, less the estimated cost of completion and expenses of sale.

Purchased inventory and inventory in transit are initially stated at acquisition cost, which includes the purchase price and other expenses directly attributable to the purchase of inventories and bringing them to their current location and condition. Inventories of a similar nature are valued using the weighted average method.

Internally developed inventory and work in progress are initially stated at production costs. Production costs include direct costs (direct material, direct wages and other direct costs) and part of overhead costs directly attributable to the production of inventory (production overheads). The valuation is adjusted to net realisable value if this amount is lower than production costs.

H IMPAIRMENT

I. NON-FINANCIAL ASSETS

The carrying amounts of the Group's assets, other than inventories (refer to Note 3(g) – Inventories), and deferred tax assets (refer to Note 3(n) – Income taxes) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount will be 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 date.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its fair value less costs of sale and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate reflecting the 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 into the smallest identifiable group of assets generating 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 other comprehensive income.

Impairment losses recognised in respect of CGUs are allocated to initially reduce the carrying amount of any goodwill allocated to the CGUs, and subsequently 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. Impairment losses in respect of other assets recognised in prior periods are assessed at each balance sheet 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 on an individual basis. 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 the associate may be impaired.

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

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

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

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

(b) the Group negotiates with the debtor about the 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 in equity instruments 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).

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 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 the statement of comprehensive income, 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 3 (h) – Impairment). Opening balances are presented at net book values, which include adjustments from revaluation as part of the purchase price allocation process.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of assets developed internally 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 Note 3 (m) – Finance income and costs). The cost also includes costs of dismantling and removing individual items and bringing the locality into original condition.

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 classified as investment property.

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

II. LEASED ASSETS

POLICY APPLICABLE BEFORE 1 JANUARY 2019

Leases in terms of which the Group assumes substantially all 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 the inception of the lease, less accumulated depreciation (see below) and impairment losses (refer to Section 3(h) – Impairment).

Minimum lease payments for finance leases are divided into a fee and a payment reducing the outstanding liability balance. The fee is allocated to each period over the lease term so as to produce a constant periodic interest rate on the outstanding liability balance.

Other leases are operating leases, and the leased assets, with the exception of property investments, are not recognised in the Group's statement of financial position.

Payments made under operating leases are recognised in the statement of comprehensive income over the lease term on a straight-line basis.

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 defining a right to use asset meets the definition of a lease.

III. SUBSEQUENT COSTS

Subsequent costs are capitalised only if it is likely that the Group will obtain future economic benefits inherent in an item of property, plant and equipment and the cost thereof can be reliably measured. All other expenditures, including the costs of the day-to-day servicing of property, plant and equipment, are presented in the statement of other comprehensive income as incurred.

IV. DEPRECIATION

Depreciation is recognised in the statement of comprehensive income 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 an ownership title to the asset by the end of the lease term.

The estimated useful lives are as follows:

- Buildings and structures 5–50 years
- Machinery and equipment 4–20 years
- Other fixed assets 3–20 years

Depreciation methods, useful lives and carrying amounts 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 consideration transferred by the Group in a business combination includes an arrangement on contingent consideration, the contingent consideration is measured at fair value as of the acquisition date and becomes part of the consideration transferred in the business combinations. Changes in fair value of the contingent consideration that are classified as changes within the measurement period are made retrospectively along with the related adjustment to goodwill. Changes in the measurement period. are changes that arise from additional information obtained during the "measurement period" (which must not exceed one year from the acquisition date) about facts and circumstances that existed as of the acquisition date.

Subsequent recognition of changes in fair value of the contingent consideration that cannot be considered as changes within the measurement period depend on the classification of the contingent consideration. Contingent consideration classified as equity is not remeasured as of the dates of subsequent financial statements and its subsequent payment is recognised in equity. Other contingent consideration is remeasured at fair value as of the dates of subsequent financial statements with related reporting of changes in fair value in profit or loss.

If a business combination is achieved in stages, the equity interest in the aquiree previously held by the Group (including joint operations) is remeasured at fair value as of the acquisition date and any gains or losses are reported in profit or loss. Amounts rising from equity interests in the aquiree before the acquisition date that were previously recognised in other comprehensive income are reclassified to profit or loss, provided that such a course of action would be appropriate if the equity interest was sold.

If the initial recognition of a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the recognition is incomplete. These provisional amounts are adjusted during the measurement period (see above) or additional assets and liabilities are recognised to reflect newly obtained information about facts and circumstances that existed as of the acquisition date and, if known, would have affected the amounts determined as of that date

If the Group's share in the fair value of identifiable assets and liabilities of a subsidiary, associate and a joint venture at the acquisition date exceeds the acquisition cost, the Group will reassess the identification and measurement of identifiable assets and liabilities, including the acquisition cost. Any excess arising on the re-measurement (negative goodwill) is recognised in the statement of comprehensive income in the period of acquisition.

No goodwill is recognised upon the acquisition of non-controlling interests.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses (refer to Section 3(h) – Impairment) and is tested annually for impairment on an annual basis.

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 recognised at fair value on the acquisition date if the intangible asset is separable or arises from contractual or other statutory rights. Intangible assets with an indefinite useful life are not subject to amortisation and are recognised at cost less any impairment losses (refer to Section 3(h) – Impairment). Intangible assets with a definite useful life are amortised over their useful lives and recognised at cost less accumulated amortisation (see below) and impairment losses (refer to Section 3(h) – Impairment).

II. RESEARCH AND DEVELOPMENT

Expenditure on research activities undertaken with the aim of obtaining new scientific and technical findings and knowledge is recognised directly in other comprehensive income.

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

In 2019 and 2018, the development costs incurred by the Group did not meet the above criteria and they were therefore reported in the statement of comprehensive income.

III. 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 Section 3(h)– Impairment).

Intangible assets that have an indefinite useful life are not amortised and, instead, are tested for impairment on an annual basis. Their useful lives are reviewed at each period-end to assess whether events and circumstances in support of indefinite useful lives continue to exist.

IV. AMORTISATION

Amortisation is recognised in the statement of comprehensive income over the estimated useful lives of intangible assets other than goodwill on a straight-line basis from the date when the asset is put into operation.

The estimated useful lives are as follows:

- Software 2–4 years
- Other intangible assets 2–6 years

Amortisation methods, useful lives and carrying amounts are reviewed at each financial year-end and adjusted when necessary.

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 in the expected amount of settlement. Long-term obligations are recognised at the present value of their anticipated performance value

(if the effect of discount is material), with the discount rate based on the pre-tax rate reflecting 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 the statement of comprehensive income under finance expense.

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 estimated provisions may arise predominantly from deviations from originally estimated expenses, changes in the settlement date or in the scope of the relevant liability. Changes in estimates are generally recognised in the statement of comprehensive income at the date of changing the estimate.

I. EMPLOYEE BENEFITS

LONG-TERM EMPLOYEE BENEFITS

The Group's net liability relating to long-term employee benefits (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. This liability which is calculated using the projected unit credit method and discounted to its present value. The discount rate used is based on yields of high quality corporate bonds at the end of the reporting period, which maturity approximately corresponds with the maturity of the future obligation of the Group.

The Group does not provide pension plans (plans of defined benefits after the termination of employment) pursuant to IAS 19.

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 LEGAL DISPUTES

The settlement of a legal dispute is an individual contingent liability. It is determined as the best estimate of potential impacts determined based on a legal analysis and adjusted for all risks and uncertainties.

IV. 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.

V. DISMANTLING PROVISION

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.

VI. 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.

VII. WASTE MANAGEMENT – PROVISION FOR THE RESTORATION AND REHABILITATION OF LANDFILLS

The creation of a new landfill entails the obligation to recognise a restoration provision. The provision must be reported as property, plant and equipment (IAS 16) at the present value of future expenses related to the restoration of the landfill and its subsequent maintenance. This value is essentially based on the amount of additional tonnes of waste in the relevant period.

On initial recognition, the landfill and the restoration provision have the same carrying amount. Based on the rules for subsequent valuation specified below, their carrying amount begins to differ: assets are depreciated over their useful lives, the discounted provision increases over time by the change in the current value based on discount rates. The regular unwinding of the discount is reported in the statement of comprehensive income as financial expenses. The value of the provision also changes as a result of its use to cover the costs of restoration over the lifetime of the landfill.

Changes in the provision estimate are charged or credited to the relevant asset if the asset has not been fully depreciated. If the value of the asset increases as a result of the increase in the provision, IFRIC 1 requires the performance of a new estimate of the return on the asset in line with IAS 36. After the end of the asset's useful life, the increase in the reserve is recognised directly in profit or loss.

A restricted bank account used for the restoration provision does not meet the criteria for recognition under cash and cash equivalents, and it is therefore reported separately as Restricted cash in the statement of financial position.

L REVENUES

I. REVENUE FROM CONTRACTS WITH CUSTOMERS

Entities use a five-step model to determine when and at what amount revenue should be recognised. The model specifies that revenue should be recognised when 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 reflects the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

Revenue is not reported if the Group has substantial doubts about obtaining the consideration due, about the related costs or about the possibility of returning the goods.

OWN PRODUCTS AND GOODS

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.

Revenues recognised over time are reported in the statement of comprehensive income proportionately to the level of progress of the transaction as of the balance sheet date. The level of progress is assessed based on the overview of work performed.

NON-CASH CONSIDERATION RECEIVED

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

II. GRANTS

Grants and subsidies 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 the statement of comprehensive income 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. RENTAL INCOME

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

M FINANCE INCOME AND EXPENSES

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 exchange rate gains, gains on sale of investments in securities and gains from hedging instruments that are recognised in profit or loss. Interest income is presented in the statement of comprehensive income on an accrual basis using the effective interest method. Dividend income is recognised in the statement of comprehensive income on the date that the Group's right to receive the respective payment has been established.

II. FINANCE EXPENSE

Finance expenses comprise interest expense on loans and borrowings, increase of the discount on provisions over time, foreign exchange rate losses, changes in the fair value of financial assets recognised at fair value through profit or loss, the costs of fees and commissions for payment transactions and guarantees, impairment losses recognised on financial assets, and losses on hedging instruments recognised in profit or loss.

III. BORROWING COSTS

Borrowing costs that arise in connection with the acquisition, construction or production of the respective asset (from acquisition or the beginning of construction or production to putting the respective asset into use) are capitalised and subsequently amortised along with the related asset. In the event 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 as a weighted average of the borrowing costs.

N INCOME TAXES

Income taxes comprise current and deferred tax. Income taxes are recognised in the statement of comprehensive income, 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 comprises the expected tax payable or receivable calculated based on the taxable income or loss for the current period, using tax rates applicable at the reporting date, and any adjustments to the tax payable relating to prior years.

Deferred tax is measured using the balance sheet method which is based on temporary differences between the carrying amounts of assets and liabilities in the statement of financial position and their amounts for taxation purposes. No deferred tax is calculated from the following temporary differences: temporary differences arising from assets or liabilities the initial recognition of which (if it is not a business combination) affects neither accounting nor taxable profit or loss,

and temporary differences relating to investments in subsidiaries and entities under joint control to the extent that it is probable that they will not reverse such temporary differences in the foreseeable future. No deferred tax is recognised upon 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 applicable or principally approved 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 if such assets and liabilities are subject to income taxes imposed by the same tax authority on the same taxable entity, or on different tax entities with the intention to settle current tax liabilities and assets on a net basis. Tax assets and receivables may also be offset when they are 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 equity interests 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 the statement of comprehensive income as 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, or subsidiaries acquired exclusively to be sold, are classified as discontinued operations and is presented in the statement of comprehensive income under separate line Profit (loss) from discontinued operations, net of tax.

The Group is considered a "private equity group" that searches for alternative financing sources for innovative projects or enterprises with a potential for fast growth that are in line with the Group's other activities, allow increasing the value added via integration of activities or represent a possibility of efficient appreciation of funds. The companies that the Group finds interesting are especially those that have a potential for strong growth, value generation and market share growth or whose activities can be profitably expanded though acquisitions. Since sales and purchases of companies are part of the Company's ordinary activities, only direct negotiations on the sale of a company are presented as assets held for sale. Early stage negotiations are therefore not considered as discontinued activities.

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, if relevant, in the notes specific to the respective 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 an estimated amount for which a property could be exchanged at the measurement date between a willing buyer and a willing seller in an arm's length transaction after reasonable marketing has been made whereby the parties acted knowledgeably and at their own will. The income approach determines the value of property based on its ability to generate desired cash flows the owners. The key objective of the income method is to determine the property value as an economic benefit function.

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 potential 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 costs of completion and sale, and a reasonable profit margin reflecting the effort made to complete and sell the inventories.

D NON-DERIVATIVE FINANCIAL ASSETS

The fair value of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets is based on their quoted market price at the reporting date without any deduction of transaction costs. If a quoted market price is not available, the fair value of the instrument is estimated by the management using pricing models or discounted cash flows methods.

Where discounted cash flow methods 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 conditions. Where pricing models are used, the model inputs are based on market rates at the reporting date.

The fair value of trade and other receivables, excluding construction work in progress but including receivables from services provided based on a concession, is estimated as the present value of future cash flows, discounted at the market interest rate at the reporting date.

The fair value of trade and other receivables and held-to-maturity investments is only determined for disclosure purposes.

E NON-DERIVATIVE FINANCIAL LIABILITIES

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future cash flows from a principal and interest, discounted using the market interest rate at the reporting date. For finance leases the market interest rate is determined by reference to similar lease agreements.

F DERIVATIVES

The fair value of forwards is based on their quoted market price, if this price is available. If the quoted market price is not available, the fair value is estimated

based on the discounting of 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 (derived from the interest rate of government bonds).

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

The fair value of other derivatives (currency, commodity or foreign consumer indices) embedded in contracts is estimated by discounting the difference between the contractual forward values and the current forward 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, when appropriate, include adjustments considering the credit risk attributable the Group entity and counterparty.

5. Acquisitions, Investments in and Sales of Subsidiaries, Special-Purpose Vehicles, Joint Ventures and Associates

A ACQUISITIONS AND STEP ACQUISITIONS

I. 31. DECEMBER 2019

In CZK million

	Date of acquisition	Purchase price	Cash outflow	Other consideration	Equity interest acquired %	Equity interest after acquisition %
New subsidiary						
EZ-ELEKTROSYSTÉMY Košice s.r.o.	08/01/2019	49	-49	-	100	100
ELQA, s.r.o.	09/01/2019	133	-133	-	100	100
Elektrovod a.s.	18/01/2019	1	-1	-	100	100
Fintherm a.s.	30/04/2019	87	-87	-	100	100
PEZ – projekce energetických zařízení s.r.o.	25/06/2019	8	-8	-	100	100
T.O.O., spol. s r.o.	26/09/2019	39	-39	(1)5	100	100
ALCEDO IS, s.r.o.	17/12/2019	13	-13	7	(2)100	(1)100
Total		**330**	**-330**	**12**	**-**	**-**

(1) Other consideration represents the outstanding payment of the purchase price that will be paid if certain economic criteria specified in the purchase contract are met.
(2) The effective equity interest of the EPI Group is 67.5%.

ACQUISITION OF NON-CONTROLLING INTERESTS

In 2019, the Group acquired no additional interest in any of its companies.

II. 31 DECEMBER 2018

In CZK million

	Date of acquisition	Purchase price	Cash outflow	Other consideration	Equity interest acquired %	Equity interest after acquisition %
New subsidiary						
PI1 a.s. and its subsidiaries I&C Energo a.s. and ENPRO Energo s.r.o.	09/07/2018	878	-878	-	100	100
SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s.	01/08/2018	-	-	(1)756	(1)-	(1)89,83
Total		**878**	**-878**	**756**	**-**	**-**

(1) Control was performed by the minority owner based on a shareholder agreement. Following the termination of the shareholder agreement of 1 August 2018, control was transferred to EP Industries a.s., the majority owner. The shareholder agreement did not change the ownership percentages in any way. Before the termination of this agreement, the Group had an 89.83% equity interest; until then, the equity interest in the company in the amount of CZK 756 million was reported as an equity instrument measured at fair value through other comprehensive income. Other consideration represents 89.83% of the fair value of the previously reported equity interest in SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s.

ACQUISITION OF NON-CONTROLLING INTERESTS

On 12 February 2018, the Group acquired a 10% equity interest in STELMAR s.r.o. As a result of the transaction, the total interest in the entity increased to 100%.

On 29 June 2018, the Group acquired a 34.03% equity interest in AVE Břeclav, a.s. As a result of the transaction, the total interest in the entity increased to 100% (effective ownership interest of 67.5%).

B EFFECT OF ACQUISITIONS

I. 31 DECEMBER 2019

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of EZ-ELEKTROSYSTÉMY Košice s.r.o., ELQA, s.r.o., Elektrovod a.s., Fintherm a.s., PEZ – projekce energetických zařízení s.r.o., T.O.O., spol. s r.o. and ALCEDO IS, s.r.o. are provided in the following table:

In CZK million

	Carrying amount[1]	Fair value adjustment	2019 total
Property, plant, equipment, land, buildings	88	-	88
Inventories	65	-	65
Trade receivables and other assets	124	-	124
Cash and cash equivalents	46	-	46
Deferred tax asset	2	-	2
Provisions	-1	-	-1
Loans and borrowings	-31	-	-31
Deferred tax liabilities	-2	-	-2
Trade payables and other liabilities	-77	-	-77
Net identifiable assets and liabilities	**214**	**-**	**214**
Non-controlling interest			-
Goodwill			135
Negative goodwill on acquisition of new subsidiaries			-7
Cost of acquisition			**342**
Consideration paid, satisfied in cash (A)			330
Other consideration			12
Total consideration transferred			**342**
Less: Cash acquired (B)			46
Net cash inflow (outflow (C) = (B – A)			**-284**

(1) Amounts corresponding to 100% equity interest.

II. 31 DECEMBER 2018

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of PI1 a.s. and its subsidiaries I&C Energo a.s. and ENPRO Energo s.r.o. and SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s. are provided in the following table:

In CZK million

	Carrying amount[1]	Fair value adjustment[2]	2018 total
Property, plant, equipment, land, buildings	431	431	862
Intangible assets	14	-	14
Inventories	200	-	200
Trade receivables and other assets	1 742	-	1 742
Cash and cash equivalents	197	-	197
Deferred tax asset	11	-	11
Provisions	-37	-	-37
Loans and borrowings	-1 740	222	-1 518
Deferred tax liabilities	-43	-88	-131
Trade payables and other liabilities	-1 082	-	-1 082
Net identifiable assets and liabilities	**-307**	**565**	**258**
Non-controlling interest			-49
Goodwill			[2]1 425
Cost of acquisition			**1 634**
Consideration paid, satisfied in cash (A)			878
Other consideration[3]			756
Total consideration transferred			**1 634**
Less: Cash acquired (B)			197
Net cash inflow (outflow (C) = (B – A)			**-681**

(1) Amounts corresponding to 100% equity interest.
(2) As of the date of preparation of the Group's financial statements as of 31 December 2018, the process of allocation of the purchase price for I&C Energo a.s. had not been completed. The Group used the possibility to allocate this purchase price within 12 months of the acquisition date and during 2019, it recognised a fair value adjustment of this company's assets, including the effects on the amount of goodwill.
(3) Other consideration represents 89.83% of the fair value of the previously reported equity interest in SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s.

III. JUSTIFICATION OF ACQUISITIONS

The Group's strategic reasons for making the acquisitions include several factors, such as:

- The subsidiary's business complements EPI's portfolio;
- Potential for synergistic effects;
- The subsidiary has a good market position; and
- The relevant industry is likely to grow going forward.

One of the Group's strategic goals is to further expand in the industries of the countries in which the Group operates. Another objective of the Group is to further strengthen its position and become a significant market player.

