# CONSOLIDATED ANNUAL REPORT 2019
# Teplárna Otrokovice a.s.




# CONTENTS



## ATTACHMENTS

# I. INFORMATION ON THE ISSUER

## 1.1 Basic information on the Issuer

| | |
|---|---|
| Company name: | Teplárna Otrokovice a.s. |
| Registered office: | Objízdná 1777, 765 02 Otrokovice, Czech Republic |
| Place of registration: | The Issuer is registered in the Commercial Register maintained by the Regional Court in Brno, File No. B 6437. |
| Business registration No. (IČO): | 292 90 171 |
| Tax identification No. (DIČ): | CZ29290171 |
| LEI: | 315700Z48OW9EH0GMN53 |
| Bank information: | 10545354/6200 COMMERZBANG AG, 704921/0100 Komerční banka, a.s. |
| Telephone: | +420 420 577 649 111 |
| Fax: | +420 420 577 921 600 |
| E-mail: | info@tot.cz |
| Website: | www.tot.cz |
| Date of incorporation: | The Issuer was incorporated as at the date of registration in the Commercial Register on 18 August 2011 |
| Date of founding: | The Issuer was founded on 9 August 2011 |
| Legal form: | joint stock company |
| Period of operation: | indefinite |
| Registered capital: | CZK 10,000,000 |
| Governing law: | legal system of the Czech Republic |

## 1.2 Scope of business

a. electricity generation;
b. electricity trade;
c. thermal energy production;
d. thermal energy distribution;
e. locksmithery, tooling;
f. manufacture, installation, repair of electrical machinery and devices, electronic and telecommunication equipment;
g. accounting advisory, bookkeeping, tax records management;
h. production, trade and services not listed in Annexes 1 to 3 to the Trade Licensing Act, including in particular the following activities:
   i. manufacture of measuring, testing, navigation, optical and photographic devices and equipment;
   ii. operation of water supply and sewerage networks and treatment and distribution of water;
   iii. waste management (except hazardous);
   iv. preparatory and finishing work, specialized construction activities;
   v. wholesale and retail;
   vi. accommodation services;
   vii. provision of software, information technology consultancy, data processing, hosting related activities and websites;
   viii. rental and lease of movables;
   ix. advisory and consultancy, preparation of professional studies and opinions;
   x. testing, measurement, analyses and inspections;
   xi. administrative services and organizational and economic services;

xii. after-school education and training, organizing of professional courses and training, including lecturing;
xiii. provision of technical services; and
xiv. repair and maintenance of household appliances, cultural items, fine mechanics products, optical instruments and gauges.

# II. SEPARATE SECTION PURSUANT TO SECTION 118, PAR. 4, LETTER (J) OF ACT NO. 256/2004 COLL., ON CAPITAL MARKET UNDERTAKINGS

*Based on a CNB notice and pursuant to Section 118 (4) (b), (c), (e), (j) and 118 (5) of Act No. 256/2004 Coll., on Capital Market Undertakings, the Company presents all information required by the foregoing provisions of the Act and other relevant information in this separate section of the Annual Report.*

## 2.1 Code of Corporate Governance

Teplárna Otrokovice a.s. (hereinafter the "Company" or the "Issuer") does not have a binding code of corporate governance. Persons elected or appointed to positions in executive or supervisory bodies, management, business committees and commissions are individuals with sufficient qualifications and education, adequate work and personal experience, honesty and integrity.

Members of the Company bodies, management, executives and employees adhere to the generally accepted principles of business ethics. Effective management of the Company with regard to shareholders' interests is ensured, the shareholders' rights are in no way restricted, and emphasis is placed on fair treatment of shareholders. The Company takes into account the interests of all stakeholders and pays increased attention to informing these parties and to overall transparency of the management. Transparency is ensured primarily by posting all essential information about the Company's activities on the Company website and by meeting the requirements of the reporting obligation to relevant authorities.

