

18

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# **Annual Report**

## **2018**

Translated from the Czech original. Only the Czech version is legally binding.

# Contents

5	<b>1 Introduction by the Chairman of the Board of Directors</b>
8	<b>Company Profile</b>
9	<b>2 Company Background</b>
10	<b>3 Market development</b>
21	<b>4 Report of the Board of Directors on the Company's Business Activities and the State of its Assets</b>
24	<b>5 Report of the Supervisory Board on the Results of its Supervisory Activities</b>
26	<b>Report on Relations between Related Parties</b>
34	<b>Balance Sheet</b>
36	<b>Income Statement</b>
37	<b>Cash Flow Statement</b>
38	<b>Statement of Changes in Equity</b>
39	<b>Notes to the Czech statutory financial statements (translated from the Czech original)</b>
39	1. Description and principal activities
41	2. Significant accounting policies applied by the Company
41	A Tangible and intangible fixed assets
41	B Establishment of adjustments
42	C Provisions
42	D Foreign currency translation
42	E Commodity derivatives
43	F Income tax
43	G Classification of liabilities
43	H Recognition of revenues and expenses
44	3. Intangible and tangible fixed assets
44	A Intangible fixed assets
45	B Tangible fixed assets
45	4. Cash
46	5. Trade receivables and payables
46	6. Tax receivables
48	7. Advance payments made
49	8. Registered capital

49	9. Equity
50	10. Derivatives
50	11. Provisions
51	12. Revenues from and expenses on ordinary activities
51	13. Other financial revenues and expenses
52	14. Employees
52	15. Social security and health insurance liabilities
53	16. Tax liabilities and subsidies
53	17. Accrued expenses
53	18. Income tax
53	A Current tax
53	B Deferred tax
54	19. Related parties
54	A Trade receivables and payables
55	B Transactions with related parties
56	C Loans received
57	D Loans provided
57	20. Fees payable to statutory auditors
57	21. Contingencies and commitments
58	22. Cash flow statement
58	23. Material subsequent event
59	<b>Independent Auditor's Report to the Shareholder of EP Commodities, a. s.</b>

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# **1 Introduction by the Chairman of the Board of Directors**

Dear shareholders, business partners and colleagues,

I am pleased to present to you the Annual Report of EP Commodities (“EPC”) for 2018. Last year again showed significant growth in volumes, revenues and profit. EPC entered into more transactions with a larger number of counterparties in a larger number of countries than ever before, following our long - term strategy to be an important European player in energy commodities trading and provide support to Energetický a průmyslový holding (“EPH”) in market access, optimization and other functions. Considering challenging market environment, higher commodity market transparency and competition, our economic results prove that we have been able to create added value not only for EPC but also for our partners in the EPH group and outside the group.

#### **CONSISTENT GROWTH IN PROFIT AND TRADING**

EPC achieved a very strong financial performance in 2018. Expansion of our internal infrastructure and opening of new markets supported our growth over time. We also benefited from disciplined and responsible approach to risk management in all aspects of our business. In 2018, EPC generated revenues of more than CZK 51 billion, showing a year-on-year 45% increase, and net profit of almost CZK 318 million, 27% year-on-year increase.

Considering trading operating indicators for 2018, EPC purchased and sold more than 132 TWh of natural gas. Benefiting from already established infrastructure for power and emission allowances trading in 2018, EPC almost doubled the volume of traded power to 67 TWh year-on-year basis and experienced growth of almost 60% year-on-year basis in emission allowances trading reaching almost 78 million tons of carbon emission allowances traded. In addition to products such as CSS (“clean spark spread”) and CDS (“clean dark spread”), EPC entered into option transactions allowing it to hedge the full value of some of EPH’s group power plants.

We paid an even increased attention to the retainment of human capital and recruitment of new employees to support our growth. In 2018, the average number of full-time employees was 51.

#### **ASSET OPTIMIZATION CENTRE MILESTONE AND FUTURE OUTLOOKS**

At the end of 2018, we opened asset optimisation, dispatch and short-term trading function in Prague, a project on which we had worked over the last 2 previous year. This function allows us to provide optimisation and dispatch services for EPH's group power plants in Germany. Building upon this function, EPC would be in much better position to provide support and optimization services to additional assets not only in German market.

Having demonstrated over the year the resilience of our business model, we believe that EPC is very well positioned in 2019. We expect to strengthen and cement the optimization centre within EPC and whole EPH group. In addition, EPC is continuously working with its counterparties on enabling efficient trading within the EPH group and on expansion in both gas and power trading activities in France and other European markets.

Our team of people is key resource and therefore one of main goals of EPC is to retain and attract the best talent as we still believe that there is further room for new opportunities and improvement of current EPC's activities. We will continue to seek new growth opportunities while paying increased attention to risk management.

At last, I would like to thank all employees, shareholders and partners for their involvement in fulfilling our strategy. Their cooperation and support helped us perform our business activities. We are grateful to all of you for our success in 2018.

Prague, 28 June 2019



Miroslav Haško

Chairman of the Board of Directors

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# Company Profile

EP Commodities, a.s. is a joint-stock company specialising in trading in energy commodities, which mainly involves whole-sale transactions with natural gas, electricity, emission allowances, coal (financially) and other products (e.g. dark and spark spreads) throughout the European regions.

The Company is part of the Energetický a průmyslový holding, a.s. (EPH) group, which is a leading Central European energy group that owns and operates facilities in the Czech Republic, Slovakia, Germany, Italy, Great Britain and Hungary.

EP Commodities, a.s. primarily focuses on countries in which the EPH group has its own assets or whose liquidity enables effective trading. In addition to the physical and financial securing of assets for the EPH group, it also performs sourcing of the end customer portfolios in selected countries.



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## **2 Company Background**

Company name	<b>EP Commodities, a. s.</b>
Registered office	Praha 1, Klimentská 1216/46, PSČ 110 00
Identification number	034 37 680
Tax identification number	CZ03437680
Entry in the Commercial Register	Municipal Court in Prague, section B, insert 19973
Phone	+420 255 707 090
E-mail	info@epcommodities.cz
Website	www.epcommodities.cz
Sole shareholder	EP Power Europe, a. s.
Registered office	Pařížská 130/26, Josefov, 110 00 Praha 1
Identification number	278 58 685

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## **3      Market development**

## MACROECONOMIC DEVELOPMENTS

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

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

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

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

On a global perspective, the U.S. Treasury yield curve inverted at the end of 2018 when the 2-year yield rose above the 5-year one. Whilst the 2 vs 10-year curve did not invert before the end of year, it flattened throughout 2018 with the 10-2 year yield spread decreasing to 0.2%. Furthermore, the U.S. Federal Open Market Committee raised the Fed Funds Rate (FFR) from 1.5% to 2.5%, closing in on the 10-year yield weekly average (2.75%). It is worth noting that every recession over past 70 years has been preceded by an inverted yield curve and an increase of the FFR above the 2 and 10-year treasuries.

## **ENERGY DEVELOPMENTS**

### **ELECTRICITY CONSUMPTION**

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

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

### **CONVENTIONAL ELECTRICITY PRODUCTION**

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

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

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

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

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

## **RENEWABLE ELECTRICITY PRODUCTION**

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

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

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

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

## POWER PRICES

Electricity prices in Europe increased to 45–60 €/MWh in 2018 concurrently with the rise in the costs of coal (+15%), gas (+30%) and CO<sub>2</sub> (+170%). Solar and wind auction prices were in balance with the short-term costs of coal and gas power plants for the first time.

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

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

## COAL

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

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

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

## **OIL**

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

## **NATURAL GAS**

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

Gas demand in Europe decreased for the first time after two years to 599 bcm, a year-on-year drop by 1.9%. Electricity production from gas power plants decreased by 5%. Although the temperatures were below normal in February and March, most of the year was warmer than usual which contributed to the lower overall gas consumption for heating. However, the cold weather at the beginning of the year resulted in high gas withdrawals. These reached unprecedented levels as the stocks decreased below 10% of capacity in northwest Europe following a high UK consumption. The filling rate of 82.7% at the end of Q3 was lower by 1.8% compared to the same time in 2017. The natural gas production in the EU declined in 2018 with the Dutch output dropping after an earthquake in Groningen area early in the year and the subsequent government's decision to stop the production from this field as quickly as possible. Decreased production and depleted storages lead to record gas imports from Russia (> 200 bcm). The LNG imports decreased throughout 2018 amid high spot prices in Asia which diverted the deliveries to Europe.