The Group's view is that there is a long-term strategic value in these investments due to the development of the market and this resulted in historical goodwill in the total amount of CZK 4,530 million as of 31 December 2019. For the development of historical goodwill, please refer to Note 14 – Intangible assets (including goodwill).

In 2019, the Group reported no impairment loss arising from goodwill (2018: CZK 321 million).

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

In CZK million

	2019 Total
Revenue of the acquirees recognised since the acquisition date*	553
Profit (loss) of the acquirees recognised since the acquisition date*	40

* Before eliminating transactions between Group entities

In CZK million

	2018 Total
Revenue of the acquirees recognised since the acquisition date*	2 043
Profit (loss) of the acquirees recognised since the acquisition date*	-8

* Before eliminating transactions between Group entities

The table below shows estimated revenue and profit or loss that would be presented in the consolidated statement of comprehensive income if the acquisition was made at the start of the current period (i.e. as of 1 January 2019 or 1 January 2018). This financial information was derived from the acquiree's statutory financial statements or financial statements prepared under IFRS.

In CZK million

	2019 Total
Revenue of acquirees recognised in the year ended 31 December 2019*	688
Profit/(loss) of acquirees recognised in the year ended 31 December 2019*	273

* Before eliminating transactions between Group entities.

In CZK million

	2018 Total
Revenue of acquirees recognised in the year ended 31 December 2018*	3 773
Profit/(loss) of acquirees recognised in the year ended 31 December 2018*	96

* Before eliminating transactions between Group entities.

C BUSINESS COMBINATIONS – RECOGNITION OF ACQUISITIONS FOR 2019 AND 2018

The acquiree's identifiable assets, liabilities and contingent liabilities were recognised and measured by the Company at their fair values at the acquisition date; in line with the above, the established fair values were subsequently reported in the consolidated financial statements of the Company. Allocation of the total purchase price to individual net assets acquired for financial reporting purposes was performed with the support of professional advisors.

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

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

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

Fair value adjustments resulting from business combinations in 2019 were not material. The Group's management decided not to account for these changes.

Fair value adjustments resulting from business combinations in 2018 are shown in the following table:

In CZK million

	Tangible fixed assets	Loans and borrowings	Deferred tax liabilities	Total net impact on financial position
Subsidiary				
I&C Energo a.s.	13	-	-	13
SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s.	418	222	-88	552
Total	**431**	**222**	**-88**	**565**

D DISPOSAL OF INVESTMENTS AND RETIREMENT OF DISCONTINUED ACTIVITIES

I. DISPOSAL OF INVESTMENTS IN 2019

On 5 July 2019, the Group disposed of its entire equity interest in AVE Lviv TOB. The effects of this transaction are shown in the following table.

In CZK million

	Net assets sold in 2019
Tangible fixed assets	6
Trade receivables and other assets	19
Cash and cash equivalents	4
Loans and borrowings	-2
Trade payables and other liabilities	-29
Net identifiable assets and liabilities	**-2**
Non-controlling interest	-5
Total	**-7**
Selling price	-
Gain/-loss on disposal	**7**

In relation to the discontinuation of the liquidation process in respect of Elektrizácia železníc Kysak a.s., the entity was excluded from consolidation on 19 November 2019. The impact of this transaction is reported as a gain on line Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates in the Group's consolidated statement of comprehensive income.

II. DISPOSAL OF INVESTMENTS IN 2018

During 2018, the Group disposed of no investments in any of its entities and retired no discontinued activities.

In relation to the discontinuation of the liquidation process in respect of Masna Holding Limited, the entity was excluded from consolidation on 4 July 2018 with no material impact on the Group's financial statements.

6. Sales

In CZK million

	2019	2018
Sales: Technical-engineering activities and services	**9 883**	**7 102**
Sales: Industrial waste	**3 301**	**2 885**
Sales: Manufacturing and other		
Construction of railway lines and public transport lines	3 863	3 622
Waste management	3 236	2 880
Manufacturing	3 187	3 267
Total manufacturing and other	**10 286**	**9 769**
Total	**23 470**	**19 756**
In-country sales	18 909	16 039
Cross-border sales	4 561	3 717
Total	**23 470**	**19 756**

The transaction price allocated to (partially) unsatisfied performance obligations as of 31 December 2019 is as follows:

The total transaction price allocated to (partially) unsatisfied performance obligations as of 31 December 2019 is CZK 23,074 million (2018: CZK 21,700 million), of which technical-engineering activities and services account for CZK 8,723 million (2018: CZK 9,373 million), manufacturing and other for CZK 7,610 million (2018: CZK 5,350 million) and industrial waste for CZK 6,741 million (2018: CZK 6,977 million).

The Group's management anticipates that 50% (2018: 48%) of the transaction price allocated to unsatisfied performance obligations as of 31 December 2019 will be reported as income in the subsequent reporting period. The remaining 50% of this transaction price (2018: 52% as expected) will be reported in 2020 and subsequent years.

7. Cost of Sales

In CZK million

	2019	2018
Cost of sales: Technical-engineering activities and services		
External sub-supplies of services	3 778	3 180
Consumption of material	1 578	1 087
Consumption of energy	41	25
Goods used for manufacturing	25	10
Changes in WIP, semi-finished products and finished goods	-8	-24
Total technical-engineering activities and services	**5 414**	**4 278**
Cost of sales: Industrial waste		
Disposal cost	1 669	1 526
Car fleet cost	363	564
Waste deposition fee	194	173
Recognition and release of statutory provisions for waste dumps	9	6
Total industrial waste	**2 235**	**2 269**
Cost of sales: Manufacturing and other		
Consumption of material	4 517	3 624
Goods used for manufacturing	320	488
Consumption of energy	80	69
Changes in WIP, semi-finished products and finished goods	-110	6
Other cost of sales	1 709	1 694
Total manufacturing and other	**6 516**	**5 881**
Total	**14 165**	**12 428**

Cost of sales presented in the above table does not contain directly attributable overheads (particularly personnel expenses, depreciation and amortisation, repairs and maintenance, taxes and charges etc.).

Other costs of sales include minority sub-supplies, ordinary costs of services relating to production and other costs.

8. Personnel Expenses

In CZK million

	2019	2018
Wages and salaries	3 489	2 678
Compulsory social security contributions	1 143	870
Remuneration to board members(1)	61	41
Other social expenses	148	109
Total	**4 841**	**3 698**

(1) This item includes the remuneration of the members of the Board of Directors, including the members of the Boards of Directors of subsidiaries.

The average number of employees in 2019 was 7,339 (2018: 6,185), of which 253 were managers (2018: 280).

9. Other Operating Income

In CZK million

	2019	2018
Contractual fines	148	36
Gain on the sale of material	146	114
Rental income	28	31
Bonuses, discounts and grants	26	32
Compensation from insurance companies	23	21
Sales of tangible and intangible assets	21	27
Written-off payables	9	1
Services related to non-guarantee repairs, maintenance etc.	-	15
Rebilling	-	1
Other	66	76
Total	**467**	**354**

10. Other Operating Expenses

In CZK million

	2019	2018
Transport expenses	269	222
Rent expenses	204	306
Consulting expenses	197	126
Impairment losses/(reversal of impairment losses)	143	347
Recognition and release of provisions	110	19
Advertising expenses	93	154
Insurance expenses	79	59
Gifts and sponsorship	54	46
Information technologies costs	51	35
Security and cleaning services	43	38
Office equipment and other material	41	41
Contractual fines and penalties	28	35
Outsourcing and other administrative fees	24	38
Educational courses, conferences	23	17
Services related to technical and engineering activities	22	47
Communication costs	19	15
Administrative costs	14	20
Loss on written-off receivables	12	10
Compensation of damage	9	4
Lease-related services	7	6
Own work capitalised	-27	-65
Other	220	126
Total other operating expenses	**1 635**	**1 646**

No material research and development costs were reported in the statement of comprehensive income for the years ended 31 December 2019 and 2018.

FEES PAYABLE TO STATUTORY AUDITORS

In CZK million

	2019	2018
Statutory audit	9	9
Tax advisory and other assurance services	2	2
Total	**11**	**11**

The figures presented above include expenses recorded by all subsidiaries. The information includes all audit engagements – such as audits of input/output reporting packages, extraordinary statutory audits, mid-year reviews and other services.

11. Finance Income and Expense, Profit (Loss) from Financial Instruments

In CZK million

	2019	2018
Interest income	36	106
Net foreign exchange gain	41	-
Other finance income	35	3
Finance income	**112**	**109**
Interest expense	-489	-338
Fees and commissions expense for payment transactions	-36	-30
Fees and commissions expense for transactions with financial instruments	-4	-3
Net foreign exchange loss	-	-5
Other finance expense	-30	-62
Finance expense	**-559**	**-438**
Profit (loss) from currency derivatives for trading	90	-5
Reversal of impairment loss through profit or loss	-9	65
Profit (loss) from interest rate derivatives held for trading	-	1
Profit (loss) from financial instruments	-	-1
Profit/(loss) from financial instruments	**81**	**60**
Net finance income (expense)	**-366**	**-269**

12. Tax Expenses

INCOME TAXES RECOGNISED THROUGH THE STATEMENT OF COMPREHENSIVE INCOME

In CZK million

	2019	2018
Current taxes:		
Current year	-504	-446
Adjustment for prior periods	1	2
Total current taxes	**-503**	**-444**
Deferred taxes:		
Origination and reversal of temporary differences	72	67
Total deferred taxes	**72**	**67**
Total income taxes	**-431**	**-377**

Deferred taxes are calculated using currently enacted tax rates expected to apply when the asset is recovered or the liability settled. According to Czech legislation the corporate income tax rate is 19% for the 2019 and 2018 fiscal years. The Slovak corporate income tax rate is 21% for the 2019 and 2018 fiscal years. The corporate income tax rate stipulated by Ukrainian legislation for the 2019 and 2018 fiscal years is 18%. The income tax in the current year also includes a special sector tax applicable in Slovakia.

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

In CZK million

	2019		
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	-26	-	-26
Fair value reserve included in other comprehensive income	1	-	1
Total	**-25**	**-**	**-25**

In CZK million

	2018		
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	14	-	14
Fair value reserve included in other comprehensive income	5	-	5
Total	**19**	**-**	**19**

The foreign currency translation differences for foreign operations related to non-controlling interests are presented under non-controlling interests.

RECONCILIATION OF THE EFFECTIVE TAX RATE

In CZK million

	%	2019	%	2018
Profit before tax		1 599		1 071
Income tax using the Company's domestic rate (19%)	19 %	304	19,00 %	203
Effect of tax rates in foreign jurisdictions	0,31 %	5	0,19 %	2
Non-deductible expenses	13,51 %	216	19,23 %	206
Non-taxable income	-4,81 %	-77	-4,11 %	-44
Recognition of previously unrecognised tax losses	-0,50 %	-8	-0,19 %	-2
Effects of special tax on regulated services	-0,63 %	-10	-	-
Current year's losses for which no deferred tax asset was recognised	0,25 %	4	0,56 %	6
Tax incentives, tax credit	-0,12 %	-2	-0,47 %	-5
Withholding tax, income tax adjustments for prior periods	-0,06 %	-1	-0,19 %	-2
Change in unreported temporary differences	-	-	1,21 %	13
Income tax recognised in other comprehensive income	**26,95 %**	**431**	**35,23 %**	**377**

Non-deductible expenses and non-taxable income primarily include tax non-deductible loan interest and additional consolidation accounting.

13. Property, Plant and Equipment

In CZK million

	Land and buildings[1]	Technical equipment, plant and machinery[1]	Other equipment, fixtures and fittings and accessories	Under construction	Total
Cost					
Balance at 1 January 2019	**2 595**	**3 232**	**311**	**52**	**6 190**
Adjustment due to accounting policy change (IFRS 16)	278	597	-	-	**875**
Balance at 1 January 2019 – restated	**2 873**	**3 829**	**311**	**52**	**7 065**
Additions	408	542	48	109	**1 107**
Additions through business combinations	63	22	-	3	**88**
Disposals	-45	-111	-29	-47	**-232**
Disposals resulting from sales of companies	-3	-18	-1	-	**-22**
Transfers	8	18	2	-28	**-**
Effects of movements in foreign exchange rates	-8	-	-	-	**-8**
Balance at 31 December 2019	**3 296**	**4 282**	**331**	**89**	**7 998**
Depreciation and impairment losses					
Balance at 1 January 2019	**-536**	**-1 607**	**-173**	**-**	**-2 316**
Depreciation charge for the year	-223	-653	-47	-	**-923**
Disposals	-	87	26	-	**113**
Disposals resulting from sales of companies	1	14	1	-	**16**
Reversal of impairment loss through profit or loss	5	-	-	-	**5**
Effects of movements in foreign exchange rates	1	-	-	-	**1**
Balance at 31 December 2019	**-752**	**-2 159**	**-193**	**-**	**-3 104**
Carrying amounts					
At 1 January 2019	**2 059**	**1 625**	**138**	**52**	**3 874**
At 31 December 2019	**2 544**	**2 123**	**138**	**89**	**4 894**

(1) Including right-of-use assets

In CZK million

	Land and buildings	Technical equipment, plant and machinery	Other equipment, fixtures and fittings and accessories	Under construction	Total
Cost					
Balance at 1 January 2018	**2 090**	**2 578**	**271**	**42**	**4 981**
Additions	54	341	42	115	**552**
Additions through business combinations	455	405	2	-	**862**
Disposals	-17	-120	-7	-78	**-222**
Transfers	7	17	3	-27	**-**
Effects of movements in foreign exchange rates	6	11	-	-	**17**
Balance at 31 December 2018	**2 595**	**3 232**	**311**	**52**	**6 190**
Depreciation and impairment losses					
Balance at 1 January 2018	**-400**	**-1 296**	**-131**	**-**	**-1 827**
Depreciation charge for the year	-124	-360	-48	-	**-532**
Disposals	-	30	6	-	**36**
Reversal of loss/(impairment loss) through profit or loss	-11	23	-	-	**12**
Effects of movements in foreign exchange rates	-1	-4	-	-	**-5**
Balance at 31 December 2018	**-536**	**-1 607**	**-173**	**-**	**-2 316**
Carrying amounts					
At 1 January 2018	**1 690**	**1 282**	**140**	**42**	**3 154**
At 31 December 2018	**2 059**	**1 625**	**138**	**52**	**3 874**

Impairment losses and reversal of impairment losses are reported in other operating expense.

IDLE ASSETS

As of 31 December 2019 and 31 December 2018, the Group had no material idle assets.

SECURITY

As of 31 December 2019, property, plant and equipment of CZK 943 million (2018: CZK 1,449 million) are subject to pledges to secure bank loans.

14. Intangible Assets (Including Goodwill)

In CZK million

	Goodwill	Software	Customer relationships	Other intangible assets	Total
Cost					
Balance at 1 January 2019	**4 725**	**111**	**666**	**600**	**6 102**
Additions	-	25	-	7	**32**
Additions through business combinations	135	-	-	-	**135**
Disposals	-	-12	-	-14	**-26**
Transfers	-	13	-	-13	**-**
Effect of movements in foreign exchange rates	-7	-	-	-	**-7**
Balance at 31 December 2019	**4 853**	**137**	**666**	**580**	**6 236**
Amortisation and impairment losses					
Balance at 1 January 2019	**-328**	**-82**	**-525**	**-471**	**-1 406**
Amortisation for the year	-	-19	-77	-6	**-102**
Disposals	-	12	-	1	**13**
Effect of movements in foreign exchange rates	5	-	-	-	**5**
Balance at 31 December 2019	**-323**	**-89**	**-602**	**-476**	**-1 490**
Carrying amounts					
At 1 January 2019	**4 397**	**29**	**141**	**129**	**4 696**
At 31 December 2019	**4 530**	**48**	**64**	**104**	**4 746**

In CZK million

	Goodwill	Software	Customer relationships	Other intangible assets	Total
Cost					
Balance at 1 January 2018	**3 298**	**94**	**666**	**569**	**4 627**
Additions	-	10	-	28	**38**
Additions through business combinations	1 425	4	-	10	**1 439**
Disposals	-	-	-	-4	**-4**
Transfers	-	3	-	-3	**-**
Effect of movements in foreign exchange rates	2	-	-	-	**2**
Balance at 31 December 2018	**4 725**	**111**	**666**	**600**	**6 102**
Amortisation and impairment losses					
Balance at 1 January 2018	**-6**	**-67**	**-449**	**-351**	**-873**
Amortisation for the year	-	-15	-76	-120	**-211**
Impairment losses throughprofit or loss	-321	**-**	**-**	**-**	**-321**
Effect of movements in foreign exchange rates	-1	**-**	**-**	**-**	**-1**
Balance at 31 December 2018	**-328**	**-82**	**-525**	**-471**	**-1 406**
Carrying amounts					
At 1 January 2018	**3 292**	**27**	**217**	**218**	**3 754**
At 31 December 2018	**4 397**	**29**	**141**	**129**	**4 696**

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

Customer relationships represent assets securing long-term income from customers.

Other intangible assets include valuable rights, assets arising from the existence of contracts and the trademark or company name (a majority of items were identified during the process of allocating the purchase price as part of the earlier acquisition by the EPH Group). All intangible assets, excluding selected trademarks, were recognised as assets with definite useful lives. Given the nature of the given asset (asset item) and its role in future business opportunities along with its economic contribution, a trademark with a definite useful life of CZK 52 million was identified in respect of SOR Libchavy spol. s r.o. Furthermore, the Group identified a trademark in respect of Andelta a.s., which is duly registered with the Industrial Property Office. This trademark was measured at CZK 32 million for accounting purposes. The Company’s management believes that the trademark will also generate net cash flows after its useful life has expired under Czech law, for which reason the trademark has an indefinite useful life. As of 31 December 2019, trademarks were tested for impairment.

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 following aggregated carrying amounts are allocated to individual cash-generating units:

In CZK million

	31 December 2019	31 December 2018
PIRAMEL ENTERPRISES LIMITED Group(1)	2 010	2 007
PI1 Group(2)	1 104	1 104
EGEM s.r.o.	409	409
MSEM, a.s.	184	184
SOR Libchavy spol. s r.o.	177	177
Energetické opravny a.s.	141	141
VČE-montáže, a.s.	102	102
ELTRA, s.r.o.	95	96
SEG s.r.o.	91	91
PROFI EMG s.r.o.	83	83
ELQA, s.r.o.	74	-
EZ-ELEKTROSYSTÉMY Košice s.r.o.	37	-
PEZ-projekce energetických zařízení s.r.o.	11	-
T.O.O., spol. s r.o.	9	-
STELMAR s.r.o	3	3
Total	**4 530**	**4 397**

(1) For a summary of entities included in the subgroup PIRAMEL ENTERPRISES LIMITED Group, to which a portion of the above presented goodwill is attributable, refer to Note 34 – Group Entitles.
(2) For a summary of entities included in the subgroup PI1 Group, to which a portion of the above presented goodwill is attributable, refer to Note 34 – Group Entities.

In 2019, the balance of goodwill increased by CZK 135 million as a result of the acquisition of EZ-ELEKTROSYSTÉMY Košice s.r.o., ELQA, s.r.o., Elektrovod a.s., PEZ – projekce energetických zařízení s.r.o., T.O.O., spol. s r.o. and ALCEDO IS, s.r.o. (2018: increase of CZK 1,425 million as a result of the acquisition of PI1 a.s., I&C Energo a.s., ENPRO Energo s.r.o. and SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s.). In 2019, the Group reported no impairment of goodwill (2018: CZK 321 million).

The resulting change in the balance of goodwill of CZK 133 million was attributable to the recognition of new goodwill of CZK 135 million and the effect of changes in foreign exchange rates.