It may be noted that in the performance of their duties and the exercise of their powers, the executives de facto observe the overwhelming majority of the provisions of the Code of Corporate Governance based on the OECD Principles (2004).

## 2.2 Information on approach to risks arising from the financial reporting process

Teplárna Otrokovice a.s. and its Subsidiary maintain accounting records pursuant to the Accounting Act, and in accordance with the International Financial Reporting Standards, as adopted by the EU ("IFRS"). In addition to the Accounting Act and IFRS, the Company's bookkeeping is also governed by other applicable legislation, notably the VAT Act, the Income Tax Act, the Civil Code, etc.

Accounting records of the Company and its Subsidiary are maintained on an ongoing basis. Bookkeeping and related processes are methodically described in the in-house directive on bookkeeping, on the circulation of accounting documents, and in the rules of signature and organizational rules, etc.).

Monthly financial statements for both the parent and the subsidiary are always prepared by the chief accountant of the parent company by the 10th calendar day of the following month. The process of bookkeeping and taxation of the Company and the Subsidiary is overseen by the Economics and Sales Director of Teplárna Otrokovice a.s. In addition, the Company collaborates with an audit firm and a certified auditor. The auditor reviews the separate financial statements and the consolidated financial statements. The annual financial statements of the Subsidiary for 2019 are also subject to an audit.

The name of the auditor who reviews the financial statements is included in the Consolidated Annual Report.

The Company has also set up an internal audit function as an internal control. In line with an internal audit plan approved by the Company's Board of Directors for the relevant calendar year, internal audits are carried out at separate entities of the Company and the Subsidiary in respect of maintaining accounting records and documents for bookkeeping. Based on the internal audits, audit reports are prepared for management describing identified shortcomings and proposing remedial measures.

The Company has set up an audit committee which also oversees the accuracy of accounting.

All aforementioned processes provide sufficient assurance that the Company and its Subsidiary use sufficient tools and expertise to maximize the prevention of risks arising from the financial reporting process.

*Note: More detailed information on the risk exposure of the Company in relation to its financial reporting is included in the Notes to the separate and consolidated financial statements.*

## 2.3 Decision-making of the General Meeting, statutory and supervisory bodies and the Audit Committee

Teplárna Otrokovice a.s. has a Board of Directors and a Supervisory Board whose members are duly elected by the General Meeting of Shareholders. The positions and responsibilities of the members of the Board of Directors and the Supervisory Board are described in the Articles of Association and in this chapter of the Annual Report.

Where not stipulated in the Articles of Association, the Company's decisions are governed by applicable legislation, notably Act No. 89/2012 Coll., the Civil Code (hereinafter the "Civil Code"), and Act No. 90/2012 Coll., on Business Corporations and Cooperatives (hereinafter the "Business Corporations Act").

### 2.3.1 Decision-making of the Board of Directors (from the Articles of Association)

(a) The Board of Directors makes decisions at its meetings, unless otherwise specified in the Articles of Association.

(b) The Chairman of the Board of Directors, or any other Board member if the Board of Directors does not have a chairman, is obligated to convene a meeting of the Board of Directors if warranted by the Company interests, or if a member of the Board of Directors or the Supervisory Board so requests in writing, within 10 days of the receipt of such request. The request must be substantiated and must include a draft agenda.

(c) A meeting of the Board of Directors is chaired by its Chairman; in his absence or if the Board of Directors does not have a chairman, the meeting is chaired by the Vice-Chairman of the Board of Directors. If the Board of Directors does not have a vice-chairman either, the Board of Directors is chaired by an authorized member of the Board of Directors.

(d) If all members of the Board of Directors consent, any and all members of the Board of Directors may take part in a Board meeting and vote via telephone or another communication system that allows all persons participating in the meeting to hear each other. Persons participating in the meeting and voting in such manner are deemed to be present at the meeting and have the right to vote.