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

## **EUA**

Total CO<sub>2</sub> emissions from fuel combustion in Europe amounted to 3,956 Mt in 2018, an annual decrease of 1.3%. The decrease in generated emissions was most prominent in Germany (-4.5%) with a drop in the combustion from oil and coal, most notably in the electricity production where conventional sources gave way to renewables (37% of the electricity mix). Similarly, increased renewables contributed to the decline of coal-powered generation in UK where emissions were at their minimum since the end of 19<sup>th</sup> century. Higher nuclear and hydro generation in France compared to the previous year also resulted in a decrease of power generation from conventional sources and, consequently, reduction of country's emissions.

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



## POLITICAL DEVELOPMENTS

### BREXIT

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

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

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

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

## **OPEC OVERVIEW**

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

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

## **VENEZUELA**

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

## **IRAN**

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

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

### **TRADE WAR BETWEEN CHINA AND USA**

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

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

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

### **ETS (EMISSION TRADING SYSTEM)**

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

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

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## **4 Report of the Board of Directors** on the Company's Business Activities and the State of its Assets

All presented data have been prepared in compliance with Czech Accounting Standards.

### **ECONOMIC RESULTS FOR 2018**

For the 2018 accounting period, EP Commodities, a.s. recognised revenues of CZK 51.3 billion and the operational result before tax of CZK 393.6 million, primarily owing to a margin generated from the wholesale market with natural gas, electricity and emission allowances and revenues from provided services.

### **PRINCIPAL BUSINESS ACTIVITIES IN 2018**

The Company's principal business activity is the wholesale of natural gas, electricity and emission allowances on European markets.

Total trading in natural gas and electricity in all markets amounted to 200 TWh and in emission allowances to 78 million tonnes in 2018.

### **FURTHER DEVELOPMENT**

In 2019, the Company primarily aims to complete the building of its business infrastructure and fulfilment of trading centre function within the EPH group.

The Company also plans to increase the number of employees and expand the entire corporate team.

### **RESEARCH AND DEVELOPMENT**

The Company does not carry out any research and development activities.

### **ENVIRONMENTAL PROTECTION AND LABOUR-LAW RELATIONS**

In handling consumable materials, the Company always adopts a friendly approach to the environment.

Employment relations are governed by the Labour Code.

## **RISK MANAGEMENT OBJECTIVES AND METHODS**

The Company is exposed to market risk as a part of its common business activity. The Company's management in cooperation with its Risk Management department monitors and assesses the risks on regular basis. The management's objective is to reduce any possible negative effects of the risks, which is done through commodity derivatives. The Company does not apply hedge accounting. Further information on derivatives is included in Note 10 of the notes to the financial statements.

## **MATERIAL SUBSEQUENT EVENTS**

No material subsequent events occurred as at the date of signing the annual report.

Prague, 28 June 2019



Miroslav Haško

Chairman of the Board of Directors



Daniel Pexidr

Member of the Board of Directors

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## **5 Report of the Supervisory Board** on the Results of its Supervisory Activities



In 2018, the Supervisory Board of EP Commodities, a.s. performed tasks in compliance with the Business Corporations Act and the Company's statutes.

The Supervisory Board regularly monitored the Company's economic results, the state of its assets and reviewed economic analyses. It checked and verified the fulfilment of tasks given to the Board of Directors by the General Meeting, resp. the decision of the sole shareholder during the exercise of powers of the General Meeting, as well as the observance of generally binding legal regulations and the Company's statutes.

During 2018, when exercising its right to supervise, the Supervisory Board followed the Company's statutes and generally binding legal regulations valid for the activities of joint stock companies. In the mentioned period, the Supervisory Board focused primarily on its main task, i.e. the supervision over the exercise of powers of the Board of Directors and the examination of the annual financial statements and the proposal for profit settlement.

In the shareholder's interest, the Supervisory Board also focused, among other things, on the continuous monitoring of economic results, the performance of the business plan and the resolutions adopted by the regular General Meeting. It simultaneously aided the Board of Directors in fulfilling the joint stock company's development strategy.

The Board of Directors has provided the Supervisory Board with all necessary background materials, information and explanations. The Supervisory Board did not discover any shortcomings or violations of the Company's statutes or applicable legal regulations in the activities of the Board of Directors.

Prague, 28 June 2019

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## **Report on Relations between Related Parties**

**pursuant to Act No. 90/2012 Coll., on Corporations and Cooperatives  
for the accounting period from 01 January 2018 to 31 December 2018**

The Board of Directors of EP Commodities, a.s., ("the Company"), with its registered office in Prague 1, Klimentská 1216/46, 110 00, has prepared this report on relations between the controlled entity, companies exercising direct or indirect control and other entities controlled by the same controlling entity for the period from 01 January 2018 to 31 December 2018 in compliance with Section 82 of Act No. 90/2012 Coll., on Corporations and Cooperatives, as amended.

The direct controlling entity for the accounting period from 01 January 2018 to 31 December 2018 was EP Power Europe, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1.

In the respective period, EP Power Europe, a.s., as the direct controlling entity, owned 10 shares of the controlled entity, representing 100% of the Company's registered capital and 100% of its voting rights.

## **I. CONTROLLED ENTITY**

**EP Commodities, a.s.**, with its registered office in Prague 1, Klimentská 1216/46, 110 00, ident. no. 034 37 680, recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, insert 19973 on 29 September 2014.

## **II. CONTROLLING ENTITY**

The indirect controlling entity for the accounting period from 1 January 2018 to 31 December 2018 was EP Investment SARL, with its registered office at avenue J.F. Kennedy 39, 1855, Luxembourg, TIN: 20132465909.

## **III. THE CONTROLLED ENTITY'S ROLE, METHOD AND MEANS OF CONTROL**

The controlled entity's role within the group of companies is trading with commodities on a wholesale market. To fulfil this role, the controlled entity enters into business relations with related parties. All contractual relationships with related parties were established under the arm's length principle. All supplies and related consideration have been agreed based on the arm's length principle.

The controlling entity exercises its controlling influence through the appointment and recalling of Statutory Board and Supervisory Board members in compliance with effective legislation and the controlled entity's articles of association.

#### IV. CONTRACTS WITH RELATED PARTIES IN EFFECT IN THE LAST ACCOUNTING PERIOD

In 2018, the contracts in effect between the controlled entity and the direct and indirect controlling entities and other entities controlled by the same controlling entities were as follows:

- |  |  |
|--|--|
| <p>(1) EFET General Agreement concerning the delivery and acceptance of Natural Gas with EP ENERGY TRADING a.s. dated 1 December 2014</p> <p>(2) Contract for the sub-lease of business premises and for the provision of services with EP ENERGY TRADING, a.s. dated 1 October 2014</p> <p>(3) Loan agreement with Energetický a průmyslový holding, a.s. dated 24 August 2015</p> <p>(4) Framework agreement to provide guarantees with Energetický a průmyslový holding, a.s. dated 02 February 2015</p> <p>(5) Agreement for the supply of natural gas of 28 September 2018 with EP Produzione Centrale Livorno Ferraris S.p.A.</p> <p>(6) Agreement for the supply of natural gas of 28 September 2018 with EP Produzione S.p.A.</p> <p>(7) Agreement for flexible gas supplies and withdrawals with eustream, a.s. dated 15 December 2015</p> <p>(8) Framework agreement on balancing platform access of 23 October 2015 with eustream, a.s.</p> <p>(9) Contract for title transfer services of 27 April 2016 with eustream, a.s.</p> <p>(10) Framework contract on access to the transmission network and gas transmission of 25 May 2016 with eustream, a.s.</p> | <p>(11) Agreement for the provision of data reporting under Article 9 (9) of REMIT Implementing Acts of 31 March 2016 with NAFTA a.s.</p> <p>(12) Contract for the supply of natural gas of 2 December 2015 with NAFTA a.s.</p> <p>(13) Contract for the supply of natural gas of 16 November 2015 with NAFTA a.s.</p> <p>(14) General Agreement on Provision of Storage Services of 23 July 2018 with NAFTA a.s.</p> <p>(15) Gas Storage Agreement – the Inverse Storage of 31 August 2018 with NAFTA a.s.</p> <p>(16) Contract for the provision of ICT services for consideration with United Energy, a.s. dated 12 April 2018</p> <p>(17) Contract for the supply of gas (to meet the gas supply security standard) of 16 October 2018 with SPP-distribúcia, a.s.</p> <p>(18) EFET General Agreement concerning the delivery and acceptance of Natural Gas with Stredoslovenská energetika, a.s. dated 1 April 2015</p> <p>(19) Service Level Agreement with EP UK Investments Ltd dated 3 May 2017</p> <p>(20) Contract for the provision of services with Stredoslovenská energetika, a.s. dated 22 December 2017</p> <p>(21) ISDA Master Agreement with EP Produzione S.p.A. dated 18 July 2016</p> <p>(22) EFET General Agreement concerning the delivery and acceptance of electricity with EP UK Investments Ltd dated 3 May 2017</p> <p>(23) EFET General Agreement concerning the delivery and acceptance of electricity with Budapesti Erőmű Zrt dated 2 May 2017</p> |
|--|--|