GOODWILL AND IMPAIRMENT TESTING

Goodwill transferred from Energetický a průmyslový holding, a.s. was reported in the amount disclosed in the consolidated notes to the financial statements of Energetický a průmyslový holding, a.s. As of 30 September 2011, no new goodwill originated, the reason being that the formation of the EPI Group was analogically recognised through business combinations under joint control (refer to Note 1 – General Information).

In compliance with IAS 36, the Group annually conducts impairment testing of goodwill arising on business combinations during the current year and impairment testing of goodwill reported in prior years. The Group also conducts impairment testing of other intangible assets with indefinite useful lives and cash-generating units (CGU), where grounds for it were identified. As of 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 value in use that reflects estimated future discounted cash flows. The 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.

At the year-end, the Group conducted impairment testing in respect of all material amounts of goodwill.

The calculation of the recoverable amounts was based on the following key assumptions:

Cash-flows were projected based on past experience, actual operating results and the one-year business plan followed by an additional five years of modelled projections. Cash flows for a terminal period were extrapolated using a constant growth rate of 2%, which does not exceed the long-term average growth rate for the industry. Other key assumptions considered by management include forecasts of investment activity, changes in working capital and changes in the regulatory framework.

No need for goodwill impairment was identified during the testing for the current year (2018: CZK 321 million).

The recoverable amount of cash-generating units was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of cash-generating units. Value in use in 2019 was determined on a similar basis as in 2018. The discount rate represented an indicator after taxation based on a risk-free rate adjusted for risk premium reflecting both the increased risk of investments in equity securities in general as well as the systemic risk of cash-generating units. The budgeted amount of the EBITDA indicator (which represents operating profit plus depreciation of property, plant and equipment, and amortisation of intangible assets) was based on the expected future development and past experience. The Company primarily reflected the following:

- Market development and the competitive environment;
- Legislative environment;
- Expectations regarding market margins; and
- An in-depth analysis of production overheads.

Key assumptions used in the calculation of value in use were the discount rate and the terminal value growth rate. These selected assumptions were as follows:

	Discount rate		Terminal value growth rate	
	2019	2018	2019	2018
PIRAMEL ENTERPRISES LIMITED(1)	8,90 %	9,71 %	2 %	2 %
EGEM s.r.o.	8,12 %	8,34 %	2 %	2 %
MSEM, a.s.	8,12 %	8,34 %	2 %	2 %
VČE-montáže, a.s.	8,12 %	8,34 %	2 %	2 %
SEG s.r.o.	8,12 %	8,34 %	2 %	2 %
PROFI EMG s.r.o.	8,12 %	8,34 %	2 %	2 %
PI1 a.s. and its subsidiaries	7,68 %	8,13 %	2 %	2 %
Energetické opravny a.s.	7,22 %	8,10 %	2 %	2 %
SES ENERGY, a.s.	6,88 %	7,74 %	2 %	2 %
SOR Libchavy spol. s. r.o.	7,29 %	7,33 %	2 %	2 %
ELTRA, s.r.o.	6,60 %	7,20 %	2 %	2 %
ELQA, s.r.o.	8,12 %	-	2 %	¨-
EZ-ELEKTROSYSTÉMY Košice s.r.o.	6,60 %	-	2 %	-
PEZ-projekce energetických zařízení s.r.o.	8,12 %	-	2 %	-
T.O.O., spol. s r.o.	8,12 %	-	2 %	-
SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s.	-	6,88 %	-	2 %

(1) The above-stated discount rate relates to the Czech Republic, which represents the most significant region in which the Company operates. Discount rates of other regions: Slovakia – 7.72%, Ukraine – 24.67%.

15. Deferred Tax Assets and Liabilities

RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

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

In CZK million

	31 December 2019			31 December 2018		
Temporary difference related to:	Assets	Liabilities	Net	Assets	Liabilities	Net
Property, plant and equipment	67	-203	-136	35	-225	-190
Intangible assets	-	-25	-25	-	-37	-37
Assets held for sale	7	-	7	7	-	7
Inventories	14	-8	6	15	-4	11
Trade receivables and other assets	33	-	33	32	-	32
Provisions	95	-	95	63	-	63
Employee benefits	11	-	11	13	-	13
Outstanding interest (net)	-	-1	-1	-	-2	-2
Tax losses	1	-	1	1	-	1
Other items	61	-57	4	57	-41	16
Subtotal	**289**	**-294**	**-5**	**223**	**-309**	**-86**
Set-off tax	-175	175	-	-155	155	-
Total	**114**	**-119**	**-5**	**68**	**-154**	**-86**

MOVEMENTS IN DEFERRED TAX DURING THE YEAR

In CZK million

Temporary difference related to:	Balance at 1 January 2019	Recognised in profit or loss	Impact of accounting policy change	Balance at 31 December 2019
Property, plant and equipment	-190	45	9	-136
Intangible assets	-37	12	-	-25
Assets held for sale	7	-	-	7
Inventories	11	-5	-	6
Trade receivables and other assets	32	1	-	33
Provisions	63	32	-	95
Employee benefits	13	-2	-	11
Outstanding interest (net)	-2	1	-	-1
Tax losses	1	-	-	1
Other items	16	-12	-	4
Total	**-86**	**72**	**9**	**-5**

In CZK million

Temporary difference related to:	Balance at 1 January 2018	Recognised in profit or loss	Acquired in business combina-tions	Transfer	Effect of movements in foreign exchange rate	Balance at 31 December 2018
Property, plant and equipment	-58	8	-141	-	1	-190
Intangible assets	-46	10	-1	-	-	-37
Assets held for sale	7	-	-	-	-	7
Inventories	1	43	-33	-	-	11
Trade receivables and other assets	-5	8	29	-	-	32
Provisions	53	1	9	-	-	63
Employee benefits	7	-	7	-1	-	13
Outstanding interest (net)	-	-2	-	-	-	-2
Tax losses	1	-	-	-	-	1
Other items	6	-1	10	1	-	16
Total	**-34**	**67**	**-120**	**-**	**1**	**-86**

UNRECOGNISED DEFERRED TAX ASSETS

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

In CZK million

	31 December 2019	31 December 2018
Tax losses carried forward	123	218
Receivables and other assets	118	112
Property, plant and equipment	-	6
Total	**241**	**336**

The total amount of tax losses carried forward is CZK 123 million (2018: CZK 218 million). Given the nature of the Company's income and expense, no significant taxable profit is expected; therefore, no deferred tax asset was reported. If sufficient taxable profit was generated in 2019, the relevant taxable income (savings) would amount to as much as CZK 25 million (2018: CZK 44 million.)

Tax losses expire over a period of five years in the Czech Republic and four years in Slovakia. 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.

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

	2020	2021	2022	2023	2024 and later	Total
Tax losses	64	27	10	14	8	123

16. Inventories

In CZK million

	31 December 2019	31 December 2018
Raw material and supplies	843	731
Work in progress	406	403
Finished goods and merchandise	149	108
Total	**1 398**	**1 242**

As of 31 December 2019, inventories were written off through the statement of comprehensive income in the amount of CZK 7 million (2018: CZK 0 million).

PLEDGES

As of 31 December 2019, inventories in the amount of CZK 656 million (2018: CZK 712 million) were subject to pledges.

17. Trade Receivables and Other Assets

In CZK million

	31 December 2019	31 December 2018
Trade receivables	5 130	4 146
Receivables from the performance of ongoing contracts	1 305	1 477
Retention fees	488	383
Advance payments	298	158
Estimated receivables	40	50
Accrued income	20	20
Other receivables and assets	164	87
Allowance for bad debts	-231	-103
Total	**7 214**	**6 218**
Non-current	441	428
Current	6 773	5 790
Total	**7 214**	**6 218**

Impairment losses and reversal of impairment losses are reported under other operating expenses.

As of 31 December 2019, trade receivables with a carrying value of CZK 1,200 million (2018: CZK 2,630 million) are subject to pledges.

As of 31 December 2019, trade receivables and other assets of CZK 6,921 million (2018: CZK 5,961 million) are not past due; the remaining balance of CZK 293 million is overdue (2018: CZK 257 million).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables, except for ongoing contractor's work, is disclosed in Note 32 – Risk management policies and disclosures.

INCOME FROM CONSTRUCTION CONTRACTS RECOGNISED ON AN ONGOING BASIS

In CZK million

	31 December 2019	31 December 2018
Income recognised for the period	11 284	9 681
Expenses incurred in the period	-8 948	-8 184
Profit/(loss) from construction contracts for the period	**2 336**	**1 497**
Receivables from the performance of ongoing contracts	1 305	1 477

As of 31 December 2019, trade receivables included retention fees relating to contracts with customers in the amount of CZK 488 million (2018: CZK 383 million).

18. Cash and Cash Equivalents

In CZK million

	31 December 2019	31 December 2018
Current accounts and deposits with banks	1 941	2 196
Cash and cash equivalents	9	9
Total	**1 950**	**2 205**

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

As of 31 December 2019, cash equivalents of CZK 417 million (2018: CZK 395 million) are subject to pledges (these balances do not include restricted cash). According to the loan documentation, cash balances at specific entities are pledged in favour of the financial institution in the event of the Group's default upon the payment of loans. As such, the pledged cash is readily available to the Group and does not represent restricted cash.

19. Restricted Cash

In CZK million

	31 December 2019	31 December 2018
Non-current restricted cash	286	288
Current restricted cash	9	9
Total	**295**	**297**

As of 31 December 2019, the balance of restricted cash is represented by an escrow account to cover the recultivation provision in AVE CZ odpadové hospodářství s.r.o. of CZK 285 million (2018: CZK 253 million), ZDIBE spol. s r.o. of CZK 8 million (2018: CZK 8 million), AVE SK odpadové hospodárstvo s.r.o. of CZK 1 million (2018: CZK 35 million), and SES BOHEMIA ENGINEERING, a.s. of CZK 1 million (2018: CZK 1 million).

20. Tax Receivables

In CZK million

	31 December 2019	31 December 2018
Value added tax receivables	209	114
Current income tax receivables	65	47
Road tax receivables	-	1
Other tax receivables	6	13
Total	**280**	**175**

21. Equity

SHARE CAPITAL

The authorised, issued and fully paid share capital as of 31 December 2019 consisted of 1,035,816 ordinary shares with a par value of CZK 1,000 each (2018: 1,035,816 shares with a par value of CZK 1,000 each).

The shareholders are entitled to receive dividends and to 1,000 votes per CZK 1,000 share at meetings of the Company's shareholders.

In 2019, the Company announced dividends of CZK 238 million (2018: CZK 1,900 million). These dividends were fully offset against a loan. Of these announced dividends, CZK 30 million was offset against a loan (2018: CZK 1,900 million); the remaining portion of CZK 208 million was paid in cash (2018: CZK 0 million).

The shareholder structure as of 31 December 2019 and 2018 was as follows:

31 December 2019	Number of shares CZK 1,000	Ownership %	Voting rights %
EP INDUSTRIES HOLDING LIMITED	1 035 816	100,00	100,00
Total shares in circulation	**1 035 816**	**100,00**	**100,00**

31 December 2018	Number of shares CZK 1,000	Ownership %	Voting rights %
EP INDUSTRIES HOLDING LIMITED	1 035 816	100,00	100,00
Total shares in circulation	**1 035 816**	**100,00**	**100,00**

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

	Number of shares 31 December 2019 CZK 1,000	Number of shares 31 December 2018 CZK 1,000
Shares outstanding at the beginning of the year	1 035 816	1 035 816
Shares outstanding at the end of the year	**1 035 816**	**1 035 816**

SHARE PREMIUM

In 2016, the sole shareholder provided a monetary contribution outside the share capital of CZK 1,589 million. A portion of this contribution of CZK 744 million was declared to be paid back to the shareholder in 2019 and was recorded as a payable to shareholders as of 31 December 2018.

CAPITAL AND OTHER RESERVES

Reserves reported through equity include the following items:

In CZK million

	31 December 2019	31 December 2018
Non-distributable reserves	100	99
Revaluation reserve	1	-
Translation reserve	-79	-49
Other capital reserves	-1 945	-1 945
Total	**-1 923**	**-1 895**

NON-DISTRIBUTABLE RESERVES

Based on the newly valid and effective Czech legislation, it has no longer been compulsory to establish a statutory reserve since 1 January 2014. Since 1 January 2014 it has been possible to release and pay out the statutory reserve, provided certain conditions are met.

TRANSLATION RESERVE

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations of the Group.

OTHER CAPITAL RESERVES

In 2011, the Group accounted for pricing differences that arose from the establishment of the EPI Group as of 30 September 2011. The establishment of the EPI Group was accounted for similarly as the acquisition of subsidiaries under joint control, and therefore excluded from 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. Subsidiaries were recorded at the carrying amount, 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 at the acquisition date was recorded in consolidated equity as pricing differences under 'Other capital reserves'.

22. Non-controlling Interest

31 DECEMBER 2019

In CZK million

	Assembly subgroup[2]	Waste management subgroup[2]	Other	Total
Non-controlling percentage	**12 %**	**32,5 %**	[2] -	**-**
Carrying amount of NCI	**-8**	**714**	**33**	**739**
Profit attributable to non-controlling interests	**53**	**181**	**-24**	**210**
Dividends for entities holding equity investments	**-80**	**-162**	**-**	**-242**
Statement of financial position[1]				
Total assets	9 543	12 415	1 537	**23 495**
Of which: non-current	*5 724*	*5 835*	*823*	***12 382***
current	*3 819*	*6 580*	*714*	***11 113***
Total liabilities	4 877	7 736	1 352	**13 965**
Of which: non-current	*689*	*4 211*	*117*	***5 017***
current	*4 188*	*3 525*	*1 235*	***8 948***
Net assets	**4 666**	**4 679**	**185**	**9 530**
Statement of comprehensive income[1]				
Total revenues	5 209	6 406	1 104	**12 719**
Profit/(loss) after tax	1 587	1 377	-246	**2 718**
Other comprehensive income for the year, net of income tax	-	-	-4	**-4**
Comprehensive income for the year	**1 587**	**1 377**	**-250**	**2 714**
Net cash inflows (outflows)	**17**	**57**	**3**	**77**

(1) Financial information derived from financial statements prepared in accordance with local statutory accounting standards.
(2) Entities included in individual subgroups, ownership percentages and countries in which they are registered are disclosed in Note 34 – Group Entities.

31 DECEMBER 2018

In CZK million

	Assembly subgroup[2]	Waste management subgroup[2]	Other	Total
Non-controlling percentage	**12 %**	**32,5 %**	[2] -	**-**
Carrying amount of NCI	**19**	**695**	**72**	**786**
Profit attributable to non-controlling interests	**63**	**122**	**-2**	**183**
Dividends for entities holding equity investments	**-100**	**-234**	**-**	**-334**
Statement of financial position [1]				
Total assets	8 896	8 832	1 722	**19 450**
Of which: non-current	*5 387*	*5 682*	*535*	***11 604***
current	*3 509*	*3 150*	*1 187*	***7 846***
Total liabilities	4 005	4 416	1 589	**10 010**
Of which: non-current	*2 485*	*1 899*	*495*	***4 879***
current	*1 520*	*2 517*	*1 094*	***5 131***
Net assets	**4 891**	**4 416**	**133**	**9 440**
Statement of comprehensive income[2]				
Total revenues	4 907	6 051	867	**11 825**
Profit/(loss) after tax	2 150	1 153	-29	**3 274**
Other comprehensive income for the year, net of income tax	-	1	-2	**-1**
Comprehensive income for the year	**2 150**	**1 154**	**-31**	**3 273**
Net cash inflows (outflows)	**-57**	**-29**	**101**	**15**

(1) Financial information derived from financial statements prepared in accordance with local statutory accounting standards.
(2) Entities included in individual subgroups, ownership percentages and countries in which they are registered are disclosed in Note 34 – Group Entities.

23. Loans and Borrowings

In CZK million

	31 December 2019	31 December 2018
Loans payable to credit institutions	7 456	7 222
Lease payables	836	13
Bank overdraft	675	547
Loans payable to other than credit institutions	129	67
Total	**9 096**	**7 849**
Non-current	5 315	4 607
Current	3 781	3 242
Total	**9 096**	**7 849**

The weighted average interest rate on loans for 2019 was 3.90% (2018: 3.66%).

TERMS AND DEBT REPAYMENT SCHEDULE

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

In CZK million

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31 Dec 19	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	CZK	variable*	2026	6 526	2 298	2 441	1 787
Secured bank loan	EUR	variable*	2024	620	262	358	
Secured bank loan	EUR	fixed	2024	310	127	183	-
Unsecured bank loan	EUR	fixed	2020	108	108	-	-
Unsecured bank loan	CZK	fixed	2020	21	21	-	-
Overdraft	CZK	variable*	2020	675	675	-	-
Lease liabilities	-	-	2025	836	290	504	42
Total				**9 096**	**3 781**	**3 486**	**1 829**

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

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

In CZK million

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31 Dec 18	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	CZK	variable*	2023	4 921	700	4 221	-
Secured bank loan	EUR	fixed	2019	1 674	1 674	-	-
Secured bank loan	EUR	variable*	2020	627	294	333	
Unsecured bank loan	EUR	fixed	2020	43	-	43	-
Unsecured bank loan	CZK	fixed	2020	24	20	4	-
Overdraft	CZK	variable*	2019	547	547	-	-
Payables arising from finance leases	-	-	-	13	7	6	-
Total				**7 849**	**3 242**	**4 607**	**-**

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

Loans are repaid in line with contractual terms.

24. Provisions

In CZK million

	Employee benefits	Guarantees	Provisions for onerous contracts	Provision for litigation	Provision for restoration and rehabilitation of landfills	Other	Total
Balance at 1 January 2019	**30**	**194**	**-**	**9**	**422**	**109**	**764**
Provisions made during the year	3	96	39	-	315	74	**527**
Provisions utilised during the year	-4	-	-	-	-	-3	**-7**
Provisions reversed during the year	-2	-92	-	-2	-17	-24	**-137**
Acquisition as a result of business combinations	-	-	-	-	-	1	**1**
Retroactive interest accrued	-	-	-	-	30	-	**30**
Transfer	-	-	-	-	9	-9	**-**
Balance at 31 December 2019	**27**	**198**	**39**	**7**	**759**	**148**	**1 178**
Non-current	27	123	26	-	675	121	**972**
Current	-	75	13	7	84	27	**206**
Total	**27**	**198**	**39**	**7**	**759**	**148**	**1 178**

In CZK million

	Employee benefits	Guarantees	Provisions for onerous contracts	Provision for litigation	Provision for restoration and rehabili-tation of landfills	Other	Total
Balance at 1 January 2018	**3**	**141**	**7**	**7**	**414**	**129**	**701**
Provisions made during the year	3	146	1	-	8	43	**201**
Provisions utilised during the year	-3	-	-	-	-14	-6	**-23**
Provisions reversed during the year	-	-103	-8	-	-	-57	**-168**
Acquisition as a result of business combinations	27	9	-	-	-	3	**39**
Retroactive interest accrued	-	-	-	-	14	-	**14**
Transfer	-	1	-	2	-	-3	**-**
Balance at 31 December 2018	**30**	**194**	**-**	**9**	**422**	**109**	**764**
Non-current	30	134	-	2	300	79	**545**
Current	-	60	-	7	122	30	**219**
Total	**30**	**194**	**-**	**9**	**422**	**109**	**764**

Recognition of provisions requires frequent use of estimates, for example an estimate of the likelihood of uncertain facts occurring or the calculation of anticipated profit or loss. These estimates are based on experience to date, statistical models and expert judgement.