(e) Minutes of a meeting of the Board of Directors and resolutions passed at a meeting of the Board of Directors shall be recorded, signed by the Chairman of the Board of Directors, or by a member of the Board of Directors responsible for chairing the Board meeting if the Board of Directors does not have a chairman, and by a registrar appointed by the Board of Directors. The minutes of the Board of Directors meeting must list all members of the Board of Directors who have voted against specific motions or abstained; the non-listed members are deemed to have voted in favor of the motions.

(f) The Board of Directors meets a quorum if more than a 50 percent majority of its members are present at the meeting. Each member of the Board of Directors has one vote. The majority of the members present shall be required to pass a resolution.

(g) The Board of Directors may, upon the proposal of the Chairman, or the Vice-Chairman if the Board of Directors does not have a chairman, or another Board member if the Board of Directors does not have a vice-chairman, pass decisions outside of meetings by an absentee vote (per rollam) or by telephone or another communication system. The use of this method of voting is admissible only with the consent of all members of the Board of Directors. Such voters are considered present.

(h) In the event of per rollam voting it applies that if a member fails to deliver a vote to the Chairman within the timeframe set for passing the resolution, s/he is deemed to have voted against the motion. The Chairman of the Board of Directors organizing per rollam voting briefs the members of the Board of Directors after the deadline set for passing the resolution about the outcome of the voting. A resolution passed by per rollam voting shall be recorded in the minutes at the next meeting.

2.3.2 Decision-making of the Supervisory Board (from the Articles of Association)

(a) The Supervisory Board is the oversight body of the Company. The Supervisory Board oversees the performance of the Board of Directors and Company business operations.
(b) The Supervisory Board convenes a General Meeting if warranted by the Company's interests and proposes the necessary measures at the General Meeting.
(c) Members of the Supervisory Board are authorized to review all documents and records relating to Company activities and ensure that the accounting records are properly maintained in accordance with the facts and that the business or other operations of the Company are carried out in compliance with applicable legislation, the Articles of Association and guidelines of the General Meeting.
(d) The Supervisory Board represents the Company through its appointed member in legal disputes brought against members of the Board of Directors in proceedings before courts and other bodies.

2.3.3 Audit Committee (from the Articles of Association)

The Audit Committee, without prejudice to the responsibilities of the executive or supervisory bodies or their members, primarily:
(a) Monitors the effectiveness of internal control and the risk management system;
(b) Monitors the effectiveness of the internal audit and its functional independence where the internal audit function has been established;
(c) Monitors the preparation of the financial statements and the consolidated financial statements and submits recommendations to the executive or oversight body to ensure the integrity of the accounting and financial reporting systems;
(d) Assesses the independence of statutory auditors and audit firms and the provision of non-audit services to a public interest entity by a statutory auditor and an audit firm;
(e) Discusses with the auditor the risks to his independence and the safeguards adopted by the auditor to mitigate such risks;
(f) Monitors the mandatory audit process; this is based on a summary report on the quality assurance system;
(g) Performs other competencies ensuing from applicable legislation.
(h) Members of the Audit Committee are required to exercise their powers with due diligence and to maintain confidentiality regarding confidential information and facts the disclosure of which to third parties may cause detriment to the Company. The confidentiality obligation persists even after the termination of the function.
(i) The powers of the Audit Committee are without prejudice to the powers of other Company bodies pursuant to applicable legislation and the Articles of Association.

2.3.4 Decision-making and scope of powers of the General Meeting (from the Articles of Association)

The General Meeting is the Company's supreme body. If the company has a sole shareholder, the General Meeting is not convened and the powers of the General Meeting are exercised by the sole shareholder.
The powers of the General Meeting include:
a) Decision to change the Articles of Association unless such change is made as a result of an increase in registered capital effected by the Board of Directors, or as a result of other legal matters;
b) Decision to change the amount of registered capital and to authorize the Board of Directors to increase registered capital;
c) Decision to offset a pecuniary receivable due from the Company against a liability to pay the issue price;
d) Decision to convert shares issued as certificated securities to book-entry shares and vice versa;
e) Decision to issue convertible or priority bonds;
f) Election and recall of members of the Board of Director;
g) Election and recall of members of the Supervisory Board;
h) Approval of the annual or separate financial statements and consolidated financial statements and in cases where their preparation is stipulated by other legislation;
i) Decision on distribution of profits or other Company funds, or on loss compensation and determining the payment of royalties;