- |  |   |
|--|---|
| <p>(24) EFET General Agreement concerning the delivery and acceptance of Natural Gas with Budapesti Erőmű Zrt dated 2 May 2017</p> <p>(25) Agreement on assumption of payment obligations with Energetický a průmyslový holding, a.s. and EP Power Europe, a.s. dated 1 July 2017</p> <p>(26) Agreement on set-off of the receivables with EP Power Europe, a.s. dated 1 July 2017</p> <p>(27) Loan Agreement with EP Power Europe, a.s. of 1 July 2017</p> <p>(28) Contract to maintain financial hedging with EP ENERGY TRADING, a.s. of 1 December 2017</p> <p>(29) Contract for the provision of services with EP Investment Advisors, s.r.o. of 3 January 2017</p> <p>(30) Contract for the provision of professional assistance with EP Investment Advisors, s.r.o. of 02 January 2017</p> <p>(31) ISDA Master agreement with EP Mehrum GmbH. dated 24 July 2018</p> <p>(32) EFET General Agreement concerning the delivery and acceptance of Electricity with EP Krafwerke Mehrum, GmbH dated 29 January 2018</p> <p>(33) Guarantee Issuance Agreement with EP Power Europe, a.s. of 29 June 2018</p> | <p>(34) Loan Agreement with Energetický a průmyslový holding, a.s. as amended by the second amendment to the contract of 28 December 2018</p> <p>(35) Contract for the lease of business premises with PT měření a.s. dated 17 April 2018</p> <p>(36) Service Level Agreement with EP Produzione S.p.A dated 1 January 2018</p> <p>(37) Agreement on the delegation of report of EMIR relevant transactions with EP Produzione S.p.A dated 1 December 2018</p> <p>(38) Emissions trading master agreement for the EU scheme with EP Produzione S.p.A. dated 1 January 2017</p> <p>(39) EFET General Agreement concerning the delivery and acceptance of Electricity with EP ENERGY TRADING, a.s. dated 17 August 2016</p> <p>(40) ISDA Master agreement with EP ENERGY TRADING, a.s. dated 17 August 2016</p> <p>(41) Contract for the combined delivery of electricity with EP ENERGY TRADING, a.s. dated 28 November 2017</p> <p>(42) Contract for the provision of services with EP ENERGY TRADING, a.s. of 2 January 2018</p> |
|--|---|

**V. OTHER JURIDICAL ACTS PERFORMED  
IN THE INTEREST OF RELATED PARTIES**

During the respective accounting period, no juridical acts – other than those performed within the execution of rights pertaining to the controlled entity's shareholder – were performed in the interest of the direct and indirect controlling entity or other entities controlled by the same controlling entity.

**VI. OTHER MEASURES ADOPTED OR EFFECTED  
IN THE INTEREST OR AT THE INSTIGATION  
OF RELATED PARTIES**

During the respective accounting period, no measures – other than those adopted or effected within the execution of rights pertaining to the controlled entity's shareholder – were adopted or effected in the interest of the direct and indirect controlling entity or other entities controlled by the same controlling entity.

In 2018, no acts were performed in the interest or at the instigation of the controlling entity that would involve more than 10% of the controlled entity's equity.

**VII. SUPPLIES PROVIDED AND CONSIDERATION  
RECEIVED BY THE CONTROLLED ENTITY**

In the respective accounting period, the controlled entity provided supplies to or received consideration (in thousands of Czech crowns) from the direct or indirect controlling entity and other entities controlled by the same controlling entity which were as follows:

		Sales for		Purchases for	
		2018	2017	2018	2017
EP ENERGY TRADING, a.s.	Sale of goods	1 392 444	1 701 520	313 450	115 683
	Derivatives	610 981	179 874	633 351	113 891
	Sale of services	64			4 850
	Other expenses			1 821	
	Interest expense and revenue	382			
	<b>Total</b>	<b>2 003 871</b>	<b>1 881 394</b>	<b>948 622</b>	<b>234 424</b>
EP Investment Advisors	<b>Sale of services</b>				<b>3 409</b>
	Other financial expenses			39 325	24 744
Energetický a průmyslový holding, a.s.	Other expenses			129	
	Interest expense and revenue	3 425	6 017		236
	<b>Total</b>	<b>3 425</b>	<b>6 017</b>	<b>39 454</b>	<b>24 980</b>
NAFTA a.s.	Other services			26 289	54 804
	Sale of goods		132		1 980
	<b>Total</b>	<b>0</b>	<b>132</b>	<b>26 289</b>	<b>56 784</b>
Stredoslovenská energetika, a.s.	Sale of goods	510 239	46 139	2 410 593	1 263 125
	Sale of services		1 532	54	857
	<b>Total</b>	<b>510 239</b>	<b>47 671</b>	<b>2 410 647</b>	<b>1 263 982</b>
SPP - distribúcia, a.s.	Sale of services	27 954			
	Sale of goods		8 811		
	<b>Total</b>	<b>27 954</b>	<b>8 811</b>	<b>0</b>	<b>0</b>
United Energy, a.s.	<b>Other services</b>			<b>38</b>	<b>30</b>
Budapesti Erőmű Zrt.	Sale of goods	1 264 421	432 159		
	Derivatives		12 750		
	Other services	92 417	24 311		
	<b>Total</b>	<b>1 356 838</b>	<b>469 220</b>	<b>0</b>	<b>0</b>
EP PRODUZIONE S.p.A.	Sale of goods	11 000 411	11 495 995	2 614 623	1 260 665
	Sale of services	272	95 592		
	Derivatives	1 335 973	964 525	902 096	615 470
	Interest expense and revenue			1 242	
	<b>Total</b>	<b>12 336 656</b>	<b>12 556 112</b>	<b>3 517 961</b>	<b>1 876 135</b>
eustream, a.s.	Sale of services	12 325			
	Sale of goods			6 943	60 357
	<b>Total</b>	<b>12 325</b>	<b>0</b>	<b>6 943</b>	<b>60 357</b>
EP Power Europe, a.s.	Interest expense and revenue	27 374	8 338		
	Other financial expenses			22	
	<b>Total</b>	<b>27 374</b>	<b>8 338</b>	<b>22</b>	<b>0</b>

		Sales for		Purchases for	
		2018	2017	2018	2017
EP UK Investments, Ltd	Sale of services		1 891		
	Sale of goods			3 422 347	
	<b>Total</b>	<b>0</b>	<b>1 891</b>	<b>3 422 347</b>	<b>0</b>
EP Produzione Centrale Livorno Ferraris S.p.A.	<b>Sale of goods</b>	<b>5 224 485</b>	<b>5 334 618</b>		
EP Mehrum GmbH	<b>Derivatives</b>	<b>193 101</b>		<b>178 281</b>	
PT měření, a.s.	<b>Other services</b>			<b>50</b>	
Ostatní	<b>Other expenses</b>				<b>338</b>
Slovenské elektrárne, a.s.	Derivatives	54 975		285 651	
	Goods sold	20 875		36 600	
	<b>Total</b>	<b>75 850</b>	<b>0</b>	<b>322 251</b>	<b>0</b>
LAUSITZ ENERGIE KRAFTWERKE	Sale of goods	1 197 615		2 879 747	
	Other services			20 305	
	<b>Total</b>	<b>1 197 615</b>		<b>2 900 052</b>	
LAUSITZ ENERGIE BERGBAU	Derivatives	870 023		7 565	
	Sale of goods	1 027 225		160 894	
	Other services			4 960	
	Interest expense and income	1 368			
	<b>Total</b>	<b>1 898 616</b>	<b>0</b>	<b>173 419</b>	<b>0</b>
Mitteldeutsche Braunkohlengesellschaft mBH	<b>Derivatives</b>		<b>58 931</b>		
	<b>Total</b>	<b>24 868 349</b>	<b>20 373 135</b>	<b>13 946 376</b>	<b>3 520 439</b>

The Company does not report any unpaid received loan as at 31 December 2018.