PROVISION FOR WARRANTY REPAIRS

Major provisions include a provision of CZK 140 million (2018: CZK 115 million) for future costs of warranty repairs relating to sold buses reported by SOR Libchavy spol. s r.o. Other major provisions include a provision for warranty repairs and complaints relating to completed engagements of CZK 25 million (2018: CZK 47 million) reported by EGEM s.r.o.

Provisions for warranty repairs of buses are calculated for individual projects based on the number of months during which the warranty is provided and estimated costs per one month of warranty, which are determined based on past experience. If estimated costs per one month of warranty increase by 10%, the provision increases by CZK 7 million (2018: CZK 3 million).

The provision for warranty repairs of EGEM s.r.o. reflects the relevant contract for work and its amount is calculated based on the income and the warranty period stated in this contract. If the income from orders increased by 10%, the provision would increase by CZK 4 million (2018: CZK 4 million).

PROVISION FOR THE RESTORATION AND REHABILITATION OF LANDFILLS

A provision of CZK 759 million (2018: CZK 422 million) is reported by the AVE subgroup (refer to Note 3 (k) – Provisions). The increase in the reserve is due primarily to new legislation, expansion of the landfill capacity and extension of the landfill period by approximately five years.

PROVISIONS FOR FINANCIAL COMMITMENTS AND WARRANTIES

The Group conducted an analysis of expected credit losses in respect of the commitments made and warranties provided, and decided not to report them on grounds of immateriality.

25. Financial Instruments

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

In CZK million

	31 December 2019	31 December 2018
Assets carried at amortised cost		
Loans to other than credit institutions	957	869
Allowance for loans to other than credit institutions	-13	-4
Total	**944**	**865**
Assets carried at fair value		
Hedging: *of which*	7	-
Fair value hedge, commodity derivatives	*7*	-
Risk management: *of which*	64	10
Interest rate swaps for trading	*64*	*10*
Capital instruments at fair value through other	12	15
*Shares and interim certificates carried at fair value through other comprehensive income**	*12*	*15*
Total	**83**	**25**
Non-current	90	27
Current	937	863
Total	**1 027**	**890**

In 2019, the weighted interest rate average in respect of loans open as of the balance sheet date for other than credit institutions was 3.53% (2018: 4.36%).

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL LIABILITIES

In CZK million

	31 December 2019	31 December 2018
Liabilities carried at amortised cost		
Bills of exchange issued at amortised cost	1 838	1 808
Other financial liabilities	4	4
Total	**1 842**	**1 812**
Liabilities carried at fair value		
Hedging: *of which*	-	18
Fair value hedge, commodity derivatives	-	*18*
Total	**-**	**18**
Non-current	670	1 083
Current	1 172	747
Total	**1 842**	**1 830**

Fair values and relevant nominal values of derivatives are shown in the following table:

In CZK million

	31 December 2019			
	Nominal amount – purchase	Nominal amount – sale	Fair value – purchase	Fair value – sale
Risk management: *of which*	4 702	-4 702	64	-
Interest rate swaps for trading	*4 702*	*-4 702*	*64*	-
Hedging: *of which*	169	-169	7	-
Fair value hedge, commodity derivatives	*169*	*-169*	*7*	-
Total	**4 871**	**-4 871**	**71**	**-**

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	31 December 2018			
	Nominal amount – purchase	Nominal amount – sale	Fair value – purchase	Fair value – sale
Risk management: *of which*	1 141	-1 141	10	-
Interest rate swaps for trading	*1 141*	*-1 141*	*10*	-
Hedging: *of which*	96	-96	-	-18
Fair value hedge, commodity derivatives	*96*	*-96*	-	*-18*
Total	**1 237**	**-1 237**	**10**	**-18**

Swap derivatives are recognised in respect of interest rate swaps as described in detail in Note 32 – Risk management policies and disclosures.

Sensitivity analysis relating to the fair values of financial instruments is included in Note 32 – Risk management policies and disclosures.

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

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

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

In CZK million

	2019			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value				
Risk management: *of which*	-	*64*	-	**-**
Interest rate swaps for trading	-	*64*	-	**-**
Hedging: *of which*	-	7	-	**-**
Fair value hedge, commodity derivatives	-	*7*	-	**-**
Capital instruments at fair value through other comprehensive income: *of which*	-	-	12	**12**
*Shares and interim certificates carried at fair value through other comprehensive income**	-	-	*12*	***12***
Total	**-**	**71**	**12**	**83**

In CZK million

	2018			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value				
Risk management: *of which*	-	10	-	**10**
Interest rate swaps for trading	-	*10*	-	***10***
Capital instruments at fair value through other comprehensive income: *of which*	-	-	15	**15**
*Shares and interim certificates carried at fair value through other comprehensive income**	-	-	*15*	***15***
Total	**-**	**10**	**15**	**25**
Financial liabilities carried at fair value				
Hedging: *of which*	**-**	18	**-**	**18**
Fair value hedge, commodity derivatives	**-**	*18*	**-**	***18***
Total	**-**	**18**	**-**	**18**

As of 31 December 2019 and 31 December 2018, no transfers between the fair value levels were made.

The following table presents the fair value of financial instruments reported at amortised cost:

In CZK million

	Carrying amount 31 December 2019	Fair value 31 December 2019
Financial assets		
Loans to other than credit institutions (including provisions for bad debt)	944	943
Total	**944**	**943**
Financial liabilities		
Bills of exchange issued at amortised cost	1 838	1 607
Other financial liabilities	4	4
Total	**1 842**	**1 611**

In CZK million

	Carrying amount 31 December 2018	Fair value 31 December 2018
Financial assets		
Loans to other than credit institutions (including provisions for bad debt)	865	860
Total	**865**	**860**
Financial liabilities		
Bills of exchange issued at amortised cost	1 808	1 757
Other financial liabilities	4	4
Total	**1 812**	**1 761**

All financial instruments carried at amortised cost are classified as part of Level 2 of the fair value hierarchy (for more details about the valuation methods refer to Note 2 (d) i – Assumptions and estimation uncertainties).

Fair values of trade receivables, other assets and trade payables are identical to their carrying amounts.

26. Trade payables and other liabilities

In CZK million

	31 December 2019	31 December 2018
Trade payables	4 206	3 624
Prepayments received	659	672
Payables for supplies from ongoing contacts	609	608
Payables to employees	590	512
Estimated payables	160	140
Tax liabilities	119	94
Retention fees for suppliers	95	139
Unbilled supplies	85	32
Accrued expenses	19	10
Payables to owners	5	759
Operating lease liabilities	-	13
Other payables	110	108
Total	**6 657**	**6 711**
Non-current	306	682
Current	6 351	6 029
Total	**6 657**	**6 711**

Trade payables and other liabilities as of 31 December 2019 and 31 December 2018 were not secured.

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

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

All payables for supplies from ongoing contracts reported as of 31 December 2018 were settled during 2019.

The Group's exposure to currency and liquidity risk related to trade payables and other liabilities is disclosed in Note 32 – Risk management policies and disclosures.

27. Deferred income

In CZK million

	31 December 2019	31 December 2018
Government grants	76	88
Other	73	70
Total	**149**	**158**
Non-current	78	83
Current	71	75
Total	**149**	**158**

The Group received various government grants related to assets necessary for its activities (such as containers, sweepers, cars etc.) under the condition of acquiring these assets. Grants reported as deferred income are depreciated over the useful lives of these assets.

28. Financial guarantees and contingent payables

In CZK million

	31 December 2019	31 December 2018
Provided pledges – securities	6 042	6 702
Provided guarantees	1 182	728
Other provided pledges	3 216	5 222
Total	**10 440**	**12 652**

Provided pledges represent securities of the individual group companies used as security for external financing.

Provided guarantees represent guarantees for the liabilities of companies in the consolidation group.

Other provided pledges relate to:

In CZK million

	31 December 2019	31 December 2018
Trade receivables	1 200	2 630
Property, plant and equipment	943	1 449
Inventory	656	712
Cash and cash equivalents	417	395
Provided loans	-	36
Total	**3 216**	**5 222**

AVE CZ odpadové hospodářství s.r.o. and AVE Kladno s.r.o. (2018: AVE CZ odpadové hospodářství s.r.o., REKKA s.r.o. and AVE Sběrné Suroviny a.s.) pledged all their assets including equity investments as security for loan financing. These values are not included in the figures above.

29. Leases

A LEASES WITH THE GROUP AS THE LESSEE

The Group leases buildings and motor vehicles. The leases have various conditions and various lease terms. For certain leases, the Group has the option to extend the lease at the end of the lease term.

The Group decided not to report right-of-use assets and lease liabilities with respect to some low-value assets and short-term leases (lease term of 12 months or less). The lease payments related to these leases are reported as expenses.

RIGHT-OF-USE ASSETS

The right-of-use assets related to leased land and buildings and technical devices, machinery and equipment that do not meet the definition of investment property are reported as property, plant and equipment (refer to Note 13 – Property, plant and equipment).

In CZK million

	Land and buildings	Technical devices, machinery and equipment
Balance at 1 January 2019	**278**	**597**
Depreciation for the year	-56	-255
Additions to right-of-use assets	12	211
Additions arising from business combinations	-	5
Disposals of right-of-use assets	-1	-
Balance at 31 December 2019	**233**	**558**

MATURITY ANALYSIS OF LEASE LIABILITIES

In CZK million

	31 December 2019
Undiscounted contractual cash flows by maturity	
Less than 3 months	15
3 months to 1 year	273
1–5 years	506
More than 5 years	33
Total undiscounted cash flows	**827**
Carrying amount	**836**

REPORTED IN PROFIT OR LOSS

In CZK million

	2019
2019 – Leases under IFRS 16	
Depreciation for the year	-311
Interest on lease liabilities	-37
Costs of short-term leases	-100
Costs of leases of low-value assets except short-term leases of low-value assets	-49

In CZK million

	2018
2018 – Leases under IAS 17	
Costs of leases	306

VALUES REPORTED IN THE CASH FLOW STATEMENT

In CZK million

	2019
Total cash outflow for leases	310

B LEASES WITH THE GROUP AS THE LESSOR

OPERATING LEASES

For the year ended 31 December 2019, the statement of comprehensive income included rental income of CZK 28 million (2018: CZK 31 million).

30. Assets related to discontinued operations and assets held for sale

A ASSETS RELATED TO DISCONTINUED ACTIVITIES AND ASSETS HELD FOR SALE

The following asset items are presented as assets held for sale:

In CZK million

	31 December 2019	31 December 2018
Land and buildings held for sale	87	134
Total	**87**	**134**

As of 31 December 2019, specific assets of ELTRA, s.r.o. of CZK 87 million (2018: CZK 134 million) were classified as assets held for sale.

B LIABILITIES RELATED TO DISCONTINUED OPERATIONS

As of 31 December 2019 and 2018, the Group reported no liabilities related to assets held for sale.

31. Restatement of Financial Statements for 2018

In 2019, the Group reclassified SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s., originally reported under assets held for sale and liabilities related to assets held for sale, as a fully consolidated entity as of the date of the Group's gaining control over the entity, i.e. as of 1 August 2018. In addition, the Group performed additional adjustments due to the completion of the process of purchase price allocation for I&C Energo, a.s. (more details are provided in Note 5(b) – Effect of acquisitions).

The impact on the consolidated statement of other comprehensive income was as follows:

In CZK million

	2018 Restated (A)	2018 Original (B)	Change (A - B)
Sales: Technical-engineering & services	7 102	6 206	896
Sales: Industrial waste	2 885	2 885	-
Sales: Manufacturing and other	9 769	9 769	-
Total sales	**19 756**	**18 860**	**896**
Cost of sales: Technical-engineering & services	-4 278	-3 519	-759
Cost of sales: Industrial waste	-2 269	-2 269	-
Cost of sales: Manufacturing and other	-5 881	-5 881	-
Total cost of sales	**-12 428**	**-11 669**	**-759**
	7 328	**7 191**	**137**
Personnel expenses	-3 698	-3 563	-135
Depreciation and amortisation	-743	-695	-48
Repairs and maintenance	-216	-210	-6
Taxes and charges	-39	-39	-
Other operating income	354	327	27
Other operating expenses	-1 646	-1 285	-361
Profit/(loss) from operations	**1 340**	**1 726**	**-386**
Finance income	109	109	-
Finance expense	-438	-503	65
Profit/(loss) from financial instruments and derivatives	60	60	-
Net finance income/(expense)	**-269**	**-334**	**65**

	2018 Restated (A)	2018 Original (B)	Change (A - B)
Profit/(loss) before income tax	**1 071**	**1 392**	**-321**
Income tax	-377	-383	6
Profit/(loss) from continuing operations after tax	**694**	**1 009**	**-315**
Profit / (loss) from discontinued operations after tax	-	-714	714
Profit/(loss) for the period	**694**	**295**	**399**
Foreign currency translation differences for foreign operations	14	10	4
Fair value reserve	5	5	-
Other comprehensive income for the period, net of tax	**19**	**15**	**4**
Total comprehensive income for the period	**713**	**310**	**403**
Profit/(loss) attributable to:			
Owners of the Company			
Profit for the year from continuing operations	511	834	-323
Profit/(loss) for the year from discontinued operations	-	-714	714
Profit for the year attributable to owners of the Company	**511**	**120**	**391**
Non-controlling interest			
Profit for the year from continuing operations	183	175	8
Profit/(loss) for the year from discontinued operations	-	-	-
Profit for the year attributable to non-controlling interest	**183**	**175**	**8**
Profit/(loss) for the period	**694**	**295**	**399**
Total comprehensive income attributable to:			
Owners of the Company	528	134	394
Non-controlling interest	185	176	9
Total comprehensive income for the period	**713**	**310**	**403**

The impact on the consolidated statement of financial position was as follows:

In CZK million

	31 December 2018 Restated (A)	31 December 2018 Original (B)	Change (A - B)
Assets			
Property, plant and equipment	3 874	3 126	748
Intangible assets	299	298	1
Goodwill	4 397	4 410	-13
Financial instruments and other financial assets	27	21	6
Restricted cash	288	288	-
Trade receivables and other assets	428	239	189
Accruals and deferrals	46	46	-
Deferred tax assets	68	68	-
Total non-current assets	**9 427**	**8 496**	**931**
Inventories	1 242	1 126	116
Trade receivables and other assets	5 790	4 894	896
Financial instruments and other financial assets	863	868	-5
Accruals and deferrals	83	76	7
Tax receivables	175	162	13
Of which corporate income tax receivables	*47*	*47*	-
Cash and cash equivalents	2 205	2 164	41
Restricted cash	9	9	-
Assets held for sale	134	1 613	-1 479
Total current assets	**10 501**	**10 912**	**-411**
Total assets	**19 928**	**19 408**	**520**
Equity			
Share capital	1 036	1 036	-
Share premium	845	845	-
Capital and other reserves	-1 895	-1 898	3
Retained earnings	1 611	1 220	391
Total equity attributable to equity holders	**1 597**	**1 203**	**394**
Non-controlling interest	786	728	58
Total equity	**2 383**	**1 931**	**452**

	31 December 2018 Restated (A)	31 December 2018 Original (B)	Change (A - B)
Liabilities			
Loans and borrowings	4 607	4 607	-
Financial instruments and financial liabilities	1 083	1 083	-
Provisions	545	518	27
Deferred income	83	83	-
Deferred tax liabilities	154	75	79
Trade payables and other liabilities	682	658	24
Total non-current liabilities	**7 154**	**7 024**	**130**
Trade payables and other liabilities	6 029	5 156	873
Loans and borrowings	3 242	3 036	206
Financial instruments and financial liabilities	747	747	-
Provisions	219	216	3
Deferred income	75	75	-
Current income tax liability	79	79	-
Liabilities related to assets held for sale	-	1 144	-1 144
Total current liabilities	**10 391**	**10 453**	**-62**
Total liabilities	**17 545**	**17 477**	**68**
Total equity and liabilities	**19 928**	**19 408**	**520**

32. 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 and foreign exchange risk.

In the normal course of its business, the Group is exposed to different market risks, notably the risk of changes in interest rates and exchange rates. 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's policy is also to require suitable collateral or guarantee to be provided by customers. The exposure to credit risk is monitored on an ongoing basis.

ADDITIONAL ASPECTS MITIGATING CREDIT RISK

The carrying amount of financial 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 of 31 December 2019

In CZK million

	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Other	Total
Assets						
Cash and cash equivalents	-	-	-	1 941	9	**1 950**
Restricted cash	-	-	-	295	-	**295**
Trade receivables and other assets	6 995	159	7	-	53	**7 214**
Financial instruments and other financial assets	955	-	-	72	-	**1 027**
Total	**7 950**	**159**	**7**	**2 308**	**62**	**10 486**

As of 31 December 2018

In CZK million

	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Other	Total
Assets						
Cash and cash equivalents	-	-	-	2 196	9	**2 205**
Restricted cash	-	-	-	297	-	**297**
Trade receivables and other assets	6 094	78	2	-	44	**6 218**
Financial instruments and other financial assets	553	-	327	10	-	**890**
Total	**6 647**	**78**	**329**	**2 503**	**53**	**9 610**

CREDIT RISK BY TERRITORY OF THE DEBTOR

As of 31 December 2019

In CZK million

	Czech Republic	Slovakia	Netherlands	Other	Total
Assets					
Cash and cash equivalents	1 687	245	-	18	**1 950**
Restricted cash	294	1	-	-	**295**
Trade receivables and other assets	5 065	1 032	-	1 117	**7 214**
Financial instruments and other financial assets	597	295	-	135	**1 027**
Total	**7 643**	**1 573**	**-**	**1 270**	**10 486**

As of 31 December 2018

In CZK million

	Czech Republic	Slovakia	Netherlands	Other	Total
Assets					
Cash and cash equivalents	1 814	379	-	12	**2 205**
Restricted cash	262	35	-	-	**297**
Trade receivables and other assets	4 142	1 307	-	769	**6 218**
Financial instruments and other financial assets	55	2	327	506	**890**
Total	**6 273**	**1 723**	**327**	**1 287**	**9 610**

II. IMPAIRMENT LOSSES

In implementing IFRS 9 the Group replaced the “incurred loss” model in IAS 39 with the “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; or
- 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 information refer to Note 3(c) – Non-derivative financial assets.

The aging structure of financial assets, except for cash and cash equivalents and derivatives, as of the balance sheet date:

CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

As of 31 December 2019

In CZK million

	Loans to other than credit institutions	Trade receivables, contractual and other assets	Total
Before due date (net)	944	6 921	7 865
After due date (net)	-	293	293
Total	**944**	**7 214**	**8 158**
A – Assets (gross)			
– before due date	957	7 062	8 019
– after due date <30 days	-	182	182
– after due date 31–180 days	-	50	50
– after due date 181–365 days	-	31	31
– after due date >365 days	-	120	120
Total assets (gross)	**957**	**7 445**	**8 402**
B – allowances for assets			
– before due date	-13	-141	-154
– after due date <30 days	-	-3	-3
– after due date 31–180 days	-	-1	-1
– after due date 181–365 days	-	-1	-1
– after due date >365 days	-	-85	-85
Total allowances	**-13**	**-231**	**-244**
Total assets (net) (A + B)	**944**	**7 214**	**8 158**

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

In CZK million

	Loans to other than credit institutions	Trade receivables and other assets	Total
Balance at 1 January 2019	**-4**	**-103**	**-107**
Impairment losses recognised during the year	-9	-142	**-151**
Reversals of impairment losses recognised during the year	-	9	**9**
Use of allowances during the year	-	5	**5**
Balance at 31 December 2019	**-13**	**-231**	**-244**

CREDIT RISK – IMPAIRMENT OF ASSETS

As of 31 December 2018

In CZK million

	Loans to other than credit institutions	Trade receivables, contractual and other assets	Total
Before due date (net)	865	5 961	6 826
After due date (net)	-	257	257
Total	**865**	**6 218**	**7 083**
A – Assets (gross)			
– before due date	869	5 972	6 841
– after due date <30 days	-	190	190
– after due date 31–180 days	-	68	68
– after due date 181–365 days	-	25	25
– after due date >365 days	-	66	66
Total assets (gross)	**869**	**6 321**	**7 190**
B – allowances for assets			
– before due date	-4	-11	-15
– after due date 31–180 days	-	-9	-9
– after due date 181–365 days	-	-8	-8
– after due date >365 days	-	-75	-75
Total allowances	**-4**	**-103**	**-107**
Total assets (net) (A + B)	**865**	**6 218**	**7 083**

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

In CZK million

	Loans to other than credit institutions	Trade receivables and other assets	Total
Balance at 1 January 2018	**-288**	**-104**	**-392**
Impairment losses recognised during the year	-4	-28	**-32**
Reversals of impairment losses recognised during the year	-	2	**2**
Use of allowances during the year	-	41	**41**
Additions resulting from business combinations	288	-14	**274**
Balance at 31 December 2018	**-4**	**-103**	**-107**

Impairment losses on financial assets at amortised 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 the 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. The remaining amount of impairment losses represents loss allowances at an amount equal to expected credit losses.