j) Approval of the payment of advances for the disbursement of profit shares and their amounts;
k) Decision on remuneration of members of the Board of Directors and the Supervisory Board;
l) Decision to apply for listing of the Company securities for trading on the European regulated market or to cancel such listing of the Company securities for trading on the European regulated market;
m) Decision to wind up the Company through liquidation, appoint and recall the liquidator, including determining the liquidator's fees, approval of the proposal for distribution of the liquidation balance proceeds;
n) Decisions on mergers, transfer of assets to a sole shareholder, Company division or change in its legal form;
o) Approval of transferring or pledging of a business or any part thereof and approval of a lease of a business or any part thereof;
p) Decision to assume the effects of actions taken on behalf of the Company prior to its establishment**;**
q) Approval of a silent partnership agreement, including amendments thereto and termination;
r) Determining an auditor of the Company;
s) Provision of rules and guidelines for the Board of Directors outside of business management; and
t) Decisions regarding other issues within the scope of powers of the General Meeting stipulated by the law or the Articles of Association.

## 2.4 CORPORATE GOVERNANCE AS AT 31 DECEMBER 2019

### 2.4.1 Board of Directors

The Board of Directors is a statutory body of the Issuer. The Issuer's Board of Directors has three members, of whom one is chairman and one vice-chairman of the Board of Directors. The Board of Directors is seated at the registered office of the Issuer's headquarters: Objízdná 1777, Otrokovice, postal code 765 02. Two Board of Directors members always act jointly on behalf of the Issuer.
The Board of Directors meets a quorum if more than a 50 percent majority of its members are present at its meeting. If all Board members consent, any and all members of the Board of Directors may take part in a Board meeting and vote via telephone or any other communication system that allows all persons participating in the meeting to hear each other. A majority of votes of the members present shall be required to pass a resolution.
Members of the Board of Directors are elected and recalled by the General Meeting, or the sole shareholder exercising the powers of the General Meeting. The Board of Directors elects the chairman and the vice-chairman of the Board of Directors from among its members.

The powers of the Board of Directors comprise decision-making regarding all matters related to the Issuer, except for the matters that are subject to the decision of General Meeting, or the sole shareholder exercising the powers of the General Meeting, or the Supervisory Board. The Board of Directors decides on the election and recall of the Company's procurators and on determining the rules of their conduct and the extent of their authorization.

Members of the Issuer's Board of Directors include Petr Jeník, date of birth: 18 April 1962, residence: Tlustého 2042/22, 193 00 Prague 9 – Horní Počernice; Patrik Brom, date of birth: 9 February 1975, residence: Hlavní 8, 251 64 Mnichovice – Myšlín; and Jan Stuchlík, date of birth: 9 July 1988, residence: Malá 1175/7, 747 06 Opava – Kylešovice.

Below is an overview of relevant information concerning the members of the Issuer's Board of Directors.

**Petr Jeník** Chairman of the Board of Directors since 13 November 2013

| | |
|---|---|
| 2013 – | Issuer (Chairman of the Board of Directors) |
| 2014 – | TO Servisní s.r.o. (Statutory Representative) |
| 2015 – | Teplárna Kyjov, a.s. (Chairman of the Board of Directors) |
| 2015 – | Energo Český Krumlov s.r.o. (Statutory Representative) |
| 2019 – | LAMA lighting technologies s.r.o. (Statutory Representative) |
| 2019 – | LAMA service s.r.o. (jednatel) |
| 2019 – | LAMA solar technologies s.r.o. (Statutory Representative) |

Mr. Jeník worked at United Energy, a.s. (Chairman of the Board of Directors, Chief Executive Officer, Technical and Operations Director), and served as a member of the Boards of Directors of EP ENERGY TRADING, a. s.; EP Sourcing, a.s.; ČEZ Teplárenská, a.s.; and Teplárna Liberec, a.s.; among others.