EP Commodities, a.s. provided a short-term loan to EP Power Europe, a.s. payable in 2019. As at 31 December 2018, the value of this loan was TCZK 709 351 (2017 – TCZK 629 728). Moreover, the Company provided a short-term loan to Energetický a průmyslový holding, a.s. amounting to TCZK 2 232 581 and payable in 2019.

#### VIII. DAMAGE INCURRED BY THE CONTROLLED ENTITY AND RELATED SETTLEMENT

The controlled entity did not incur any damage nor did it gain any advantage as a result of the above contracts, other juridical acts, other measures, and provided supplies and received consideration.



**IX. ADVANTAGES AND DISADVANTAGES ARISING FROM RELATIONS BETWEEN RELATED PARTIES, ASSOCIATED RISKS**

The controlled entity does not gain any advantages or disadvantages from its relations with related parties. All related-party relations are governed by the arm's length principle. No entity gains any illegitimate advantages or disadvantages; all the relations are neutral in this respect. In addition, the controlled entity does not incur any risks from these relations.

**X. CONFIDENTIALITY**

Within the group, all information and facts that are part of the trade secret of the controlling entities, controlled entity and other related parties are deemed confidential. The same applies to all information that has been designated as confidential by any related party. Confidential is also any and all business information that may on its own or in connection with other information and facts result in damage to any related party.



Ing. Miroslav Haško

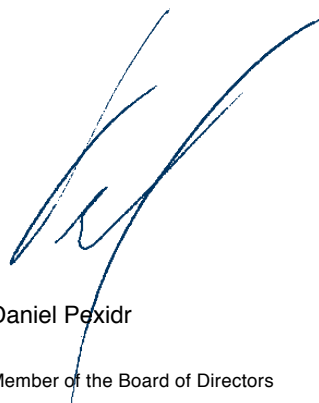
Chairman of the Board of Directors

**XI. CONCLUSION**

This report has been prepared by EP Commodities, a.s., and has been submitted for review to the Supervisory Board and examination by an auditor. As the controlled entity has a statutory duty to prepare an annual report, the report on relations will be attached thereto.

The annual report will be deposited in the Collection of Deeds maintained by the Municipal Court in Prague.

Prague, 29 March 2019



Daniel Pexidr

Member of the Board of Directors

# Balance Sheet

## IN FULL FORMAT

as at 31 December 2018  
(in thousands of Czech crowns)  
Translated from the Czech original

EP Commodities, a.s.  
Klimentská 1216/46  
110 00 Praha 1- Nové Město  
Czech Republic  
Identification number 034 37 680

Ident.	ASSETS	line	Current period		Prior period	
			Gross	Adjust.	Net	Net
a	b	c	1	2	3	4
	<b>TOTAL ASSETS</b>	<b>1</b>	<b>9 938 177</b>	<b>- 14 119</b>	<b>9 924 058</b>	<b>6 778 900</b>
<b>B.</b>	<b>Fixed assets</b>	<b>2</b>	<b>43 324</b>	<b>- 14 119</b>	<b>29 205</b>	<b>13 662</b>
B.I.	Intangible fixed assets	3	35 288	- 12 375	22 913	13 518
B.I.2.	Intellectual property rights	4	35 192	- 12 293	22 899	12 031
B.I.2.1.	Software	5	35 192	- 12 293	22 899	12 031
B.I.4.	Other intangible fixed assets	6	96	- 82	14	33
B.I.5.	Advance payments for intangible fixed assets and intangible fixed assets under construction	7	–	–	–	1 454
B.I.5.2.	Intangible fixed assets under construction	8	–	–	–	1 454
B.II.	Tangible fixed assets	9	8 036	- 1 744	6 292	144
B.II.1.	Land and buildings	10	2 282	- 421	1 861	–
B.II.1.2.	Buildings	11	2 282	- 421	1 861	–
B.II.2.	Plant and equipment	12	5 754	- 1 323	4 431	144
<b>C.</b>	<b>Current assets</b>	<b>13</b>	<b>9 758 800</b>	<b>–</b>	<b>9 758 800</b>	<b>6 756 336</b>
C.I.	Inventories	14	120 023	–	120 023	24 827
C.I.3.	Finished goods and goods for resale	15	120 023	–	120 023	24 827
C.I.3.2.	Goods for resale	16	120 023	–	120 023	24 827
C.II.	Receivables	17	9 500 332	–	9 500 332	6 046 111
C.II.1.	Long-term receivables	18	1 887 320	–	1 887 320	631 970
C.II.1.4.	Deferred tax asset	19	6 974	–	6 974	1 605
C.II.1.5.	Receivables – other	20	1 880 346	–	1 880 346	630 365
C.II.1.5.2.	Long-term advances paid	21	1 875 205	–	1 875 205	613 891
C.II.1.5.4.	Other receivables	22	5 141	–	5 141	16 474
C.II.2.	Short-term receivables	23	7 613 012	–	7 613 012	5 414 141
C.II.2.1.	Trade receivables	24	4 427 459	–	4 427 459	3 882 276
C.II.2.2.	Receivables – group undertakings	25	2 964 848	–	2 964 848	629 728
C.II.2.4.	Receivables – other	26	220 705	–	220 705	902 137
C.II.2.4.3.	Tax receivables	27	58 451	–	58 451	57 163
C.II.2.4.4.	Short-term advances paid	28	1 769	–	1 769	38 963
C.II.2.4.5.	Estimated receivables	29	160 482	–	160 482	173 649
C.II.2.4.6.	Other receivables	30	3	–	3	632 362
C.IV.	Cash	31	138 445	–	138 445	685 398
C.IV.1.	Cash in hand	32	7	–	7	14
C.IV.2.	Bank accounts	33	138 438	–	138 438	685 384
<b>D.</b>	<b>Deferrals</b>	<b>34</b>	<b>136 053</b>	<b>–</b>	<b>136 053</b>	<b>8 902</b>
D.1.	Prepaid expenses	35	13 168	–	13 168	8 902
D.3.	Accrued revenues	36	122 885	–	122 885	–

Ident.	LIABILITIES	line	Current period	Prior period
a	b	c	5	6
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>37</b>	<b>9 924 058</b>	<b>6 778 900</b>
<b>A.</b>	<b>Equity</b>	<b>38</b>	<b>825 502</b>	<b>507 593</b>
A.I.	Registered capital	39	100 000	100 000
A.I.1.	Registered capital	40	100 000	100 000
A.IV.	Retained earnings (+/-)	41	407 591	158 056
A.IV.1.	Retained profits (+/-)	42	407 591	158 056
A.V.	Profit (loss) for the current period (+/-)	43	317 911	249 537
<b>B. + C.</b>	<b>Liabilities</b>	<b>44</b>	<b>8 096 968</b>	<b>5 018 733</b>
<b>B.</b>	<b>Provisions</b>	<b>45</b>	<b>80 667</b>	<b>51 440</b>
B.2.	Income tax provision	46	44 807	42 992
B.4.	Other provisions	47	35 860	8 448
<b>C.</b>	<b>Liabilities</b>	<b>48</b>	<b>8 016 301</b>	<b>4 967 293</b>
C.II.	Short-term liabilities	49	8 016 301	4 967 293
C.II.3.	Short-term advances received	50	2 297 512	1 046 440
C.II.4.	Trade payables	51	4 320 596	3 880 931
C.II.8.	Liabilities – other	52	1 398 193	39 922
C.II.8.3.	Payables to employees	53	3 542	2 683
C.II.8.4.	Social security and health insurance liabilities	54	1 858	1 079
C.II.8.5.	Tax liabilities and subsidies	55	807	13 824
C.II.8.6.	Estimated payables	56	317 887	3 817
C.II.8.7.	Other payables	57	1 074 099	18 519
<b>D.</b>	<b>Accruals</b>	<b>58</b>	<b>1 001 588</b>	<b>1 252 574</b>
D.1.	Accrued expenses	59	995 342	1 252 475
D.2.	Deferred revenues	60	6 246	99

# Income Statement

## CLASSIFICATION BY NATURE

for the year ended 31 December 2018

(in thousands of Czech crowns)

Translated from the Czech original

EP Commodities, a.s.