The Group calculates a collective loss allowance for trade receivables on the basis of a simplified approach based on the historical allowance matrix. Probability of default is taken from the historical allowance matrix (set up separately by each component) with the 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 insignificant as of 31 December 2019.

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

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

B LIQUIDITY RISK

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

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

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

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

MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

As of 31 December 2019

In CZK million

	Carrying amount	Contractual cash flows[1]	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
Assets							
Cash and cash equivalents	**1 950**	1 950	1 950	-	-	-	-
Restricted cash	**295**	295	1	8	-	286	-
Trade receivables and other assets	**7 214**	[2]6 958	4 192	2 031	369	89	277
Financial instruments and other financial assets	**1 027**	1 035	3	931	48	41	12
Of which derivatives – inflow	***71***	*4 871*	*57*	*292*	*1 762*	*2 760*	-
– outflow	**-**	*-4 871*	*-57*	*-292*	*-1 762*	*-2 760*	-
Total	**10 486**	**10 238**	**6 146**	**2 970**	**417**	**416**	**289**
Liabilities							
Loans and borrowings	**9 096**	9 354	670	3 200	3 664	1 820	-
Trade payables and other liabilities	**6 657**	[3]5 995	3 915	1 924	111	11	34
Financial instruments and other financial liabilities	**1 842**	1 869	384	788	697	-	-
Total	**17 595**	**17 218**	**4 969**	**5 912**	**4 472**	**1 831**	**34**
Net liquidity risk position	**-7 109**	**-6 980**	**1 177**	**-2 942**	**-4 055**	**-1 415**	**255**

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.
(2) Prepayment made and deferred expenses are excluded since these items will lead to no outflow of cash flows in future.
(3) Prepayment received and advances on contract liabilities are excluded since these items will lead to no outflow of cash flows in future.

As of 31 December 2018

In CZK million

	Carrying amount	Contractual cash flows[1]	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
Assets							
Cash and cash equivalents	**2 205**	2 205	2 205	-	-	-	-
Restricted cash	**297**	297	1	8	-	288	-
Trade receivables and other assets	**6 218**	[2]6 075	5 014	628	398	29	6
Financial instruments and other financial assets	**890**	1 007	32	943	17	-	15
Of which derivatives – inflow	***10***	*1 141*	-	-	*1 141*	-	-
– outflow		*-1 141*	-	-	*-1 141*	-	-
Total	**9 610**	**9 584**	**7 252**	**1 579**	**415**	**317**	**21**
Liabilities							
Loans and borrowings	**7 849**	8 182	2 096	1 226	4 860	-	-
Trade payables and other liabilities	**6 711**	[3]5 936	3 990	1 764	125	13	44
Financial instruments and other financial liabilities	**1 830**	1 901	177	569	1 155	-	-
Of which derivatives – inflow	***18***	*96*	*10*	*36*	*50*	-	-
– outflow		*-96*	*-10*	*-36*	*-50*	-	-
Total	**16 390**	**16 019**	**6 263**	**3 559**	**6 140**	**13**	**44**
Net liquidity risk position	**-6 780**	**-6 435**	**989**	**-1 980**	**-5 725**	**304**	**-23**

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.
(2) Prepayment made and deferred expenses are excluded since these items will lead to no outflow of cash flows in future.
(3) Prepayment received and advances on contract liabilities are excluded since these items will lead to no outflow of cash flows in future.

The cash flows included in the maturity analysis are not expected to occur significantly sooner or in significantly higher volumes.

C INTEREST RATE RISK

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

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

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

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

As of 31 December 2019

In CZK million

	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
Assets					
Cash and cash equivalents	1 941	-	-	9	**1 950**
Restricted cash	295	-	-	-	**295**
Trade receivables and other assets	-	-	-	7 214	**7 214**
Financial instruments and other financial assets	1 003	12	-	12	**1 027**
Of which derivatives – inflow	*4 871*	-	-	-	***4 871***
– outflow	*-4 871*	-	-	-	***-4 871***
Total	**3 239**	**12**	**-**	**7 235**	**10 486**
Liabilities					
Loans and borrowings	6 933	2 163	-	-	**9 096**
Trade payables and other liabilities	-	-	-	6 657	**6 657**
Financial instruments and other financial liabilities	1 171	671	-	-	**1 842**
Total	**8 104**	**2 834**	**-**	**6 657**	**17 595**
Net interest rate risk position	**-4 865**	**-2 822**	**-**	**578**	**-7 109**

Financial information relating to interest bearing and non-interest bearing assets and liabilities and their contractual maturity or re-pricing dates as of 31 December 2018 is as follows:

As of 31 December 2018

In CZK million

	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
Assets					
Cash and cash equivalents	2 196	-	-	9	**2 205**
Restricted cash	297	-	-	-	**297**
Trade receivables and other assets	-	-	-	6 218	**6 218**
Financial instruments and other financial assets	839	36	-	15	**890**
Of which derivatives – inflow	*1 141*	-	-	-	***1 141***
– outflow	*-1 141*	-	-	-	***-1 141***
Total	**3 332**	**36**	**-**	**6 242**	**9 610**
Liabilities					
Loans and borrowings	5 097	2 748	-	4	**7 849**
Trade payables and other liabilities	-	-	-	6 711	**6 711**
Financial instruments and other financial liabilities	746	1 083	-	1	**1 830**
Of which derivatives – inflow	*96*	-	-	-	***96***
– outflow	*-96*	-	-	-	***-96***
Total	**5 843**	**3 831**	**-**	**6 716**	**16 390**
Net interest rate risk position	**-2 511**	**-3 795**	**-**	**-474**	**-6 780**

Nominal amounts of financial instruments are included in Note 25 – Financial instruments.

SENSITIVITY ANALYSIS

The Group performs stress testing using a standardised interest rate shock, for financial assets and liabilities to be repriced up to 1 year time, i.e. an immediate decrease/increase in interest rates by 1% along the whole yield curve is applied to the interest rate positions of the portfolio.

At the reporting date, a change of 1% in market interest rates would have increased or decreased profit by the amounts shown in the table below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

In CZK million

	2019	2018
Decrease in interest rates by 1%	1	1
Increase in interest rates by 1%	-1	-1

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

D FOREIGN EXCHANGE RATE 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.

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 nominal amount and expiry date equal to that of the underlying financial liability or the expected future cash flows, so that any change in the fair value and/or future cash flows of these contracts stemming from a potential appreciation or depreciation of the Czech crown against other currencies is fully offset by a corresponding change in the fair value and/or the expected future cash flows of the underlying position.

In respect of monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances on the level of individual companies within the Group.

As of 31 December 2019, the exposure to foreign exchange risk (translated to millions of CZK) was as follows:

As of 31 December 2019

In CZK million

	CZK	EUR	USD	Other	Total
Assets					
Cash and cash equivalents	1 485	391	11	63	**1 950**
Restricted assets	294	1	-	-	**295**
Trade receivables and other assets	5 795	1 371	4	44	**7 214**
Financial instruments and other financial assets	978	44	-	5	**1 027**
	8 552	**1 807**	**15**	**112**	**10 486**
Liabilities					
Loans and borrowings	7 999	1 093	-	4	**9 096**
Trade payables and other liabilities	4 998	1 648	-	11	**6 657**
Financial instruments and other financial liabilities	1 698	144	-	-	**1 842**
	14 695	**2 885**	**-**	**15**	**17 595**

As of 31 December 2018, the exposure to foreign exchange risk (translated to millions of CZK) was as follows:

As of 31 December 2018

In CZK million

	CZK	EUR	USD	Other	Total
Assets					
Cash and cash equivalents	1 316	834	6	49	**2 205**
Restricted assets	262	35	-	-	**297**
Trade receivables and other assets	4 460	1 701	1	56	**6 218**
Financial instruments and other financial assets	797	91	-	2	**890**
	6 835	**2 661**	**7**	**107**	**9 610**
Liabilities					
Loans and borrowings	5 505	2 344	-	-	**7 849**
Trade payables and other liabilities	5 195	1 483	-	33	**6 711**
Financial instruments and other financial liabilities	1 785	45	-	-	**1 830**
	12 485	**3 872**	**-**	**33**	**16 390**

SENSITIVITY ANALYSIS

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

	31 December 2019	31 December 2018
EUR (5% strengthening)	-54	-60

A weakening of the Czech crown against the above currency 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 OPERATING RISK

Operating risk is a risk of losses arising from embezzlement, unauthorised activities, errors, omissions, inefficiencies or system failures. A risk of this type arises in all of the Group's activities and all business entities are exposed to it. Operating risks include legal risks.

The Group's objective is to manage operating risk so as to maintain balance between prevention of financial losses and damage to the Company's good name, and overall efficiency of the costs incurred. Risk management procedures should not impede initiative and creativity.

Primary responsibility for the application of control mechanisms for managing operating risks is borne by the management of each subsidiary. They are supported by the general risk management standards applicable to the entire Group. These general standards, prepared by the risk department, cover the following areas:

- Transaction reconciliation and monitoring requirements;
- Identification of operating risks within the control system of each subsidiary (determination of conditions for decreasing and limiting operating risks and their impacts and consequences; recommendations of suitable solutions for this area);
- By gaining awareness of operating risks, the Group creates conditions for determining and directing the procedures and measures that will lead to reductions of operating risks and to the adoption of decisions on:
  - Recognition of the individual existing risks;
  - Initiation of processes that will lead to limitations of possible impacts; or
  - Narrowing of the space for risk activities or their complete discontinuation.

F COMMODITY RISK

The Group is not exposed to any essential risk arising from the fluctuations in commodity prices and no significant commodity derivatives have therefore been used to mitigate these impacts.

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's debt to adjusted capital ratio at the end of the reporting period was as follows:

In CZK million

	31 December 2019	31 December 2018
Total liabilities	19 171	17 545
Less cash and cash equivalents	-1 950	-2 205
Net debt	**17 221**	**15 340**
Total equity attributable to equity holders of the Company	2 267	1 597
Less amounts accumulated in equity in relation to cash flow hedges	-	-
Adjusted capital	**2 267**	**1 597**
Debt to adjusted capital	**7,60**	**9,61**

33. Related parties

SPECIFICATION OF RELATED PARTIES

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

A SUMMARY OF OUTSTANDING BALANCES WITH RELATED PARTIES AS OF 31 DECEMBER 2019 AND 31 DECEMBER 2018:

In CZK million

	Accounts receivable and other financial assets 2019	Accounts payable and other financial liabilities 2019	Accounts receivable and other financial assets 2018	Accounts payable and other financial liabilities 2018
Ultimate shareholders and companies controlled by ultimate shareholders	182	118	668	814
Other related parties	-	-	1	11
Total	**182**	**118**	**669**	**825**

B SUMMARY OF RELATED PARTY TRANSACTIONS IN THE YEAR ENDED 31 DECEMBER 2019 AND 31 DECEMBER 2018:

In CZK million

	Revenues 2019	Expenses 2019	Revenues 2018	Expenses 2018
Ultimate shareholders and companies controlled by ultimate shareholders	58	41	170	104
Other related parties	-	-	1	72
Total	**58**	**41**	**171**	**176**

All transactions were performed under the arm's length principle.

TRANSACTIONS WITH MEMBERS OF THE BOARD OF DIRECTORS OF EPI

In 2019 and 2018, the EPI Group provided the members of the Company's of the Board of Directors with no remuneration in cash or in kind.

Remuneration of the key members of the EPI Group's bodies is included in Note 8 – Personnel expenses.

34. Group entities

The list of the Group entities as of 31 December 2019 and 31 December 2018 is set out below:

Company name	Country of incorporation	Industry	31 December 2019			31 December 2018		
			Ownership %	Ownership interest	Consolidation method	Ownership %	Ownership interest	Consolidation method
EP Industries, a.s.[1]	Czech Republic	1,2,3	-	-	-	-	-	-
BAULIGA a.s.[1]	Czech Republic	2	100	Direct	Full	100	Direct	Full
SOR Libchavy spol. s r.o.	Czech Republic	2	100	Direct	Full	100	Direct	Full
SOR SLOVAKIA, s.r.o.	Slovakia	2	100	Direct	Full	100	Direct	Full
SOR Poland z o.o.	Poland	2	100	Direct	Full	100	Direct	Full
SOR Bulgaria EOOD	Bulgaria	2	100	Direct	Full	100	Direct	Full
RAIL ELECTRONICS CZ s.r.o.	Czech Republic	2	50	Direct	Cost	50	Direct	Cost
ESTABAMER LIMITED[1]	Cyprus	1	100	Direct	Full	100	Direct	Full
SES Energy, a.s.	Slovakia	1	100	Direct	Full	100	Direct	Full
SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s.	Slovakia	1	89.83	Direct	Full	89.83	Direct	Full
SES INSPEKT, s.r.o.	Slovakia	1	100	Direct	Full	100	Direct	Full
SES BOHEMIA s.r.o.	Czech Republic	1	100	Direct	Full	100	Direct	Full
ENERGOPROJEKT EDS, s.r.o.	Slovakia	1	-	-	-	51	Direct	Full
Ingenieria y construccion SES Chile Ltda.	Chile	1	100	Direct	Full	100	Direct	Full
ENERGOPROJEKTY a.s., v likvidácii	Slovakia	1	34	Direct	Equity	34	Direct	Equity
SES BOHEMIA ENGINEERING, a.s.	Czech Republic	1	100	Direct	Full	100	Direct	Full
Energetické opravny, a.s.	Czech Republic	1	100	Direct	Full	100	Direct	Full
STELMAR s.r.o.	Czech Republic	1	100	Direct	Full	100	Direct	Full
TAHOBA INVESTMENTS LIMITED[1]	Cyprus	1	88	Direct	Full	88	Direct	Full
Energetické montáže Holding, a.s.[1]	Czech Republic	1	21.43	Direct	Full	21.43	Direct	Full
MSEM, a.s.	Czech Republic	1	100	Direct	Full	100	Direct	Full
VČE - montáže, a.s.	Czech Republic	1	100	Direct	Full	100	Direct	Full
SEG s.r.o.	Czech Republic	1	100	Direct	Full	100	Direct	Full
MONTPROJEKT, a.s.	Czech Republic	1	100	Direct	Full	100	Direct	Full
EGEM s.r.o.	Czech Republic	1	100	Direct	Full	100	Direct	Full
EGEM, s.r.o.	Slovakia	1	90	Direct	Full	90	Direct	Full
EGEM Sp. z o.o.	Poland	1	100	Direct	Full	100	Direct	Full
PROFI EMG s.r.o.	Czech Republic	1	100	Direct	Full	100	Direct	Full
EGEM, s.r.o.	Slovakia	1	10	Direct	Full	10	Direct	Full
PEZ – projekce energetických zařízení s.r.o.	Czech Republic	1	100	Direct	Full	-	-	-
Elektrovod a.s.	Slovakia	1	100	Direct	Full	-	-	-

Company name	Country of incorporation	Industry	31 December 2019			31 December 2018		
			Ownership %	Ownership interest	Consolidation method	Ownership %	Ownership interest	Consolidation method
HERINGTON INVESTMENTS LIMITED[1]	Cyprus	1	88	Direct	Full	88	Direct	Full
Energetické montáže Holding, a.s.[1]	Czech Republic	1	78.57	Direct	Full	78.57	Direct	Full
MSEM, a.s.	Czech Republic	1	100	Direct	Full	100	Direct	Full
VČE - montáže, a.s.	Czech Republic	1	100	Direct	Full	100	Direct	Full
SEG s.r.o.	Czech Republic	1	100	Direct	Full	100	Direct	Full
MONTPROJEKT, a.s.	Czech Republic	1	100	Direct	Full	100	Direct	Full
EGEM s.r.o.	Czech Republic	1	100	Direct	Full	100	Direct	Full
EGEM, s.r.o.	Slovakia	1	90	Direct	Full	90	Direct	Full
EGEM Sp. z o.o.	Poland	1	100	Direct	Full	100	Direct	Full
PROFI EMG s.r.o.	Czech Republic	1	100	Direct	Full	100	Direct	Full
EGEM, s.r.o.	Slovakia	1	10	Direct	Full	10	Direct	Full
PEZ – projekce energetických zařízení s.r.o.	Czech Republic	1	100	Direct	Full	-	-	-
Elektrovod a.s.	Slovakia	1	100	Direct	Full	-	-	-
ED Holding a.s.[1]	Czech Republic	1	100	Direct	Full	100	Direct	Full
ELTRA, s.r.o.	Slovakia	1	100	Direct	Full	100	Direct	Full
EZ - ELEKTROSYSTÉMY Košice s.r.o.	Slovakia	1	80	Direct	Full	-	-	-
Elektrizace železnic Praha a.s.	Czech Republic	1	100	Direct	Full	100	Direct	Full
Elektrizácia železnic Kysak a.s.	Slovakia	1	-	-	-	100	Direct	Cost
TRAMO RAIL, a.s.	Czech Republic	1	100	Direct	Full	100	Direct	Full
EZ-ELEKTROSYSTÉMY Košice s.r.o.	Slovakia	1	20	Direct	Full	-	-	-
ZERTILIO a.s.[1]	Czech Republic	1	100	Direct	Full	100	Direct	Full
ELQA, s.r.o.	Czech Republic	1	100	Direct	Full	-	-	-
Fintherm a.s.	Czech Republic	2	100	Direct	Full	-	-	-
T.O.O., spol. s r.o.	Czech Republic	1	100	Direct	Full	-	-	-
PI1 a.s.	Czech Republic	1	100	Direct	Full	100	Direct	Full
I&C Energo a.s.	Czech Republic	1	100	Direct	Full	100	Direct	Full
ENPRO Energo s.r.o.	Czech Republic	1	100	Direct	Full	100	Direct	Full
PIRAMEL ENTERPRISES LIMITED[1]	Cyprus	3	90	Direct	Full	90	Direct	Full
ANDELTA, a.s.[1]	Czech Republic	2,3	100	Direct	Full	100	Direct	Full
AVE SR Východ a.s.	Czech Republic	3	-	-	-	100	Direct	Cost
AVE CEE Holding GmbH[1]	Austria	3	100	Direct	Full	100	Direct	Full
AVE CZ odpadové hospodářství s.r.o.	Czech Republic	3	75	Direct	Full	75	Direct	Full
AVE Ústí nad Labem s.r.o.	Czech Republic	3	90	Direct	Full	90	Direct	Full
REKKA s.r.o.	Czech Republic	3	100	Direct	Full	100	Direct	Full
AVE Sběrné suroviny a.s.	Czech Republic	3	100	Direct	Full	100	Direct	Full
AVE Kolín s.r.o.	Czech Republic	3	90	Direct	Full	90	Direct	Full
EKO SKLÁDKA spol. s r.o.	Czech Republic	3	24	Direct	Cost	24	Direct	Cost
AVE Services s.r.o.	Czech Republic	3	100	Direct	Full	100	Direct	Full
AVE Kralupy s.r.o.	Czech Republic	3	100	Direct	Full	100	Direct	Full
AVE Kladno s.r.o.	Czech Republic	3	99.79	Direct	Full	99.79	Direct	Full
ZDIBE, spol. s r.o.	Czech Republic	3	49.90	Direct	Full	49.90	Direct	Full

Company name	Country of incorporation	Industry	31 December 2019			31 December 2018		
			Ownership %	Ownership interest	Consolidation method	Ownership %	Ownership interest	Consolidation method
SKS Invest s.r.o.	Czech Republic	3	49.97	Direct	Cost	49.97	Direct	Cost
ZDIBE, spol. s r.o.	Czech Republic	3	50	Direct	Full	50	Direct	Full
AVE Břeclav, a.s.(2)	Czech Republic	3	-	-	-	100	Direct	Full
PETKA CZ, a.s.	Czech Republic	3	64.29	Direct	Full	64.29	Direct	Full
DOKOM FINAL s.r.o.	Czech Republic	3	100	Direct	Full	100	Direct	Full
AVE Žďár na Sázavou s.r.o.(3)	Czech Republic	3	-	-	-	100	Direct	Full
AVE Pražské komunální služby a.s.	Czech Republic	3	100	Direct	Full	-	-	-
ALCEDO IS, s.r.o.	Czech Republic	3	100	Direct	Full	-	-	-
AVE SK odpadové hospodárstvo s.r.o.	Slovakia	3	100	Direct	Full	100	Direct	Full
AVE Umwelt Ukrajine TOB	Ukraine	3	100	Direct	Full	100	Direct	Full
AVE Vinogradovo TOB	Ukraine	3	96.31	Direct	Full	96.31	Direct	Full
AVE Iwano-Frankiwsk TOB	Ukraine	3	96.28	Direct	Full	96.28	Direct	Full
AVE Mukatschewo TOB	Ukraine	3	60.15	Direct	Full	60.15	Direct	Full
AVE Lviv TOB	Ukraine	3	-	-	-	80	Direct	Full
AVE Uzhgorod TOB	Ukraine	3	100	Direct	Full	100	Direct	Full
AVE Polygon	Ukraine	3	100	Direct	Cost	100	Direct	Cost

(1) Special purpose entity
(2) As of 1 July 2019, AVE Břeclav a.s.. merged with AVE CZ odpadové hospodářství s.r.o. AVE CZ odpadové hospodářství s.r.o. is the successor company.
(3) As of 1 July 2019, AVE Žďár nad Sázavou s.r.o. merged with AVE CZ odpadové hospodářství s.r.o. AVE CZ odpadové hospodářství s.r.o. is the successor company.