**Patrik Brom** Vice-chairman of the Board of Directors since 1 April 2017

2017 – Issuer (Vice-chairman of the Board of Directors)

Mr. Brom worked at UniCredit Bank Czech Republic and Slovakia, a.s. (Director of Corporate Finance Advisory), Uni Credit CAIBCzech Republic a.s. (Vice-president, member of the Board of Directors, Director and Chairman of the Board of Directors).

He worked, among other, in the following companies beside the Issuer: 4NET.TV solutions a.s. (member of the Board of Directors), Telly Holding a.s. (formerly PERIPHETUS, a.s.) (member of the Supervisory Board), FOLANENSYS, a.s. (member of the Supervisory Board). Czech Association of Satellite Operators z.s. (member of the Board of Directors).

**Jan Stuchlík** member of the Board of Directors since 1 April 2017

2013 – LAMA energy a.s. (Finance Manager)
2015 – DIGI CZ s.r.o. (Finance Director)
2016 – Gas International s.r.o. (Manager)
2017 – Issuer (member of the Board of Directors)

Mr. Stuchlík is currently involved in the following companies beside the Issuer: TO Servisní s.r.o. (Statutory Representative), DIGI CZ s.r.o. (Procurator), Gas International s.r.o. (Statutory Representative), LAMA CZECH a.s. (member of the Supervisory Board), sCENTRE Bohemia a.s. (member of the Supervisory Board), Telly Holding a.s. (formerly PERIPHETUS, a.s.) (member of the Supervisory Board), FOLANENSYS, a.s. (member of the Supervisory Board), LAMA MEDIA, a.s. (Procurator), Telly Financing a.s. (Statutory Director and member of the Management Board).

### 2.4.2 Supervisory Board

The Supervisory Board is the oversight body of the Issuer which oversees the exercise of the powers of the Board of Directors and the performance of the Issuer's business operations, in particular whether the business activity is carried out in accordance with applicable legislation, the Articles of Association and resolutions of the General Meeting.

The Issuer's Supervisory Board has seven members, one of whom is the chairman and two are vice-chairmen of the Supervisory Board. The Supervisory Board is seated at the registered office of the Issuer's headquarters: Objízdná 1777, Otrokovice, postal code 765 02. Since 1 January 2019, the position of one member of the Supervisory Board has been vacant.

Members of the Supervisory Board are elected and recalled by the General Meeting, or the sole shareholder exercising the powers of the General Meeting. The Supervisory Board elects the chairman and vice-chairmen of the Supervisory Board from among its members.

Members of the Issuer's Supervisory Board include Petr Lamich, date of birth: 21 November 1962, residence: Gudrichova 762, 747 41 Hradec nad Moravicí; Miroslav Kopřiva, date of birth: 13. July 1953, residence: B. Němcové 334, 788 15 Velké Losiny; Pavel Ondra, date of birth: 10 September 1974, residence: Březinova 556/11, Žabovřesky, 616 00 Brno; Pavla Gromusová, date of birth: 17 January 1969, residence: č.p. 193, 763 61 Žlutava; Bedřich Landsfeld, date of birth: 24 May 1959, residence: Masarykova 278, 763 02 Zlín – Malenovice; and Jiří Veselý, date of birth: 21 December 1974, residence: Na Uličce 1360, 765 02 Otrokovice.