Klimentská 1216/46

110 00 Praha 1- Nové Město

Czech Republic

Identification number 034 37 680

Ident.	INCOME STATEMENT	line	Current period	Prior period
a	b	c	1	2
I.	Revenue from products and services	1	276 666	176 904
II.	Revenue from goods	2	50 980 774	35 350 165
A.	Cost of sales	3	52 385 244	35 409 669
A.1.	Cost of goods sold	4	52 174 721	35 248 798
A.2.	Materials and consumables	5	4 026	12 942
A.3.	Services	6	206 497	147 929
D.	Personnel expenses	7	70 698	32 558
D.1.	Wages and salaries	8	53 866	25 179
D.2.	Social security, health insurance and other expenses	9	16 832	7 379
D.2.1.	Social security and health insurance expenses	10	16 628	7 312
D.2.2.	Other expenses	11	204	67
E.	Adjustments relating to operating activities	12	8 733	5 335
E.1.	Adjustments to intangible and tangible fixed assets	13	8 733	5 335
E.1.1.	Depreciation and amortisation of intangible and tangible fixed assets	14	8 733	5 335
III.	Other operating revenues	15	94 895	56 990
III.3.	Miscellaneous operating revenues	16	94 895	56 990
F.	Other operating expenses	17	43 431	20 989
F.3.	Taxes and charges	18	56	16
F.4.	Provisions relating to operating activity and complex prepaid expenses	19	27 412	8 448
F.5.	Miscellaneous operating expenses	20	15 963	12 525
*	<b>Operating profit (loss) (+/-)</b>	<b>21</b>	<b>-1 155 771</b>	<b>115 508</b>
VI.	Interest revenue and similar revenue	22	32 596	14 356
VI.1.	Interest revenue and similar revenue – group undertakings	23	30 799	14 355
VI.2.	Other interest revenue and similar revenue	24	1 797	1
J.	Interest expense and similar expense	25	5 204	1 390
J.1.	Interest expense and similar expense – group undertakings	26	–	236
J.2.	Other interest expense and similar expense	27	5 204	1 154
VII.	Other financial revenues	28	14 140 720	3 054 270
K.	Other financial expenses	29	12 618 755	2 874 193
*	<b>Profit (loss) from financial operations</b>	<b>30</b>	<b>1 549 357</b>	<b>193 043</b>
**	<b>Profit (loss) before tax (+/-)</b>	<b>31</b>	<b>393 586</b>	<b>308 551</b>
L.	Income tax	32	75 675	59 014
L.1.	Current tax	33	81 044	60 619
L.2.	Deferred tax (+/-)	34	- 5 369	- 1 605
**	<b>Profit (loss) after tax (+/-)</b>	<b>35</b>	<b>317 911</b>	<b>249 537</b>
***	<b>Profit (loss) for the accounting period (+/-)</b>	<b>36</b>	<b>317 911</b>	<b>249 537</b>
*	<b>Net turnover for the accounting period = I. + II. + III. + IV. + V. + VI. + VII.</b>	<b>37</b>	<b>65 525 651</b>	<b>38 652 685</b>

# Cash Flow Statement

for the year ended 31 December 2018  
(in thousands of Czech crowns)  
Translated from the Czech original

EP Commodities, a.s.  
Klimentská 1216/46  
110 00 Praha 1- Nové Město  
Czech Republic  
Identification number 034 37 680

		Current period	Prior period
<b>P.</b>	<b>Cash and cash equivalents, beginning of period</b>	<b>685 398</b>	<b>375 021</b>
	<b>Net operating cash flow</b>	<b>–</b>	<b>–</b>
	Z. Accounting profit (loss) from ordinary activities	393 586	308 551
A.1.	Non-cash transactions	8 753	817
A.1.1.	Depreciation and amortisation of fixed assets	8 733	5 335
A.1.2.	Change in:	27 412	8 448
A.1.2.2.	provisions and other adjustments	27 412	8 448
A.1.5.	Expense and revenue interests accounted for	- 27 392	- 12 966
<b>A*.</b>	<b>Net operating cash flow before taxation financial items, changes in working capital and extraordinary items</b>	<b>402 339</b>	<b>309 368</b>
A.2.	Changes in working capital	1 455 469	373 644
A.2.1.	Change in receivables from operating activities, estimated receivables and deferrals	-1 239 088	-2 794 379
A.2.2.	Change in short-term liabilities from operating activities, estimated payables and accruals	2 789 753	3 192 850
A.2.3.	Change in inventories	- 95 196	- 24 827
<b>A.**</b>	<b>Net operating cash flow before taxation, financial balances, and extraordinary items</b>	<b>1 857 808</b>	<b>683 012</b>
A.3.	Interest paid excluding amounts capitalised	- 5 204	- 1 390
A.4.	Interest received	–	14 356
A.5.	Income tax paid on ordinary income and income tax relating to prior periods	- 79 229	- 14 693
<b>A.***</b>	<b>Net operating cash flow</b>	<b>1 773 375</b>	<b>681 285</b>
	<b>Investing activities</b>	<b>–</b>	<b>–</b>
B.1.	Acquisition of fixed assets	- 16 007	- 1 862
B.1.1.	Acquisition of tangible fixed assets	- 7 859	- 52
B.1.2.	Acquisition of intangible fixed assets	- 8 148	- 1 810
B.3.	Advances and loans to related parties	-2 304 321	- 337 259
<b>B.***</b>	<b>Net cash flow from investing activities</b>	<b>-2 320 328</b>	<b>- 339 121</b>
	<b>Financing activities</b>	<b>–</b>	<b>–</b>
C.1.	Change in long-term resp. short-term liabilities from financing	–	- 31 787
<b>C.***</b>	<b>Net cash flow from financing activities</b>	<b>–</b>	<b>- 31 787</b>
<b>F.</b>	<b>Net increase or decrease in cash balance</b>	<b>- 546 953</b>	<b>310 377</b>
<b>R.</b>	<b>Cash and cash equivalents, end of period</b>	<b>138 445</b>	<b>685 398</b>

# Statement of Changes in Equity

for the year ended 31 December 2018  
(in thousands of Czech crowns)  
Translated from the Czech original

EP Commodities, a.s.  
Klimentská 1216/46  
110 00 Praha 1- Nové Město  
Czech Republic  
Identification number 034 37 680

	Registered capital	Retained profits (+/-)	Profit (loss) for the current period	Total
Balance as at 1.1.2018	100 000	158 056	249 537	507 593
Transfer of the profit (loss) of prior year period	–	249 537	-249 537	–
Rounding	–	-2	–	-2
Profit (loss) for the current period	–	–	317 911	317 911
Balance as at 31.12.2018	100 000	407 591	317 911	825 502

	Registered capital	Retained profits (+/-)	Profit (loss) for the current period	Total
Balance as at 1.1.2017	100 000	107 892	50 164	258 056
Transfer of the profit (loss) of prior year period	–	50 164	-50 164	–
Profit (loss) for the current period	–	–	249 537	249 537
Balance as at 31.12.2017	100 000	158 056	249 537	507 593

# Notes to the Czech statutory financial statements (translated from the Czech original)

Year ended 31 December 2018

(All amounts are shown in thousands of Czech crowns "TCZK")

## 1. Description and principal activities

### ESTABLISHMENT AND DESCRIPTION OF THE COMPANY

EP Commodities, a.s. ("the Company") was incorporated on 29 September 2014 by being recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, file number 19973. The principal activities of the Company are trading in gas and electricity and manufacture, trade and services not listed in Annexes 1 to 3 to the Trade Licensing Act.

### OWNERSHIP STRUCTURE

The Company's sole shareholder as at 31 December 2018 was:

EP Power Europe, a.s.  
Pařížská 130/26  
110 00 Praha 1-Josefov  
Czech Republic

### REGISTERED OFFICE

EP Commodities, a.s.  
Klimentská 1216/46  
Praha 1- Nové Město  
Czech Republic

### IDENTIFICATION NUMBER

034 37 680

## STATUTORY BODY AS AT 31 DECEMBER 2018

### MEMBERS OF THE BOARD OF DIRECTORS

**Miroslav Haško**

CHAIRMAN

**Daniel Pexidr**

MEMBER

**Marek Spurný**

MEMBER

**Pavel Horský**

MEMBER

**Jan Špringl**

MEMBER

### SUPERVISORY BOARD

**Daniel Křetínský**

CHAIRMAN

**Peter Černák**

MEMBER

**Petr Sekanina**

MEMBER

The consolidated financial statements of the widest group of entities to which the Company as a consolidated entity belongs are prepared by EP Investment S.à.r.l., with its registered office at J.F. Kennedy avenue 39, 1855, Luxembourg, Registration number: B 184488. The consolidated financial statements are available at the consolidating entity's registered office.

The consolidated financial statements of the narrowest group of entities to which the Company as a consolidated entity belongs are prepared by EP Power Europe, a.s., with its registered office at Pařížská 130/26, Praha 1, Josefov. The consolidated financial statements are available at the consolidating entity's registered office.

## ORGANISATIONAL STRUCTURE

The Company is not internally organised into units.