Industries:
(1) Technical engineering activities and services
(2) Production and other activities
(3) Waste management

The structure above is listed by ownership of companies at the different levels within the Group.

35. Litigation and claims

ELTRA, S.R.O.

In 2017, the company received a final demand to pay for services that it had already paid for. Although the company does not accept this obligation, it has created a provision of CZK 7 million on the grounds of prudence (refer to Note 24 – Provisions) and is awaiting the result of these proceedings.

36. Subsequent Events

A COVID-19 PANDEMIC

In late 2019, China released the first news regarding COVID-19 (caused by the novel coronavirus). In the first months of 2020, the virus spread globally, adversely affecting a number of countries. Even though events are unfolding day-by-day at the time of publishing of these financial statements, the negative effects of the pandemic on the global trade, companies and individuals seem to be more serious than originally expected. On those grounds, the Company summarises below the impacts of the current situation using information available at the date of preparing the consolidated financial statements.

In the course of the pandemic, the Group introduced a wide range of measures mitigating the impacts on employees and facilitating a smooth operation of individual divisions of the Group. The accepted measures include, for example:

- Considerable expansion of home office opportunities for all employees whose job content does not require direct presence in the office; and
- Special regimes for employees working in production or on external projects.

Starting from the first day of the pandemic situation, the management of the EPI Group has also released internal communication on a regular basis in order to further clarify the measures and regulations of state administration bodies. In this context, the management has provided operating entities with technical assistance.

Pursuant to IAS 10, the Group characterises the pandemic as a non-adjusting event with regard to the fact that the spread of COVID-19 was declared a pandemic by the WHO as late as in March 2020. In this respect, the existing accounting and valuation principles are not adjusted by the Group, no changes are made as to the lifetime of assets or valuation of goodwill, trademarks and other intangible and tangible asset. Furthermore, the Groups has not modified the anticipated recoverability and valuation of receivables or repayment of loan liabilities.

Based on the information which is currently available to the Group and despite short-term fluctuations because of the effects of the pandemic, the management does not anticipate any significant adverse impacts on the Group's results in the medium and long-term as they mostly relate to the strategic segments supported by local administrations. The Group's management considers the current situation temporary, anticipating a gradual recovery of economic activities or postponement of selected planned projects to subsequent periods. In respect of sales, EBITDA, working capital and CAPEX, the Group's management records development at the level of the comparable period in 2019.

With regard to the liquidity risk and the ability to repay received loans and comply with related bank covenants, the Group actively communicates with key providers of external financing and shareholders of the parent company. Based on the updated future outlooks, the Group's management does not anticipate any failure to comply with bank covenants in 2020.

Uncertainty relating to the economic development on the European market could, however, have direct or indirect impact on the Group's economic situation and related valuation of assets and liabilities. The areas that are considered more sensitive by the Group's management include valuation of intangible assets. In this case, the Group is prepared to perform standard impairment testing at the end of the subsequent period in line with IAS 36 – Impairment of Assets.

The Company's management assessed the potential impacts of COVID-19 on its activities and business and concluded that they do not have a significant impact on the going concern assumption. Therefore, the consolidated financial statements as of 31 December 2019 were prepared based on the assumption that the Company will be able to continue as a going concern.

Despite the uncertainty relating to future events, the Company's management will continue to closely monitor and assess the impacts and adopt or adjust the relevant measures to be able to eliminate, successfully address and maximally mitigate all financial and non-financial impacts that may arise.

The Group's main goal is to secure the health and safety of its employees as well as the Company's ability to continue as a going concern in all areas of its activities.

B SLOVENSKÉ ENERGETICKÉ STROJÁRNE A.S.

Given the current market conditions and further economic developments, the management of SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s. (hereinafter "SES") has analysed the future outlook of the company's business operation. Multiple scenarios of the future development were considered based on realistic prognoses of the future implementation of the current, contracted and future projects with regard to the various degrees of restructuring of the existing production capacities, emphasising the continuation of the production activity.

In its analysis, SES concluded that each of the considered scenarios for the 2020-2022 period secured the company's ability to continue as a going concern. Conservative variants anticipate a decrease in sales of approximately 34% in 2020 but the value of EBITDA at the level of 2019. In the following years, the company does not anticipate any decrease in the aggregate sales and/or EBITDA when compared to 2019. However, the adopted restructuring measures should generate positive results in the following periods. Different degrees of staff reduction are considered in most restructuring scenarios.

In relation to assessing the company's ability to continue as a going concern, management of SES also additionally assessed the utilisation of tangible fixed assets. Due to the potential lack of use of some production halls, machinery and equipment, a temporary impairment of assets, which cannot be anticipated at present, could occur in 2020.

Assumptions and estimates used in preparing the financial statements may require revisions in the future. The management of SES is convinced that in the current situation it is impossible to conduct a more detailed analysis reflecting the situation in the near future, which might change with respect to the development of market conditions.

C AVE CZ GROUP

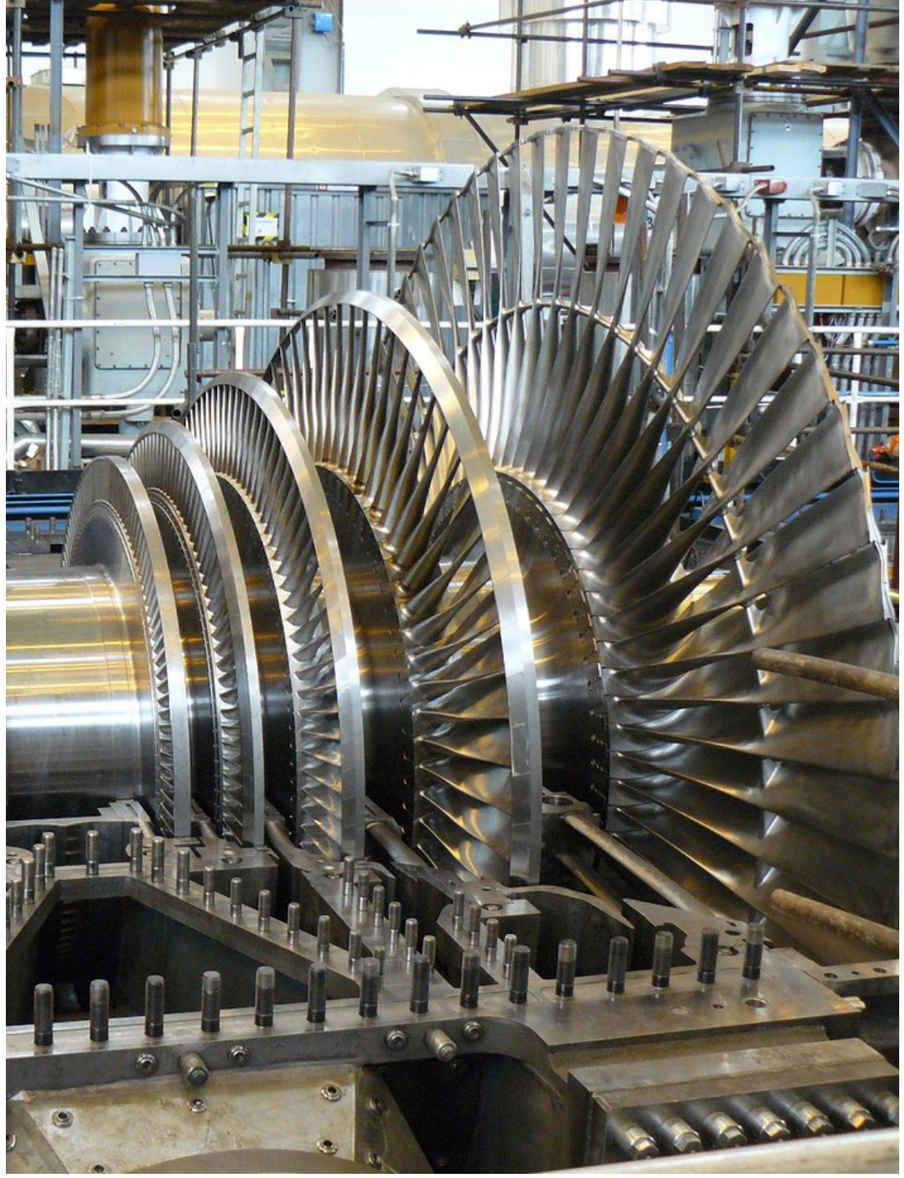
During March And April 2020, several entities in the AVE CZ Group (hereinafter "AVE CZ") received a decision of the Regional Authority for the Central Bohemian Region which is not in force, imposing an additional obligation to pay a fee in the aggregate amount of CZK 148 million for selected waste used as material for the so-called construction elements of the waste dump Čáslav. The entities in the AVE CZ Group disagreed with the decision on procedural and factual grounds and filed an appeal with the Ministry of the Environment of the Czech Republic. The result of the dispute cannot be predicted; nevertheless, the management of AVE CZ is convinced that is has observed effective regulations and that the company has met all of its obligations. In relation to this dispute, AVE CZ has assessed the risks related to potential regressive recovery of fees from waste producers outside the AVE CZ Group. AVE CZ considers the dispute and risks irrelevant and rather theoretical and on those grounds, it did not consider them in the balances and supporting documentation entering the consolidation.

D ACQUISITIONS AND DIVESTMENTS

On 15 June 2020, the Group sold its entire equity investment in STEMAR s.r.o. All of the company's assets including contingent liabilities (if any) were transferred to the new owner.

Aside from the matters described above and elsewhere in the notes, the management of the Company is not aware of any other material subsequent events that could have an impact on the financial statements for the year ended 31 December 2019.

Date:	Signature of the statutory body:	
20 June 2020	Jiří Nováček Chairman of the Board of Directors	Hana Krejčí Member of the Board of Directors



2019 was a very successful year. Total sales of the EPI group amounted to CZK 23.5 billion.

Independent Auditor's Report on the Unconsolidated Financial Statements

Deloitte Audit s.r.o.
Churchill I
Italská 2581/67
120 00 Praha 2 – Vinohrady
Czech Republic

Tel: +420 246 042 500
Fax: +420 246 042 555
DeloitteCZ@deloitteCE.com
www.deloitte.cz

Registered by the Municipal Court
in Prague, Section C, File 24349
ID. No.: 49620592
Tax ID. No.: CZ49620592

INDEPENDENT AUDITOR'S REPORT
To the Shareholder of EP Industries, a.s.

Having its registered office at: Pařížská 130/26, Josefov, 110 00 Praha 1

Opinion

We have audited the accompanying financial statements of EP Industries, a.s. (hereinafter also the "Company") prepared on the basis of accounting regulations applicable in the Czech Republic, which comprise the balance sheet as of 31 December 2019, and the profit and loss account, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of EP Industries, a.s. as of 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with accounting regulations applicable in the Czech Republic.

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

Other Information in the Consolidated Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Consolidated Annual Report other than the financial statements and auditor's report thereon. The Board of Directors is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these 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 the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

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 of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Company's Board of Directors and Supervisory Board for the Financial Statements

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with accounting regulations applicable in the Czech Republic and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors 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 Board of Directors either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 law or regulation, 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 Board of Directors.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors and the Supervisory Board 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.

In Prague on 30 June 2020

Audit firm:

Deloitte Audit s.r.o.
registration no. 079

Statutory auditor:

Ladislav Šauer
registration no. 2261

In 2019, we announced dividends of CZK 238 million.

Separate Financial Statements

Financial Statements for the year ended 31 December 2019

NAME OF THE COMPANY:	EP Industries, a. s.
REGISTERED OFFICE:	Pařížská 130/26, 110 00 Prague 1-Josefov
LEGAL STATUS:	Joint Stock Company
Corporate ID:	292 94 746

COMPONENTS OF THE FINANCIAL STATEMENTS:

Balance Sheet

Profit and Loss Account

Statement of Changes in Equity

Cash Flow Statement

Notes to the Financial Statements

These financial statements were prepared on 20 June 2020.

Statutory body of the reporting entity:	Signature
Mgr. Ing. Jiří Nováček Chairman of the Board of Directors	
Mgr. Hana Krejčí, Ph.D. Member of the Board of Directors	

Balance sheet

EP Industries, a. s.
Corporate ID 292 94 746

FULL VERSION

Pařížská 130/26
Josefov
110 00 Praha 1

As of 31.12.2019
(in CZK thousand)

		31.12.2019			31.12.2018
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	**12 264 117**	**1 059 861**	**11 204 256**	**10 606 873**
B.	**Fixed assets**	**9 552 547**	**840 401**	**8 712 146**	**8 161 880**
B.I.	***Intangible fixed assets***	**186**	**157**	**29**	**45**
B.I.2.	*Valuable rights*	**91**	**91**		
B.I.2.1.	Software	91	91		
B.I.4.	Other intangible fixed assets	95	66	29	45
B.II.	***Tangible fixed assets***	**4 462**	**2 659**	**1 803**	**2 680**
B.II.2.	Tangible movable assets and sets of tangible movable assets	4 462	2 659	1 803	2 680
B.III.	***Non-current financial assets***	**9 547 899**	**837 585**	**8 710 314**	**8 159 155**
B.III.1.	Equity investments – controlled or controlling entity	9 547 899	837 585	8 710 314	8 159 155
C.	**Current assets**	**2 711 197**	**219 460**	**2 491 737**	**2 444 743**
C.I.	***Inventories***	**2 802**		**2 802**	**1 032**
C.I.2.	Work in progress and semifinished goods	2 802		2 802	1 032
C.II.	***Receivables***	**2 187 816**	**219 460**	**1 968 356**	**1 853 597**
C.II.1.	Long-term receivables	**824 683**		**824 683**	**255 207**
C.II.1.2.	Receivables – controlled or controlling entity	820 746		820 746	251 452
C.II.1.5.	*Receivables – other*	**3 937**		**3 937**	**3 755**
C.II.1.5.4.	Sundry receivables	3 937		3 937	3 755
C.II.2.	***Short-term receivables***	**1 363 133**	**219 460**	**1 143 673**	**1 598 390**
C.II.2.1.	Trade receivables	9 348		9 348	10 016
C.II.2.2.	Receivables – controlled or controlling entity	1 078 735	219 460	859 275	1 215 522
C.II.2.4.	*Receivables – other*	**275 050**		**275 050**	**372 852**
C.II.2.4.3.	State – tax receivables	16 292		16 292	4 122
C.II.2.4.4.	Short-term prepayments made	3 080		3 080	6 875
C.II.2.4.5.	Estimated receivables				7
C.II.2.4.6.	Sundry receivables	255 678		255 678	361 848
C.IV.	***Cash***	**520 579**		**520 579**	**590 114**
C.IV.1.	Cash on hand	70		70	86
C.IV.2.	Cash at bank	520 509		520 509	590 028
D.	**Other asets**	**373**		**373**	**250**
D.1.	Deferred expenses	373		373	250

		31.12.2019	31.12.2018
	TOTAL LIABILITIES & EQUITY	**11 204 256**	**10 606 873**
A.	**Equity**	**3 357 855**	**2 020 015**
A.I.	***Share capital***	**1 035 816**	**1 035 816**
A.I.1.	Share capital	1 035 816	1 035 816
A.II.	***Share premium and capital funds***	**797 028**	**843 746**
A.II.1.	Share premium	845 227	845 227
A.II.2.	*Capital funds*	**-48 199**	**-1 481**
A.II.2.2.	Gains or losses from the revaluation of assets and liablities (+/-)	-48 199	-1 481
A.III.	***Funds from profit***	**96 517**	**96 517**
A.III.1.	Other reserve funds	96 517	96 517
A.IV.	***Retained earnings (+/-)***	**43 936**	**1 638 957**
A.IV.1.	Accumulated profits or losses brought forward (+/-)	43 936	1 638 957
A.V.	***Profit or loss for the current period(+/-)***	**1 622 917**	**304 998**
A.VI.	Profit share prepayments declared (-)	-238 359	-1 900 019
B.+C.	**Liabliities**	**7 846 390**	**8 586 847**
B.	**Reserves**	**169**	**333**
B.IV.	Other reserves	169	333
C.	**Payables**	**7 846 221**	**8 586 514**
C.I.	***Long-term payables***	**1 175 876**	**2 026 189**
C.I.2.	Payables to credit institutions	182 952	
C.I.5.	Long-term bills of exchange to be paid	668 644	1 090 260
C.I.6.	Payables – controlled or controlling entity	304 920	916 569
C.I.8.	Deferred tax liability	19 360	19 360
C.II.	***Short-term payables***	**6 670 345**	**6 560 325**
C.II.2.	Payables to credit institutions	127 573	1 674 564
C.II.4.	Trade payables	21 164	20 046
C.II.5.	Short-term bills of exchange to be paid	1 169 704	717 828
C.II.6.	Payables – controlled or controlling entity	5 329 667	3 382 176
C.II.8.	*Other payables*	**22 237**	**765 711**
C.II.8.1.	Payables to partners		743 886
C.II.8.2.	Short-term financial borrowings	20 771	20 096
C.II.8.3.	Payables to employees	852	740
C.II.8.4.	Social security and health insurance payables	182	180
C.II.8.5.	State – tax payables and subsidies	174	154
C.II.8.6.	Estimated payables	242	2
C.II.8.7.	Sundry payables	16	653
D.	**Other liabilities**	**11**	**11**
D.2.	Deferred income	11	11