Below is an overview of relevant information concerning the members of the Issuer's Supervisory Board:

**Petr Lamich** Chairman of the Supervisory Board since 4 November 2013

Mr. Lamich is currently involved in the following companies beside the Issuer: LAMA GAS & OIL s.r.o. (Statutory Representative), NEWPORT PARK ONE a.s. (shareholder), LAMA TRADE a.s. (Chairman of the Board of Directors), LAMA energy a.s. (Chairman of the Board of Directors), LAMA POWER a.s. (Chairman of the Board of Directors), LAMA ENERGY GROUP a.s. (Chairman of the Board of Directors, shareholder), Epsomite Investment a.s. (Chairman of the Board of Directors), Almadyn Investment a.s. (Chairman of the Board of Directors), Nefrite Investment a.s. (Statutory Director and Chairman of the Management Board).

**Miroslav Kopřiva** Vice-chairman of the Supervisory Board since 4 November 2013

1996 – ENERGOTIS, s.r.o. (Statutory Representative)

Mr. Kopřiva worked at ČEZ, a.s. (Construction Director at PV power plant Dlouhé Stráně), ČEZ-OKE (Technical Officer, Technology Department Head, Chief Engineer of Construction of PVE Dlouhé Stráně).

He is currently involved in the following companies beside the Issuer: Teplárna Kyjov, a.s. (member and Chairman of the Supervisory Board), ENERGOTIS, s.r.o. Loučná nad Desnou (Director, Statutory Representative, shareholder), Hotel Dlouhé Stráně, s.r.o. Loučná n. D. (Statutory Representative), ComHotel s.r.o. Praha (Statutory Representative), Municipality of Velké Losiny (member of the town assembly), Olomouc Region (member of the regional assembly).

**Pavla Gromusová** Member of the Supervisory Board since 17 February 2014

1994 – Teplárna Otrokovice a.s. (Investment and Asset Management Officer)

Ms. Gromusová is not involved in any other company.

**Pavel Ondra** Member of the Supervisory Board since 17 February 2014

| | |
|---|---|
| 2008 – | LAMA ENERGY GROUP a.s. (Investment Director, shareholder) |
| 2017 – | LAMA ENERGY GROUP a.s. (member of the Board of Directors) |
| 2015 – | DIGI CZ s.r.o. (Statutory Representative) |

He held various positions in companies included in the J&T Finance Group, Plzeňská energetika a.s. (Finance Director), Teplárna Liberec, a.s. (Chairman of the Board of Directors), United Energy Trading, a.s. (Chairman of the Board of Directors, Finance Director, Vice-chairman of the Board of Directors).

Mr. Ondra is currently involved in the following companies beside the Issuer: DIGI CZ s.r.o. (Statutory Representative), TOLANO MANAGEMENT SE (Statutory Director and Chairman of the Management Board), TV PROGRAMMING & MEDIA SE (Statutory Director and Chairman of the Management Board), WTCO INVESTMENT s.r.o. (Statutory Representative), Czech Association of Satellite Operators z.s. (Chairman of the Board of Directors), Telly Holding a.s. (formerly PERIPHETUS, a.s.) (member of the Board of Directors), FOLANENSYS, a.s. (member of the Board of Directors), Epsomite Investment a.s. (member of the Board of Directors), Almadyn Investment a.s. (member of the Board of Directors), Amethyst Investment a.s. (Statutory Director and member of the Management Board).

**Bedřich Landsfeld** Member of the Supervisory Board since 7 December 2015

| | |
|---|---|
| 2010 – | City of Zlín (Councillor, Deputy Mayor) |
| 2010 – | City of Zlín (city assembly member) |
| 1992 – | ARIMEX Zlín, spol. s r.o. (Statutory Representative, shareholder) |

He worked at Technické služby Zlín, s.r.o. (Statutory Representative), Dekor Keramika Tupesy, s.r.o. (Statutory Representative, shareholder).

Mr. Landsfeld is currently involved in the following companies beside the Issuer: ARIMEX Zlín, spol. s r.o. (Statutory Representative, shareholder), Berani Zlín, s.r.o. (member of the Supervisory Board).