## 2. Significant accounting policies applied by the Company

The financial statements have been prepared based on the accounting records kept in compliance with the Act on Accounting and relevant regulations and decrees effective in the Czech Republic.

These financial statements have been prepared in compliance with Decree of the Czech Ministry of Finance No. 500/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting, as amended, for business entities using double-entry bookkeeping.

The Company's accounts are maintained in accordance with general accounting principles, in particular the historic cost principle (unless otherwise stated below), the accrual principle, the prudence principle and the going concern principle.

The financial statements have been prepared on a going concern basis.

The amounts in these financial statements are shown in thousands of Czech crowns (TCZK) unless otherwise stated.

### A TANGIBLE AND INTANGIBLE FIXED ASSETS

Tangible and intangible fixed assets are stated at acquisition cost. Tangible fixed assets costing up to TCZK 40 and intangible fixed assets costing up to TCZK 60 are not recognised in the balance sheet and are expensed in the year that they are acquired.

### B ESTABLISHMENT OF ADJUSTMENTS

#### RECEIVABLES

Receivables are initially stated at their nominal value which is subsequently reduced by appropriate adjustments for doubtful receivables and bad debts.

The Company establishes adjustments for doubtful receivables based on an analysis of the credit status of customers and the ageing structure of receivables. No adjustments were established in 2018.

## **C PROVISIONS**

Provisions are established to cover future risks and expenses where the purpose is known and where it is probable that they will occur, but their amount or date on which they will occur is generally uncertain.

An income tax provision is established as the financial statements are prepared before the tax liability is determined. In the subsequent accounting period, the Company releases this provision and records the actual tax liability determined.

In the balance sheet, the income tax provision is reduced by income tax prepayments, and the net receivable (if any) is recorded in tax receivables.

## **D FOREIGN CURRENCY TRANSLATION**

The Company applies the Czech National Bank official rate to foreign currency transactions. During the year, the Company recognises only realised foreign exchange gains and losses and unrealised foreign exchange differences as at the date of monthly statements.

As at the balance sheet date, foreign currency monetary assets and liabilities are translated at the prevailing Czech National Bank official rates. Unrealised foreign exchange gains and losses are recognised in profit or loss.

## **E COMMODITY DERIVATIVES**

As at the balance sheet date, commodity derivatives are revalued at fair market value.

Futures and forwards that have been concluded for the purpose of purchase, sale or use of a commodity, electricity and gas, and are expected to be settled by delivery of the commodity to end buyers, do not meet the definition of a derivative and therefore are not remeasured at fair value.

Commodity contracts, i.e. futures and forwards, that are not expected to be settled by the delivery of the commodity are considered to be derivatives and are remeasured at fair value.

As at the balance sheet date, commodity derivatives held for trading concluded at the commodities stock exchanges, same as derivatives traded with third parties, are revalued at fair market value, taking as a basis the closing prices on 31 December 2018 as published by the relevant commodities stock exchange.

## **F INCOME TAX**

Income tax for the period comprises current tax and the change in deferred tax.

Current tax comprises an estimate of tax payable calculated based on the taxable income, using the tax rate valid as at the first day of the accounting period, and any adjustments to taxes payable for previous periods.

Deferred tax is based on all temporary differences between the carrying and tax value of assets and liabilities, and other temporary differences (tax losses carried forward, if any), multiplied by the tax rate expected to be valid for the period in which the tax asset/liability is utilised.

A deferred tax asset is recognised only if it is probable that it will be utilised in future accounting periods.

## **G CLASSIFICATION OF LIABILITIES**

The Company classifies as short-term any part of long-term liabilities, bank loans and overdrafts that is due within one year of the balance sheet date.

## **H RECOGNITION OF REVENUES AND EXPENSES**

Revenues and expenses are recognised on an accrual basis, i.e. in the period to which they relate in terms of substance and timing.

### 3. Intangible and tangible fixed assets

#### A INTANGIBLE FIXED ASSETS

	Other intangible assets	Intangible assets under construction	Software	Total 2018	Total 2017
<b>Acquisition cost</b>					
Opening balance	96	1 454	17 321	<b>18 871</b>	<b>17 061</b>
Additions	–	–	16 417	<b>16 417</b>	<b>1 810</b>
Disposals	–	–	–	–	–
Transfers	–	-1 454	1 454	–	–
Closing balance	96	–	35 192	<b>35 288</b>	<b>18 871</b>
<b>Accumulated amortisation</b>					
Opening balance	63	–	5 290	<b>5 353</b>	<b>43</b>
Amortisation expense	19	–	7 003	<b>7 022</b>	<b>5 310</b>
Disposals	–	–	–	–	–
Transfers	–	–	–	–	–
Closing balance	82	–	12 293	<b>12 375</b>	<b>5 353</b>
<b>Net book value 1 Jan</b>	<b>33</b>	<b>1 454</b>	<b>12 031</b>	<b>13 518</b>	<b>17 018</b>
<b>Net book value 31 Dec</b>	<b>14</b>	<b>–</b>	<b>22 899</b>	<b>22 913</b>	<b>13 518</b>

## B TANGIBLE FIXED ASSETS

	Buildings	Plant and equipment	Total 2018	Total 2017
<b>Acquisition cost</b>				
Opening balance	–	177	177	125
Additions	2 282	5 577	7 859	52
Disposals	–	–	–	–
Transfers	–	–	–	–
Closing balance	2 282	5 754	8 036	177
<b>Accumulated depreciation</b>				
Opening balance	–	33	33	8
Depreciation expense	421	1 290	1 711	25
Disposals	–	–	–	–
Transfers	–	–	–	–
Closing balance	421	1 323	1 743	33
<b>Net book value 1 Jan</b>	–	144	144	117
<b>Net book value 31 Dec</b>	1 861	4 431	6 292	144

## 4. Cash

Cash amounting to TCZK 62 736 (2017 – TCZK 471 719) is recorded on the bank account with restricted disposition. This restriction arises from the respective contract based on requirements of the energy exchange.

## 5. Trade receivables and payables

- a) Short-term trade receivables total TCZK 4 427 459 (2017 – TCZK 3 882 276), of which none are overdue (2017 – TCZK 1 852).
- b) Short-term trade payables total TCZK 4 320 596 (2017 – TCZK 3 880 931), of which TCZK 193 (2017 – TCZK 261) is overdue.
- c) In 2018, estimated receivables primarily include deviations in respect of SNAM RETE GAS of TCZK 148 968 (2017 – TCZK 60 081) and estimated receivables of TCZK 11 500 (2017 – TCZK 55 812) arising from the energy dispatching operation project for LEAG. In 2017, estimated receivables included TCZK 57 440 relating to the estimate of services provided to EP PRODUZIONE S.p.A.
- d) Estimated payables of TCZK 317 887 (2017 – TCZK 3 817) primarily include estimated payables relating to the energy dispatching operation project for LEAG (TCZK 10 205), unbilled supplies from SNAM RETE GAS (TCZK 298 662) and unbilled advisory services from EP Investment Advisors, s.r.o. (TCZK 6 487).
- e) Short-term advances received of TCZK 2 297 512 (2017 – TCZK 1 046 440) comprise advances from trading partners (EP ENERGY TRADING, a.s., EP PRODUZIONE S.p.A., Kraftwerk Mehrum GmbH, Lausitz Energie Bergbau AG and SLOVAKIA ENERGY, s.r.o.).

## 6. Tax receivables

Tax receivables as at 31 December 2018 amount to TCZK 58 451 (2017 – TCZK 57 163) and mainly include a VAT receivable of TCZK 51 043 (2017 – TCZK 57 163) and a gas tax receivable of TCZK 6 415 (2017 – a payable of TCZK 13 268).

As at the date of preparation of the notes to these financial statements, the Specialised Tax Authority, seated at náměstí Kpt. Jaroše 1000/7, Praha 7 ("the Tax Authority") was carrying out a tax inspection under Section 87 (1) of the Tax Procedure Rules, reviewing value added tax for the taxable period of September 2015 and October 2015.

Due to the ongoing tax inspection, the following excess deductions were retained by the Tax Authority for the above taxable period:

<b>Taxable period</b>	<b>Excess deduction</b>
September 2015	13 976
October 2015	38 266
<b>Total</b>	<b>52 242</b>

EP Commodities, a.s. met its duty to inform the Tax Authority during the tax inspection, responded to all summons of the Tax Authority within the relevant deadlines, and met all of its obligations towards the Tax Authority.