Profit and loss account

EP Industries, a. s.
Corporate ID 292 94 746

STRUCTURED BY THE NATURE OF EXPENSE METHOD

Pařížská 130/26
Josefov
110 00 Praha 1

Year ended 31.12.2019
(in CZK thousand)

		Year ended 31.12.2019	Year ended 31.12.2018
I.	Sales of products and services	23 400	21 259
A.	Purchased consumables and services	**111 867**	**66 397**
A.2.	Consumed material and energy	584	558
A.3.	Services	111 283	65 839
B.	Change in internally produced inventory (+/-)	-1 770	-349
D.	Staff costs	**21 589**	**19 165**
D.1.	Payroll costs	17 180	15 201
D.2.	Social security and health insurance costs and other charges	**4 409**	**3 964**
D.2.1.	Social security and health insurance costs	4 405	3 961
D.2.2.	Other charges	4	3
E.	Adjustments to values in operating activities	**893**	**920**
E.1.	*Adjustments to values of intangible and tangible fixed assets*	**893**	**920**
E.1.1.	Adjustments to values of intangible and tangible fixed assets – permanent	893	920
III.	Other operating income	**5 921**	**3 202**
III.3.	Sundry operating income	5 921	3 202
F.	Other operating expenses	**6 283**	**10 122**
F.3.	Taxes and charges	31	11
F.4.	Reserves relating to operating activities and complex deffered expenses	-164	-6
F.5.	Sundry operating expenses	6 416	10 117
*	**Operating profit or loss (+/-)**	**-109 541**	**-71 794**
IV.	Income from non-current financial assets – equity investments	1 714 340	1 283 572
IV.1.	Income from equity investments – controlled or controlling entity	1 714 340	1 283 572
G.	Costs of equity investments sold	207	25 015
VI.	Interest income and similar income	**61 006**	**142 035**
VI.1.	Interest income and similar income – controlled or controlling entity	48 398	82 550
VI.2.	Other interest income and similar income	12 608	59 485
I.	Adjustments to values and reserves relating to financial activities	-316 959	442 783
J.	Interest expenses and similar expenses	**348 107**	**286 087**
J.1.	Interest expenses and similar expenses – controlled or controlling entity	206 333	117 432
J.2.	Other interest expenses and similar expenses	141 774	168 655
VII.	Other financial income	27 820	23 164
K.	Other financial expenses	35 602	304 338
*	**Financial profit or loss (+/-)**	**1 736 209**	**390 548**
**	**Profit or loss before tay (+/-)**	**1 626 668**	**318 754**
L.	Income tax	**3 751**	**13 756**
L.1.	Due income tax	3 751	13 756
**	**Profit or loss net of tax (+/-)**	**1 622 917**	**304 998**
***	**Profit or loss for the current period (+/-)**	**1 622 917**	**304 998**
*	Net turnover for the current period	**1 832 487**	**1 473 232**

Statement of changes in equity

EP Industries, a. s.
Corporate ID 292 94 746

Pařížská 130/26
Josefov
110 00 Praha 1

Year ended 31.12.2019
(in CZK thousand)

	Share capital	Share premium	Gains or losses from the revaluation of assets and liabilities	Funds from profit, reserve fund	Accumulated profits or losses brought forward	Profit or loss for the current period	Profit share prepayment	Total equity
Balance at 31 December 2017	**1 035 816**	**1 589 113**	**6 082**	**96 517**	**1 107 478**	**531 479**		**4 366 485**
Distribution of profit or loss					531 479	-531 479		
Share premium		-743 886						-743 886
Revaluation of equity investments			-7 563					-7 563
Profit share prepayments declared							-1 900 019	-1 900 019
Profit or loss for the current period						304 998		304 998
Balance at 31 December 2018	**1 035 816**	**845 227**	**-1 481**	**96 517**	**1 638 957**	**304 998**	**-1 900 019**	**2 020 015**
Distribution of profit or loss					304 998	-304 998		
Profit share prepayments declared					-1 900 019		1 661 660	-238 359
Revaluation of equity investments			-46 718					
Profit or loss for the current period						1 622 917		1 622 917
Balance at 31 December 2019	**1 035 816**	**845 227**	**-48 199**	**96 517**	**43 936**	**1 622 917**	**-238 359**	**3 357 855**

Cash Flow statement

EP Industries, a. s.
Corporate ID 292 94 746

Pařížská 130/26
Josefov
110 00 Praha 1

Year ended 31.12.2019
(in CZK thousand)

		Year ended 31.12.2019	Year ended 31.12.2018
P.	**Opening balance of cash and cash equivalents**	**590 114**	**1 467 206**
	Cash flows from ordinary activities (operating activities)		
Z.	Profit or loss before tax	1 626 668	318 754
A.1.	Adjustments for non-cash transactions	-1 781 649	-388 122
A.1.1.	Depreciation of fixed assets	893	920
A.1.2.	Change in provisions and reserves	-342 605	442 777
A.1.3.	Profit/(loss) on the sale of fixed assets	44	25 015
A.1.4.	Revenues from profit shares	-1 714 177	-1 283 572
A.1.5.	Interest expense and interest income	287 101	144 052
A.1.6.	Adjustments for other non-cash transactions	-12 905	282 686
A.*	**Net operating cash flow before changes in working capital**	**-154 981**	**-69 368**
A.2.	Change in working capital	171 332	-361 725
A.2.1.	Change in operating receivables and other assets	107 839	-348 006
A.2.2.	Change in operating payables and other liabilities	65 263	-13 370
A.2.3.	Change in inventories	-1 770	-349
A.**	**Net cash flow from operations before tax**	**16 351**	**-431 093**
A.3.	Interest paid	-255 687	-242 273
A.4.	Interest received	23 508	37 637
A.5.	Income tax paid from ordinary operations	-15 871	-15 854
A.***	**Net operating cash flows**	**-231 699**	**-651 583**
	Cash flows from investing activities		
B.1.	Fixed assets expenditures	-256 011	-880 303
B.2.	Proceeds from fixed assets sold	163	
B.3.	Loans and borrowings to related parties	-709 163	-1 125 789
	Profit shares received	545 660	1 283 572
B.***	**Net investment cash flows**	**-419 351**	**-722 520**
	Cash flow from financial activities		
C.1.	Change in payables from financing	789 874	497 011
C.2.	Impact of changes in equity	-208 359	
C.2.6.	Profit shares paid	-208 359	
C.***	**Net financial cash flows**	**581 515**	**497 011**
F.	**Net increase or decrease in cash and cash equivalents**	**-69 535**	**-877 092**
R.	**Closing balance of cash and cash equivalents**	**520 579**	**590 114**

EP INDUSTRIES

Notes to the Financial Statements for the year ended 31 December 2019

Company name: EP Industries, a.s.

Registered office: Pařížská 130/26, Josefov, 110 00 Prague 1

Legal status: joint-stock company

Corporate ID: 292 94 746

Notes to the Financial Statements
(Separate)

EP INDUSTRIES, A. S.

Year Ended 31 December 2019
(CZK thousands)

1. Characteristics and Primary Activities

INCORPORATION AND CHARACTERISTICS OF THE COMPANY

EP Industries, a.s. (hereinafter the "Company" or "EPI") was recorded in the Register of Companies maintained by the Regional Court in Brno, Section B, File 6469 on 30 September 2011. On 19 July 2016, its file number changed to B 21734 kept by the Municipal Court in Prague.

EP Industries, a.s. was created as a result of a demerger by spin-off from the original company Energetický a průmyslový holding, a.s., corporate ID 283 562 50 ("Original Company") with the effective date of 1 January 2011. Based on the Demerged Project, a portion of the Original Company's net assets related to the holding of equity investments in companies operating outside of the power segment was transferred to EP Industries, a.s.

The EP INDUSTRIES is one of the most important industrial groups in the Czech Republic. The Company subsumes a wide range of enterprises operating in the segments of power engineering, transport infrastructure, automotive industry and waste management. The Company's employees are primarily involved in active administration, support and strategic management of the equity investments held.

COMPANY OWNERS

The Company's shareholders as of 31 December 2019 are:

EP INDUSTRIES HOLDING LIMITED	100%

Registered office

EP Industries, a.s.
Pařížská 130/26
Josefov
110 00 Prague 1
Czech Republic

CORPORATE ID

292 94 746

MEMBERS OF THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD AS OF 31 DECEMBER 2019:

MEMBERS OF THE BOARD OF DIRECTORS	MEMBERS OF THE SUPERVISORY BOARD
Jiří Nováček (Chairman)	Daniel Křetínský (Chairman)
Pavel Horský	Roman Korbačka
Hana Krejčí	Miroslav Straka
	Libor Kaiser

2. Principal Accounting Policies

The accompanying financial statements have been prepared in accordance with Act No. 563/1991 Coll., on Accounting, as amended, and related regulations for the accounting of businesses, in particular Regulation No. 500/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting.

The financial statements have been prepared under the historical cost convention.

The Company's financial statements have been prepared as of and for the year ended 31 December 2019, i.e. from 1 January 2019 to 31 December 2019 (hereinafter "2019" or "reporting period"). The financial statements for the prior reporting period were prepared for the calendar year from 1 January 2018 to 31 December 2018 ("2018").

The financial statements are in thousands of Czech crowns, unless stated otherwise.

A TANGIBLE AND INTANGIBLE ASSETS

VALUATION METHOD

Purchased assets are valued at costs according to Section 47 of Regulation No. 500/2002 Coll. Tangible fixed assets with acquisition costs of less than CZK 40 thousand and intangible fixed assets with acquisition costs of less than CZK 60 thousand are not recognised in the balance sheet and expensed in the year of acquisition.

Temporary impairment of intangible and tangible fixed assets is recognised using provisions that are included in the adjustment column of the balance sheet together with amortisation and depreciation.

The cost of technical improvements to intangible and tangible fixed assets increases their acquisition cost. Repairs and maintenance are charged to the current reporting period.

DEPRECIATION

Tangible and intangible fixed assets are depreciated based on the acquisition cost and estimated useful life on a straight-line monthly basis, the first depreciation charge is applied in the month following the date when the asset is put to use, and the depreciation is concluded in the month of disposal of the asset.

The following table shows the methods and depreciation periods by asset group:

Asset	Method	Depreciation period
Software	Straight line	3 years
Other intangible asset (logo)	Straight line	6 years
Computers	Straight line	3 years

Land, works of art and fixed assets under construction are not depreciated.

B FINANCIAL ASSETS

Non-current financial assets comprise equity investments in controlled and managed entities and available-for-sale equity investments.

Ownership interests are valued at acquisition cost upon purchase. Acquisition cost includes direct costs related to acquisition, such as fees and commissions to brokers, advisors and stock exchanges.

At the date of acquisition of the ownership interests, the Company categorises these non-current financial assets based on their nature as equity investments – controlled entity and equity investments in associates or debt securities held to maturity or available-for-sale securities and equity investments. Other long-term equity investments represent ownership interests in entities whose financial flows and operating processes cannot be significantly influenced by the Company in order to gain benefits from their business.

In the event of a temporary decrease in the recoverable value of the respective ownership interest, a provision is created based on the tests performed. Impairment tests are conducted in the form of discounted operating cash flows.

Ownership interests and securities that have been transferred to the Company in connection with the Demerger Project are recognised at the price determined by the expert.

If securities and ownership interests are held in foreign currencies, they are remeasured at the end of the reporting period at the current exchange rate announced by the Czech National Bank against the revaluation differences arising from the revaluation of assets and liabilities in equity.

C RECEIVABLES

Receivables are valued at their nominal values, assigned receivables are valued at acquisition cost, i.e. including related costs (Section 25 of Act No. 563/1991 Coll.). As of the balance sheet date, the temporary decrease in the amount of doubtful receivables is accounted for through the creation of provisions charged to expenses that are recognised in the balance sheet in the adjustment column.

Provisions are recognised for receivables that are 180 days past due and based on an analysis of customers' solvency.

Receivables arising from loans provided are increased by interest not collected as of the balance sheet date (with the exception of default interest).

D DERIVATIVES

TRADING DERIVATIVES

Financial derivatives held for trading are reported at fair value as of the balance sheet date as 'Other receivables' or 'Other payables' and the gains (losses) from changes in their fair values are included in income or expenses.

E INVENTORY

Internally generated inventory is valued at internal costs, which include the direct costs of production or other activity, and, where appropriate, the portion of indirect costs that relate to production or other activity.

F LOANS RECEIVED

Short-term and long-term loans or borrowings are recognised at their nominal value upon receipt. When preparing the financial statements, the outstanding balance of the loan or borrowing is increased by outstanding interest billed by the bank or by the other party. The portion of long-term loans or borrowings due within one year of the balance sheet date is recognised as a short-term loan or borrowing.

G FOREIGN EXCHANGE OPERATIONS

The Company uses the Czech National Bank's current exchange rates at the time of the acquisition of the asset or the liability for the translation of assets and liabilities denominated in foreign currencies to Czech crowns. Realised exchange rate gains and losses are recognised in income or expenses of the current year.

At the balance sheet date, foreign currency assets and liabilities were translated at the Czech National Bank's exchange rate and any exchange rate differences from the valuation of assets and liabilities were recognised in the accounts of financial income or expenses.

H REVENUE AND EXPENSE RECOGNITION

Expenses and income are recognised in the period to which they relate on an accrual basis. In accordance with the principle of prudence, the Company charges to expenses the creation of reserves and provisions to cover all risks, losses and impairment that are known as of the balance sheet date.

I RECOGNITION OF PROJECTS

Work in progress is valued at internal costs, which include the cost of material, labour and other operating expenses, depending on the stage of completion. Decrease in work in progress is valued at actual internal costs..

Notes to the Financial Statements (Separate)
EP industries, a. s.
Year Ended 31 December 2019
(CZK thousands)

J INCOME TAXATION

Income tax payable is calculated using the current tax rate on the accounting profit increased or decreased by permanently or temporarily non-tax deductible expenses and non-taxable income (e.g. creation and recognition of other reserves and provisions, representation costs, difference between depreciation for accounting and tax purposes).

Deferred income tax is determined for companies that form a group of enterprises and for all entities subject to the obligation to audit financial statements. It is based on the balance sheet approach, i.e. temporary differences between the tax base of assets or liabilities and their carrying amount in the balance sheet, calculated using the estimated income tax rate for the following period.

The income tax reserve is created by the Company since the date of preparation of the financial statements precedes the determination of the tax liability. In the following reporting period, the Company releases the reserve and recognises the identified tax liability.

In the balance sheet, the income tax reserve is reduced by the income tax prepayments made, and any resulting receivable is recognised in under 'State – tax receivables'.

K CONSOLIDATION

The Company prepares the consolidated financial statements in accordance with the International Financial Reporting Standards. The consolidated financial statements will be published in the Register of Companies together with the consolidated annual report.

The consolidated financial statements of the widest group of entities for the year ended 31 December 2019 are prepared by EP INDUSTRIES HOLDING LIMITED, Kyriakou Matsi, 16 EAGLE HOUSE, 8th floor, Agioi Omologities, Nicosia, P.C. 1082, Republic of Cyprus. The consolidated financial statements will be available at the company's registered office.

L COSTS OF EXTERNAL FINANCING

Costs related to external financing, including the fees related to this financing, are charged to the expenses of the relevant year on a one-time basis.

M DIVIDENDS

Dividend income is recognised when the right to receive dividends is declared. Profit share advances received are recognised in the income of the current period, i.e. in the period when the decision on the advance payment was made.

3. Changes in Accounting Methods and Policies

No changes in accounting methods and policies were made in the year ended 31 December 2019.

4. Cash Flow Statement

The cash flow statement is prepared using the indirect method. Cash equivalents include current liquid assets which are easily convertible into cash in an amount agreed in advance.

Cash and cash equivalents can be analysed as follows:

(CZK '000)

	Balance at 31 December 2019	Balance at 31 December 2018
Cash on hand	70	86
Cash at bank	520 509	590 028
Total cash	**520 579**	**590 114**

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

5. Non-Current Financial Assets

Equity investments – controlled or controlling entity				
Equity investments – controlled entity	**Total profit (+) loss (-) for 2019 (in CZK/EUR thousand)**	**Equity as of 31 December 2019 (in CZK/EUR thousand)**	**Gross equity investment as of 31 December 2019 (in CZK thousand)**	**Gross equity investment as of 31 December 2018 (in CZK thousand)**
BAULIGA a.s.*	549 739 (Kč)	698 266 (Kč)	2 403 858	2 403 858
ED Holding, a.s.	761 513 (Kč)	794 223 (Kč)	259 156	259 156
Energetické opravny, a. s.*	30 881 (Kč)	31 893 (Kč)	439 806	443 996
ESTABAMER LIMITED*	-415 (Kč)	-1 301 (Kč)	227 338	230 157
Herington Investments Limited*	523 327 (Kč)	5 920 (Kč)	1 334 577	1 351 076
PIRAMEL ENTERPRISES LIMITED*	203 (EUR)	2 261 (EUR)	1 861 644	1 861 644
PI 1 a.s.	-21 310 (Kč)	259 019 (Kč)	877 603	877 603
SES BOHEMIA ENGINEERING, a.s.*	600 (Kč)	6 809 (Kč)	13 458	13 458
SES ENERGY, a.s.*	17 (EUR)	652 (EUR)	310 205	314 051
TAHOBA INVESTMENTS LIMITED*	142 447 (Kč)	2 974 (Kč)	847 516	858 021
EP Intermodal a.s. (dříve AVE SR Východ a.s.).*,**	-	-	-	207
EŽP Invest a.s. (původně ZERTILIO a.s.)*,***	-439 (Kč)	2 492 (Kč)	2 700	2 700
SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s. („SES")	-7 119 (EUR)	-8 274 (EUR)	710 989	719 803
ELQA, s.r.o.	17 908 (Kč)	50 047 (Kč)	132 736	-
Fintherm a.s.*	2 078 (Kč)	103 526 (Kč)	87 312	-
T.O.O., spol. s r.o.*	25 095 (Kč)	52 275 (Kč)	39 000	-
Acquired non-current financial assets	-	-	-	731
Total			**9 547 899**	**9 336 461**

* Information based on unaudited statutory financial statements of the companies.
** Following the record in the Register of Companies on 12 April 2019, the company name changed from AVE SR Východ a.s. to EP Intermodal a.s.
*** Following the entry in the Register of Companies on 21 February 2020, the company name changed from Zertilio a.s. to EŽP Invest a.s.

THE FOLLOWING CHANGES IN NON-CURRENT FINANCIAL ASSETS OCCURRED IN 2019:

- In January, the Company purchased a 100% equity investment in ELQA, s.r.o.
- In January, the Company sold a 100% equity investment in EP Intermodal a.s. to EP Logistics International, a.s.
- In April, the Company purchased a 100% equity investment in Fintherm a.s.
- In September, the Company purchased a 100% equity investment in T.O.O., spol. s r.o.

All equity investments are fully owned, with the exception of PIRAMEL ENTERPRISES LIMITED (90%), Herington Investments Limited (88%), TAHOBA INVESTMENTS LIMITED (88%) and SES (89.83%).