In February 2019, the Company received the inspection results, based on which the Tax Authority subsequently challenged the Company's entitlement to VAT deduction of TCZK 23 362. EP Commodities, a.s. believes that all excess deductions claimed are legitimate and therefore responded to the Tax Authority by sending its opinion on the inspection results. As at the date of financial statements, the Tax Authority had not responded to the Company's opinion.

## 7. Advance payments made

As at 31 December 2018, long-term advances paid amounted to TCZK 1 875 205 (2017 – TCZK 613 891) and short-term advances paid amounted to TCZK 1 769 (2017 – TCZK 38 963).

Counterparty	Currency	2018		2017	
		Amount in TCZK	Amount in TEUR	Amount in TCZK	Amount in TEUR
OTE, a.s.	CZK	22 000	–	22 000	–
NET4GAS, s.r.o.	CZK	1 000	–	1 000	–
Elexon Clear Limited	CZK	14 900	–	–	–
FGSZ Natural Gas Transmission	EUR	–	34	–	–
eustream, a.s.	EUR	–	352	–	352
Central European Gas Hub AG	EUR	–	50	–	50
European Commodity Clearing AG	EUR	–	55 900	–	22 000
CITIGROUP GLOBAL MARKETS LIMITED	EUR	–	14 297	–	–
Keler Kzsf Központi szerződő fél zrt	EUR	–	34	–	681
Erreservizi di Maurizio Gardenghi	EUR	–	42	–	–
CITIGROUP GLOBAL MARKETS LIMITED, organizační složka	EUR	–	–	–	1 050
Gestore dei Mercati Energetici SpA	EUR	–	251	–	–
OKTE, a.s.	EUR	–	250	–	–
Praha City Center, s.r.o.	CZK	1 564	–	–	–
Praha City Center, s.r.o.	EUR	–	86	–	–
EP ENERGY TRADING, a.s.	CZK	185	–	–	–

Long-term advances paid primarily include trading deposits (OTE, a.s., OKTE, a.s., Central European Gas Hub AG, European Commodity Clearing AG, CITIGROUP GLOBAL MARKETS LIMITED). Other long-term advances were paid to natural gas transmission network operators (NET4GAS, s.r.o., eustream, a.s.) and electricity transmission network operators (Gestore dei Mercati Energetici SpA).



## 8. Registered capital

(in TCZK)

	Registered capital	Total
Balance at 31/12/2018	100 000	100 000
Balance at 31/12/2017	100 000	100 000

The registered capital of TCZK 100 000 consists of 10 registered shares in book-entry form at TCZK 10 000 per share.

## 9. Equity

The 2017 profit of TCZK 249 537 was transferred to retained profits. As at the date of preparation of the financial statements, no decision was made regarding the distribution of the retained profits for 2018 (TCZK 317 911).

## 10. Derivatives

As at the balance sheet date, the Company held the following forward exchange and option contracts for trading in natural gas, emission allowances, coal and electricity:

Forward exchange and option contracts	Due date	Fair value in TCZK
Forward purchases	2019	10 502 023
Forward sales	2019	-9 892 045
Forward purchases	2020	1 232 241
Forward sales	2020	-1 209 837
<b>Total</b>		<b>632 382</b>

The fair value of TCZK 1 687 109 as at 31 December 2018 (2017 – TCZK 689 495) was settled using the daily settlement of contract value changes on the commodities exchange. The unsettled fair value totalled TCZK -1 054 727, of which TCZK 5 141 was recorded in Other long-term receivables and TCZK -1 059 868 in Other short-term receivables. In 2017, total unsettled fair value amounted to TCZK 648 836, of which TCZK 632 362 was reported in Other short-term receivables and TCZK 16 474 as Other long-term receivables.

As at 31 December 2018, the fair value of commodity contracts concluded with related parties was TCZK 932 226.

As at 31 December 2017, the fair value of commodity contracts concluded with related parties was TCZK 255 379.

## 11. Provisions

In 2018, the Company created an income tax provision of TCZK 81 107 (2017 – TCZK 60 482). This amount was reduced by paid income tax prepayments of TCZK 36 300 (2017 – TCZK 17 490) and the net payable of TCZK 44 807 was reported in Income tax provision (2017 – TCZK 42 922).

## 12. Revenues from and expenses on ordinary activities

The Company's principal activity is trading in commodities such as gas, electricity and emission allowances.

The sale of commodities and related services was as follows:

		Domestic sales	European Union	Outside EU	Total
Natural gas	2018	3 368 264	31 087 388	3 925 148	38 380 800
	2017	2 860 518	27 261 218	4 134 084	34 255 820
Electricity	2018	192 212	7 637 875	398 492	8 228 579
	2017	5 481	35 099	104	40 684
Allowances	2018	–	4 371 395	–	4 371 395
	2017	–	1 053 661	–	1 053 661
Services	2018	14 129	262 537	–	276 666
	2017	13	176 891	–	176 904
<b>Total</b>	<b>2018</b>	<b>3 574 605</b>	<b>43 359 195</b>	<b>4 323 640</b>	<b>51 257 440</b>
	<b>2017</b>	<b>2 866 012</b>	<b>28 526 869</b>	<b>4 134 188</b>	<b>35 527 069</b>

## 13. Other financial revenues and expenses

Other financial revenues and expenses primarily include revenues and expenses related to the revaluation of securities and derivatives and also represent realised and unrealised gains and losses from commodity derivatives held for trading, and foreign exchange gains and losses and bonuses for guarantees issued by the parent company.

## 14. Employees

Average number of employees and personnel expenses for 2018

2018	Number	Wages and salaries (in TCZK)	Social security and health insurance expenses (in TCZK)	Other expenses (in TCZK)
Employees	84	53 866	16 628	204
Board of Directors and Supervisory Board	8	–	–	–
<b>Total</b>	<b>92</b>	<b>53 866</b>	<b>16 628</b>	<b>204</b>

2017	Number	Wages and salaries (in TCZK)	Social security and health insurance expenses (in TCZK)	Other expenses (in TCZK)
Employees	38	25 179	7 312	67
Board of Directors and Supervisory Board	8	–	–	–
<b>Total</b>	<b>46</b>	<b>25 179</b>	<b>7 312</b>	<b>67</b>

The members of the Board of Directors and Supervisory Board are not remunerated for the performance of their offices.

As at 31 December 2018 the Company had incurred no pension liabilities to former members of management, supervisory and administrative bodies.

## 15. Social security and health insurance liabilities

Social security and health insurance liabilities total TCZK 1 858 (2017 – TCZK 1 079), of which TCZK 1 204 (2017 – TCZK 757) relates to social security liabilities and TCZK 654 (2017 – TCZK 322) to health insurance liabilities. None of these liabilities are overdue.

## 16. Tax liabilities and subsidies

Tax liabilities amount to TCZK 807 (2017 – TCZK 13 824) and consist of personal income tax of TCZK 807 (2017 – TCZK 555) and gas tax of TCZK 0 (2017 – TCZK 13 269).

## 17. Accrued expenses

Accrued expenses of TCZK 995 342 (2017 – TCZK 1 252 475) primarily include accrued gas supplies with ČEZ, a. s. of TCZK 272 289 (2017 – TCZK 107 297), Gazprom Marketing & Trading Ltd of TCZK 721 268 (2017 – TCZK 627 451), Praha City Center s.r.o. of TCZK 1 714 (2017 – TCZK 0) for the lease of office premises, SNAM RETE GAS of TCZK 0 (2017 – TCZK 511 890), and also accrued bonuses for guarantees of TCZK 0 (2017 – TCZK 5 455) provided by Energetický a průmyslový holding, a.s.

## 18. Income tax

### A CURRENT TAX

Current income tax comprises the tax estimate for 2018 of TCZK 81 107 (2017 – TCZK 60 482) and an adjustment to the tax estimate for prior years of TCZK 63 (2017 – TCZK 137).

### B DEFERRED TAX

Deferred income tax includes a year-on-year difference in a deferred tax asset arising from a provision for annual payroll bonuses and untaken holidays of TCZK 5 369 (2017 – TCZK 1 605).

## 19. Related parties

### A TRADE RECEIVABLES AND PAYABLES

The following related-party balances (including advances received and estimated items) are included in the trade receivables and payables described in note 5 above:

	Receivables at		Payables at	
	31/12/2018	31/12/2017	31/12/2018	31/12/2017
EP ENERGY TRADING, a.s.	197 798	154 798	148 711	203 958
EP Investment Advisors, s.r.o.	–	–	14	3 414
Energetický a průmyslový holding, a.s.	461	–	–	24 043
eustream, a.s.	10 710	8 994	84	113
NAFTA a.s.	–	128	202	260
Stredoslovenská energetika, a.s.	16 199	8 563	–	96 335
EP Mehrum GmbH	34 678	–	–	–
SPP - distribúcia, a.s.	19 101	8 811	–	–
United Energy, a.s.	–	–	38	–
EP PRODUZIONE S.p.A.	869 021	2 208 252	718 636	2 161 841
EP Produzione Centrale Livorno Ferraris S.p.A.	572 271	612 696	–	–
EP Power Europe, a.s.	–	382	–	–
EP UK Investments Limited	1 557	1 891	478 592	–
Kraftwerk Mehrum GmbH	–	–	64 313	–
Budapesti Erőmű Zrt.	409 621	189 815	–	–
Lausitz Energie Bergbau	3 362	–	1 381 743	–
Lausitz Energie Kraftwerke	334 994	–	750 176	–
PT měření, a.s.	–	–	5	–
Slovenské elektrárne, a.s.	–	–	8 756	–
SPP Infrastructure, a.s.	–	43 392	–	–
Other	–	–	–	24
Mitteldeutsche Braunkohlengesellschaft mBH	–	9 599	–	–
<b>Total</b>	<b>2 469 773</b>	<b>3 247 321</b>	<b>3 551 270</b>	<b>2 489 988</b>

## B TRANSACTIONS WITH RELATED PARTIES

		Sales for		Expenses for	
		2018	2017	2018	2017
EP ENERGY TRADING, a.s.	Sale of goods	1 392 444	1 701 520	313 450	115 683
	Derivatives	610 981	179 874	633 351	113 891
	Sale of services	64	–	–	4 850
	Other expenses	–	–	1 821	–
	Interest expense and income	382	–	–	–
	<b>Total</b>	<b>2 003 871</b>	<b>1 881 394</b>	<b>948 622</b>	<b>234 424</b>
EP Investment Advisors, s.r.o.	Sale of services	–	–	–	3 409
	Other financial expenses	–	–	39 325	24 744
Energetický a průmyslový holding, a.s.	Other expenses	–	–	129	–
	Interest expense and income	3 425	6 017	–	236
	<b>Total</b>	<b>3 425</b>	<b>6 017</b>	<b>39 454</b>	<b>24 980</b>
NAFTA a.s.	Other services	–	–	26 289	54 804
	Sale of goods	–	132	–	1 980
	<b>Total</b>	<b>–</b>	<b>132</b>	<b>26 289</b>	<b>56 784</b>
Stredoslovenská energetika, a. s.	Sale of goods	510 239	46 139	2 410 593	1 263 125
	Sale of services	–	1 532	54	857
	<b>Total</b>	<b>510 239</b>	<b>47 671</b>	<b>2 410 647</b>	<b>1 263 982</b>
SPP - distribúcia, a.s.	Sale of services	27 954	–	–	–
	Sale of goods	–	8 811	–	–
	<b>Total</b>	<b>27 954</b>	<b>8 811</b>	<b>–</b>	<b>–</b>
United Energy, a.s.	Other services	–	–	38	30
Budapesti Erőmű Zrt.	Sale of goods	1 264 421	432 159	–	–
	Derivatives	–	12 750	–	–
	Other services	92 417	24 311	–	–
	<b>Total</b>	<b>1 356 838</b>	<b>469 220</b>	<b>–</b>	<b>–</b>
EP PRODUZIONE S.p.A.	Sale of goods	11 000 411	11 495 995	2 614 623	1 260 665
	Sale of services	272	95 592	–	–
	Derivatives	1 335 973	964 525	902 096	615 470
	Interest expense and income	–	–	1 242	–
	<b>Total</b>	<b>12 336 656</b>	<b>12 556 112</b>	<b>3 517 961</b>	<b>1 876 135</b>
eustream, a.s.	Sale of services	12 325	–	–	–
	Sale of goods	–	–	6 943	60 357
	<b>Total</b>	<b>12 325</b>	<b>–</b>	<b>6 943</b>	<b>60 357</b>

		Sales for		Expenses for	
		2018	2017	2018	2017
EP Power Europe, a.s.	Interest expense and income	27 374	8 338	–	–
	Other financial expenses	–	–	22	–
	<b>Total</b>	<b>27 374</b>	<b>8 338</b>	<b>22</b>	<b>–</b>
EP UK Investments Limited	Sale of services	–	1 891	–	–
	Sale of goods	–	–	3 422 347	–
	<b>Total</b>	<b>–</b>	<b>1 891</b>	<b>3 422 347</b>	<b>–</b>
EP Produzione Centrale Livorno Ferraris S.p.A.	Sale of goods	5 224 485	5 334 618	–	–
EP Mehrum GmbH	Derivatives	193 101	–	178 281	–
PT měření, a.s.	Other services	–	–	50	–
ostatní	Other expenses	–	–	–	338
Slovenské elektrárne, a.s.	Derivatives	54 975	–	285 651	–
	Goods sold	20 875	–	36 600	–
	<b>Total</b>	<b>75 850</b>	<b>–</b>	<b>322 251</b>	<b>–</b>
Lausitz Energie Kraftwerke AG	Sale of goods	1 197 615	–	2 879 747	–
	Other services	–	–	20 305	–
	<b>Total</b>	<b>1 197 615</b>	<b>–</b>	<b>2 900 052</b>	<b>–</b>
Lausitz Energie Bergbau AG	Derivatives	870 023	–	7 565	–
	Sale of goods	1 027 225	–	160 894	–
	Other services	–	–	4 960	–
	Interest expense and income	1 368	–	–	–
	<b>Total</b>	<b>1 898 616</b>	<b>–</b>	<b>173 419</b>	<b>–</b>
Mitteldeutsche Braunkohlengesellschaft mBH	Derivatives	–	58 931	–	–
	<b>Total</b>	<b>24 868 349</b>	<b>20 373 135</b>	<b>13 946 376</b>	<b>3 520 439</b>

## C LOANS RECEIVED

As at 31 December 2018, the Company does not record any outstanding received loan (2017 – TCZK 0).



## D LOANS PROVIDED

EP Commodities, a.s. provided a short-term loan to EP Power Europe, a.s. payable in 2019. As at 31 December 2018, the value of this loan was TCZK 744 731 (2017 – TCZK 629 728). Moreover, the Company provided a short-term loan to Energetický a průmyslový holding, a.s. amounting to TCZK 2 220 117 and payable in 2019.

## 20. Fees payable to statutory auditors

The information is disclosed in the notes to the consolidated financial statements of Energetický a průmyslový holding, a.s. in which the Company is included.

## 21. Contingencies and commitments

As at 31 December 2018, the Company concluded the following guarantees in favour of its suppliers and business partners:

Warrantor	Currency	2018 Amount in thousands of EUR/GBP	2017 Amount in thousands of EUR/GBP
Energetický a průmyslový holding a.s.	EUR	386 833	213 680
Energetický a průmyslový holding a.s.	GBP	10 000	–
Sumitomo Mitsui Banking Corporation	EUR	25 380	25 380
HSBC Bank plc	EUR	53	53
<b>Total EUR</b>	<b>EUR</b>	<b>412 266</b>	<b>246 833</b>
<b>Total GBP</b>	<b>GBP</b>	<b>10 000</b>	<b>–</b>

## 22. Cash flow statement

For the purposes of the cash flow statement, cash and cash equivalents are defined to include cash in hand, cash in transit, cash at the bank and other financial assets whose valuation can be reliably determined and that can be readily converted to cash. Cash and cash equivalents as at the year-end are as follows:

	Balance at 31/12	
	2018	2017
Total short-term financial assets	138 445	685 398
Marketable securities	–	–
Cash and cash equivalents	138 445	685 398

In the cash flow statement, cash flows from operating, investment or financial activities are reported on a gross basis.

## 23. Material subsequent event

The Company's management is not aware of any events that have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2018.

Prepared on: 28 June 2019



Ing. Miroslav Haško

Chairman of the Board of Directors



Daniel Pexidr

Member of the Board of Directors

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## **Independent Auditor's Report**

to the Shareholder of EP Commodities, a. s.



**KPMG Česká republika Audit, s.r.o.**

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

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

***Opinion***

We have audited the accompanying financial statements of EP Commodities, a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2018, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

***Basis for Opinion***

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

***Other Information***

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

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 laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

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

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

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

#### ***Responsibilities of the Statutory Body and Supervisory Board for the Financial Statements***

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements,





whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

#### ***Statutory Auditor Responsible for the Engagement***

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

Prague  
28 June 2019

*Signed by*

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

*Signed by*

Petr Škoda  
Partner  
Registration number 1842