As of 31 December 2019 and 31 December 2018, the Company tested all of the aforementioned investments for impairment. Concerning the investment in SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s., the Company considered the fact that due to an adjusted strategy of equity investment holding, SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s. is undergoing an internal restructuring. Based on the current projections and estimates, this restructuring will lead into a much better performance of the Company in the medium term. Based on the tests, temporary impairment was found with respect to the investments in the following entities:

(CZK '000)

Entity	2019	2018
ESTABAMER LIMITED	227 339	230 157
SES ENERGY, a.s.	223 654	223 654
Energetické opravny, a. s.	114 907	114 907
SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s.	271 685	608 588
Total	**837 585**	**1 177 306**

As of 31 December 2019, the addresses of registered offices of the subsidiaries are as follows:

Company name	Registered office
BAULIGA a.s.	Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
ED Holding, a.s.	Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
ELQA, s.r.o.	Blanenská 1856/6, 664 34 Kuřim, Czech Republic
Energetické opravny, a.s.	Prunéřov 375, 432 01 Kadaň, Czech Republic
ESTABAMER LIMITED	Akropoleos, 59 – 61, SAVVIDES CENTER, Flat/Office 102, P. C. 2012, Nicosia, Republic of Cyprus
EŽP Invest a.s. (původně ZERTILIO a.s.)*,**	Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
Fintherm a.s.	Za tratí 197, Třeboradice, 196 00 Praha 9, Czech Republic
Herington Investments Limited	Akropoleos, 59 – 61, SAVVIDES CENTER, Flat/Office 102, P. C. 2012, Nicosia, Republic of Cyprus
PI 1, a.s.	Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
PIRAMEL ENTERPRISES LIMITED	Kyriakou Matsi, 16, EAGLE HOUSE, 8th floor, Ag. Omologites, P.C. 1082, Nicosia, Republic of Cyprus
SES BOHEMIA ENGINEERING, a.s.	Bezdrevská 539, Hostavice, 198 00 Praha 9, Czech Republic
SES Energy, a. s.	Továrenská 210, Tlmače, 935 28, Slovak Republic
SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s.	Továrenská 210, Tlmače, 935 28, Slovak Republic
TAHOBA INVESTMENTS LIMITED	Akropoleos, 59 – 61, SAVVIDES CENTER, Flat/Office 102, P. C. 2012, Nicosia, Republic of Cyprus
T.O.O., spol. s r. o.	Košinova 2967/103b, Královo Pole, 612 00 Brno, Czech Republic

* Following the entry in the Register of Companies on 21 February 2020, the company name changed from Zertilio a.s. to EŽP Invest a.s.
** Following the entry in the Register of Companies on 17 February 2020, the registered office of the company changed to náměstí Hrdinů 1693/4a, Nusle, 140 00 Praha 4.

6. Long-Term Receivables

In 2019, long-term receivables included loans provided to related parties in the amount of CZK 820,746 thousand (2018: CZK 251,452 thousand) (refer to Note 12. Information on Related Parties) and long-term loans provided to other non-bank entities in the amount of CZK 3,937 thousand (2018: CZK 3,755 thousand).

7. Short-Term Receivables

Short-term receivables predominantly include loans provided to related parties in the amount of CZK 1,078,735 thousand, without the impact of a provision in the amount of CZK 219,460 thousand (2018: CZK 1,437,703 thousand without the impact of a provision in the amount of CZK 222,181 thousand), refer to Note 12. Information on Related Parties, and loans provided to other non-bank entities in the amount of CZK 255,678 thousand (2018: CZK 361,848 thousand).

STATE – TAX RECEIVABLES

Income tax prepayments made as of 31 December 2019 amount to CZK 22,308 thousand (31 December 2018: CZK 17,018 thousand). As of 31 December 2019, the prepayments were decreased by the recognised income tax reserve in the amount of CZK 6,858 thousand (31 December 2018: CZK 13,687 thousand).

As of 31 December 2019, the Company records no receivables due in more than five years.

8. Statement of Changes in Equity

On 30 June 2019, the General Meeting decided on the allocation of the profit for 2018 into retained earnings brought forward.

On 3 October 2019, the Company declared a profit share prepayment to the sole shareholder in the amount of CZK 108,359 thousand. The prepayment was made in cash.

On 15 November 2019, the Company declared a profit share prepayment to the sole shareholder in the amount of CZK 30,000 thousand. The prepayment was fully offset against the loan.

On 19 December 2019, the Company declared a profit share prepayment to the sole shareholder in the amount of CZK 100,000 thousand. The prepayment was made in cash.

As of the date of approval of the financial statements, no proposal has been made for the allocation of the profit of 2019. The distribution proposal will be prepared by the Board of Director's for the Company's shareholder and subsequently discussed and approved at the General Meeting.

The change on line 'Gains or losses from the revaluation of assets and liabilities' is caused by the exchange rate difference arising from the revaluation of equity investments denominated in foreign currencies.

9. Long-Term Payables

PAYABLES TO CREDIT INSTITUTIONS

As of 31 December 2019, the Company records a single long-term bank loan amounting to CZK 182,952 thousand maturing in 2025 ("Bank No. 3"). The outstanding interest together with the short-term part of the loan is presented in line 'Payables to credit institutions' within Short-Term Payables.

The Company had no long-term bank loans in 2018.

LONG-TERM BILLS OF EXCHANGE TO BE PAID

31 DECEMBER 2019

(CZK '000)

Creditor	Nominal value	Interest as of 31 December 2019
Bills of exchange to be paid in 2021/2022	649 268	19 376
Total	**649 268**	**19 376**

31 DECEMBER 2018

(CZK '000)

Creditor	Nominal value	Interest as of 31 December 2018
Bills of exchange to be paid in 2020/2022	1 045 360	44 900
Total	**1 045 360**	**44 900**

PAYABLES – CONTROLLED OR CONTROLLING ENTITY

Payables to the controlled or controlling entity include payables arising from received loans in the amount of CZK 304,920 thousand (2018: CZK 916,569 thousand), refer to Note 12. Information on Related Parties.

DEFERRED TAX LIABILITY

The deferred tax liability reported in the amount of CZK 19,360 thousand (2018: CZK 19,360 thousand) is related to the revaluation of equity investments as of 1 January 2011.

10. Short-Term Payables

PAYABLES TO CREDIT INSTITUTIONS

As part of payables to credit institution, the Company reported primarily the following short-term bank loans as of 31 December 2019:

(CZK '000)

Counterparty	Principal	Outstanding interest as of 31 December 2019	Maturity
Bank no. 3	127 050	-	2020
Total	**127 050**	**-**	

As of 31 December 2018, the Company reported the following short-term bank loans:

(CZK '000)

Counterparty	Principal	Outstanding interest as of 31 December 2018	Maturity
Bank no. 1	1 260 525	15 301	2019
Bank no. 2	398 738	-	2019
Total	**1 659 263**	**15 301**	

The bank loans are secured with a blank bill of exchange.

TRADE PAYABLES

No trade payable is due in more than five years of the balance sheet date.

SHORT-TERM BILLS OF EXCHANGE TO BE PAID

31 DECEMBER 2019

(CZK '000)

Creditor	Nominal value	Interest as of 31 December 2019
Bills of exchange to be paid in 2019/2020	1 076 342	93 362
Total	**1 076 342**	**93 362**

31 DECEMBER 2018

(CZK '000)

Creditor	Nominal value	Interest as of 31 December 2018
Bills of exchange to be paid in 2019	653 276	64 552
Total	**653 276**	**64 552**

PAYABLES – CONTROLLED OR CONTROLLING ENTITY

Payables to controlled or controlling entities included received loans in the amount of CZK 5,329,667 thousand (2018: CZK 3,382,176 thousand), refer to Note 12. Information on Related Parties.

PAYABLES TO PARTNERS

As of 31 December 2019, the Company had no payables to partners. Payables to partners as of 31 December 2018 amounting to CZK 743,886 thousand included the share premium, which the Company's General Meeting decided to pay out in December 2018.

SUNDRY PAYABLES

As of 31 December 2018, sundry payables predominantly include negative values of derivatives as specified in the table below. These were repaid in 2019.

Contracts reported under 'Sundry payables' in CZK thousand	Maturity	Fair value as of 31 December 2018	Fair value as of 31 December 2017	Nominal value (in EUR thousand)
FX forward (held for trading)	7 January 2019	635	-	3 500
Total derivatives		**635**	**-**	

11. Expenses and Income

Sales of own products and services predominantly include income from the services provided in the area of controlling and finance, from short-term sub-leases and from the provision of meeting rooms.

Costs of services predominantly include the costs of legal, accounting and tax advisory and expert services.

The decrease in adjustments to values and reserves relating to financial activities is primarily due to the fact that in 2018, a one-time provision was created against an equity investment in a subsidiary. Other financial expenses (or other financial income) predominantly include foreign exchange losses and bank fees (or foreign exchange gains). Other financial expenses in 2018 mostly arose from the remission of debts and assignment of receivables to related parties.

12. Information on Related Parties

Pursuant to Regulation No. 500/2002 Coll., Section 39b. (8), the Company does not report transactions concluded between entities of the EPI consolidation group if these consolidated entities are fully owned by the Company.

A LONG-TERM RECEIVABLES – CONTROLLED OR CONTROLLING ENTITY

31 DECEMBER 2019

(CZK '000)

Counterparty	Principal	Outstanding interest as of 31 December 2019	Maturity
PI 1 a.s.	779 281	-	2021
SES BOHEMIA ENGINEERING, a.s.	31 291	10	2021
SES ENERGY, a.s.	10 164	-	2021
Total	**820 736**	**10**	

31 DECEMBER 2018

(CZK '000)

Counterparty	Principal	Outstanding interest as of 31 December 2018	Maturity
PI 1 a.s.	190 244	-	2021
SES BOHEMIA ENGINEERING, a.s.	25 136	57	2020
SES ENERGY, a.s.	36 015	-	2021
Total	**251 395**	**57**	

B SHORT-TERM RECEIVABLES – CONTROLLED OR CONTROLLING ENTITY

31 DECEMBER 2019

(CZK '000)

Counterparty	Principal	Outstanding interest as of 31 December 2019
Energetické opravny, a. s.	9 064	-
Bauliga a.s.	609	0
EP Industries Holding Limited	149 581	1 702
ESTABAMER LIMITED	910	-
Fintherm a.s.	14 051	-
PIRAMEL ENTERPRISES LIMITED	432 005	25 827
SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s.	413 312	26 625
TAHOBA INVESTMENTS LIMITED	3 894	1 155
Total short-term receivables from provided loans	**1 023 426**	**55 309**

31 DECEMBER 2018

(CZK '000)

Counterparty	Principal	Outstanding interest as of 31 December 2018
Bauliga a.s.	300	-
ED Holding a.s.	38 588	-
Energetické opravny, a. s.	9 063	-
EP Industries Holding Limited	493 924	4 083
ESTABAMER LIMITED	693	-
PI 1 a.s.	-	6 171
PIRAMEL ENTERPRISES LIMITED	432 005	2 812
SLOVENSKÉ ENERGETICKÉ STROJÁRNE a.s.	418 436	26 955
TAHOBA INVESTMENTS LIMITED	3 742	931
Total	**1 396 751**	**40 952**

C LONG-TERM PAYABLES – CONTROLLED OR CONTROLLING ENTITY

31 DECEMBER 2019

(CZK '000)

Counterparty	Principal	Outstanding interest as of 31 December 2019	Maturity
ELTRA, s.r.o.	304 920	-	2025
Total	**304 920**	**-**	

31 DECEMBER 2018

(CZK '000)

Counterparty	Principal	Outstanding interest as of 31 December 2018*	Maturity
SOR Libchavy spol. s r.o.	550 000	-	2020
MSEM, a.s.	148 704	1 138	2020
SEG s.r.o.	105 807	809	2020
VČE - montáže, a.s.	112 058	857	2020
Total	**916 569**	**2 804**	

* Interest (in the total amount of CZK 2,804 thousand) is payable once per year and reported under Short-term payables – controlled or controlling entity.

D SHORT-TERM PAYABLES – CONTROLLED OR CONTROLLING ENTITY

31 DECEMBER 2019

(CZK '000)

Counterparty	Principal	Outstanding interest as of 31 December 2019
AVE CEE Holding GmbH	1 789 254	74 488
AVE CZ odpadové hospodářství s.r.o.	1 480 500	33 788
EGEM s.r.o.*	227 803	306
Elektrizace železnic Praha a. s.	600 202	4 072
Energetické montáže Holding, a.s.	591 319	6 649
HERINGTON INVESTMENTS LIMITED	2 122	3
MSEM, a.s.	106 417	926
PROFI EMG s.r.o.	87 184	117
SEG s.r.o.	54 441	473
SOR Libchavy spol. s r.o.	200 000	-
VČE-montáže, a.s.	69 003	600
Total	**5 208 245**	**121 422**

* The loan is payable at the creditor's request. The debtor is required to repay the loan as of the first anniversary of the signing of the loan contract immediately following the day of receiving the creditor's request for the repayment of the loan.

31 DECEMBER 2018

(CZK '000)

Counterparty	Principal	Outstanding interest as of 31 December 2018
AVE CEE Holding GmbH	1 319 754	29 731
EGEM s.r.o.**	445 691	3 611
MSEM, a.s.	148 704*	1 138
SOR Libchavy spol. s r.o.	200 000	-
VČE-montáže, a.s.	112 058*	857
Energetické montáže Holding, a.s.	835 597	3 420
SEG s.r.o.	105 807*	809
Elektrizace železnic Praha a. s.	400 202	3 395
HERINGTON INVESTMENTS LIMITED	2 271	-
PROFI EMG s.r.o.	134 609	1 091
Total	**3 704 693**	**44 052**

* The loan principal (in the total amount of CZK 366,569 thousand) is due in 2020 and reported under Long-term payables – controlled or controlling entity.
** The loan is payable on the creditor's request. The debtor is required to repay the loan as of the first anniversary of the signing of the loan contract immediately following the day of receiving the creditor's request for the repayment of the loan.

E EXPENSES

2019

(CZK '000)

Counterparty	Type	2019
AVE CEE Holding GmbH	Interest expenses – loans	51 056
AVE CZ odpadové hospodářství s.r.o.	Interest expenses – loans	33 788
EGEM s.r.o.	Interest expenses – loans	20 332
Elektrizace železnic Praha a. s.	Interest expenses – loans	14 846
ELTRA, s.r.o.	Interest expenses – loans	1 406
Energetické montáže Holding, a.s.	Interest expenses – loans	29 593
HERINGTON INVESTMENTS LIMITED	Interest expenses – loans	8
MSEM, a.s.	Interest expenses – loans	6 540
PROFI EMG s.r.o.	Interest expenses – loans	5 808
SEG s.r.o.	Interest expenses – loans	4 396
SOR Libchavy spol. s r.o.	Interest expenses – loans	33 767
VČE-montáže, a.s.	Interest expenses – loans	4 793
EP Infrastructure, a.s.	Operating expense	747
EP Investment Advisors, s.r.o.	Operating expense	17 365
EP Power Europe, a.s.	Operating expense	2 001
Total		**226 446**

2018

(CZK '000)

Counterparty	Type	2018
AVE CEE Holding GmbH	Interest expenses – loans	31 275
EGEM s.r.o.	Interest expenses – loans	10 832
Energetické montáže Holding, a.s.	Interest expenses – loans	23 352
Herington Investments Limited	Interest expenses – loans	9
Elektrizace železnic Praha a.s.	Interest expenses – loans	11 122
MSEM, a.s.	Interest expenses – loans	5 153
PROFI EMG s.r.o.	Interest expenses – loans	2 873
SEG s.r.o.	Interest expenses – loans	3 328
VČE-montáže, a.s.	Interest expenses – loans	2 967
Total		**90 911**

F INCOME

2019

(CZK '000)

Counterparty	Type	2019
EGEM, a.s.	Operating income from advisory	2 040
Elektrizace železnic Praha a.s.	Operating income from advisory	2 520
Energetické opravny, a.s.	Operating income from advisory	480
MONTPROJEKT, a.s.	Operating income from advisory	240
MSEM, a.s.	Operating income from advisory	1 800
PROFI EMG s.r.o.	Operating income from advisory	840
SEG s.r.o.	Operating income from advisory	1 800
SOR Libchavy spol. s r.o.	Operating income from advisory	1 395
VČE-montáže, a.s.	Operating income from advisory	1 800
EP Investment Advisors, s.r.o.	Operating income from advisory	113
EP Power Europe, a.s.	Operating income from advisory	4 683
BAULIGA a.s.	Dividend income	550 000
ED Holding a.s.	Dividend income	545 660
ELQA, s.r.o.	Dividend income	31 850
Herington Investments Limited	Dividend income	460 944
TAHOBA INVESTMENTS LIMITED	Dividend income	125 723
SES BOHEMIA ENGINEERING, a.s.	Interest income – loans	109
PI 1 a.s.	Interest income – loans	1 856
TAHOBA INVESTMENTS LIMITED	Interest income – loans	228
EP INDUSTRIES HOLDING LIMITED	Interest income – loans	8 178
PIRAMEL ENTERPRISES LIMITED	Interest income – loans	38 016
Total		**1 780 275**

2018

(CZK '000)

Counterparty	Type	2018
EGEM, a.s.	Operating income from advisory	2 040
SEG s.r.o.	Operating income from advisory	1 800
VČE-montáže, a.s.	Operating income from advisory	1 800
MONTPROJEKT, a.s.	Operating income from advisory	240
MSEM, a.s.	Operating income from advisory	1 800
TAHOBA INVESTMENTS LIMITED	Dividend income	157 153
TAHOBA INVESTMENTS LIMITED	Interest income – loans	206
PROFI EMG s.r.o.	Operating income from advisory	840
Herington Investments Limited	Dividend income	576 180
EP INDUSTRIES HOLDING LIMITED	Interest income – loans	44 660
PIRAMEL ENTERPRISES LIMITED	Interest income – loans	35 772
ED Holding, a.s.	Dividend income	550 239
Total		**1 372 730**

13. Employees and Managers

As of 31 December 2019, the Company had 8 employees (2018: 6 employees).

Members of the Board of Directors, members of the Supervisory Board and persons with management authority were not provided with any benefits (advances, prepayments, borrowings and loans etc.) in the years ended 31 December 2019 and 2018.

14. Information on Fees Paid to Statutory Auditors

Information on fees paid to statutory auditors will be specified in the notes to the consolidated financial statements for the year ended 31 December 2019 where the Company is included.

15. Income Taxation

A TAX PAYABLE

The reserve for the income tax on ordinary activities for the year ended 31 December 2019 amounted to CZK 6,858 thousand and the specification of the estimate of tax for 2018 amounted to CZK 3,107 thousand (2018: CZK 13,687 thousand together with the specification of the estimate of tax for 2017 amounting to CZK 69 thousand).

16. Off-Balance Sheet Payables and Receivables

EPI as the parent company provides guarantees to third parties on behalf of EPI holding subsidiaries up to CZK 347,786 thousand (2018: CZK 434,475 thousand).

A payable from derivative operations in the nominal value of CZK 0 thousand (2018: CZK 90,692 thousand) and a receivable from derivative operations in the nominal value of CZK 0 thousand (2018: CZK 90,038 thousand) are recorded off balance sheet.

17. Material Subsequent Events

In February 2020, the Company sold its 100% equity investment in EŽP invest a.s. (former Zertilio a.s.).

No other events occurred subsequent to the balance sheet date that would have a material impact on the financial statements as of 31 December 2019. At the end of 2019, the first news came from China regarding COVID-19 (the novel coronavirus). Subsequently, the virus spread to other continents, including Europe. The Company's management will continue to closely follow the potential effects of the measures related to COVID-19 and will take all the possible steps to mitigate any negative impacts on the Company and its employees. The Company's management assessed the potential impacts of COVID-19 on its activities and business and concluded that they do not have a material impact on the financial statements for the year ended 31 December 2019 or on the going concern assumption.