**Jiří Veselý** Member of the Supervisory Board since 26 August 2016

| | |
|---|---|
| 2019 – | self-employed |
| 2018 – 2019 | ZLIN ESTATES s.r.o. |
| 2018 – | Townhall of Otrokovice (Councilman) |
| 2014 – 2018 | Townhall of Otrokovice (Deputy Mayor) |

Mr. Veselý is currently involved in the following companies beside the Issuer: Otrokovická BESEDA, s.r.o. (member of the Supervisory Board), SeinVin s.r.o. (Shareholder) Dopravní společnost Zlín-Otrokovice, s.r.o. (Statutory Representative), VIZE 21 Otrokovice, z.s. (Chairman of the Board of Directors).

2.4.3 Audit Committee

On 22 December 2017, the sole shareholder of the Issuer, exercising the powers of the General Meeting pursuant to Section 12(1) of the Business Corporations Act, set up the Audit Committee, defined its rights and duties and appointed members of the Committee as follows:

Marek Janča, date of birth: 26 August 1973, residence: Froncova 734, Hostavice, 198 00 Prague 9;
David Lamich, date of birth: 29 March 1988, residence: Boženy Němcové 1264/1, Předměstí, 746 01 Opava;
Pavel Průdek, date of birth: 16 June 1949, residence: Hliníky 283, 664 59 Telnice
Václav Moll, date of birth: 26 August 1975, residence: Havlíčkova 95, Řícmanice, 664 01 Bílovice nad Svitavou

## 2.5 Conflict of interests and compliance statement

The Issuer is not aware of any possible conflict of interests between the obligations of the members of the Board of Directors and the Supervisory Board in relation to the Issuer and their personal or other obligations. The Issuer complies with all requirements pertaining to the business management of the Issuer as set out in generally binding regulations of the Czech Republic, in particular Act No. 89/2012 Coll., the Civil Code, as amended, and Act No. 90/2012 Coll.

## 2.6 Remuneration of statutory bodies' members

2.6.1 Remuneration of the members of the Company's statutory bodies is exclusively governed by executive service agreements, which fully comply with Section 59 et seq. of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the Business Corporations Act). Members of the statutory bodies decide collectively on Company matters pursuant to Section 156 (1) of Act No. 89/2012 Coll., the Civil Code, as amended. Executive service contracts, including their amendments, are always approved by the General Meeting of the Company.

2.6.2 Members of the Board of Directors receive the following bonuses and benefits:

(a) The monthly remuneration is paid regularly after the end of the calendar month. Members of the Board of Directors shall be excused from the performance of their obligations under this Agreement for a period not exceeding 25 business days in a calendar year (hereinafter the "Excused Absence"). The Company shall, in principle, allow members of the Board of Directors to apply Excused Absence for a period required by the relevant member of the Board of Directors, however, the Company reserves the right to alter the duration of the excused absence should the Company's critical requirements and operations need to be adequately ensured. The entitlement to excused absence not applied by 31 March of the following calendar year shall expire. Financial compensation for non-applied excused absence is prohibited.

(b) The annual remuneration is due to members of the Board of Directors in addition to the monthly remuneration; the annual remuneration is derived from the Company's financial results for the past reporting period and is calculated according to the fulfillment of the tasks assigned to the relevant member and meeting of the annual targets. The method of calculating the annual remuneration and determining the annual targets of members of the Board of Directors is set out for each calendar year and is decided by the supreme body of the Company.

(c) Non-competition clause: Each executive service agreement includes a non-competition clause that may be subject to a refund where applied.

(d) Travel allowance: Members of the Board of Directors are entitled to travel allowances pursuant to applicable legislation.

(e) Benefits: Members of the Board of Directors do not receive benefits corresponding to benefits provided to Company employees under the Company's internal directives; members of the Board of Directors receive only a supplementary pension insurance contribution in the amount stipulated in the agreement.

2.6.3 Members of the Supervisory Board receive regular monthly remuneration after the end of the calendar month.

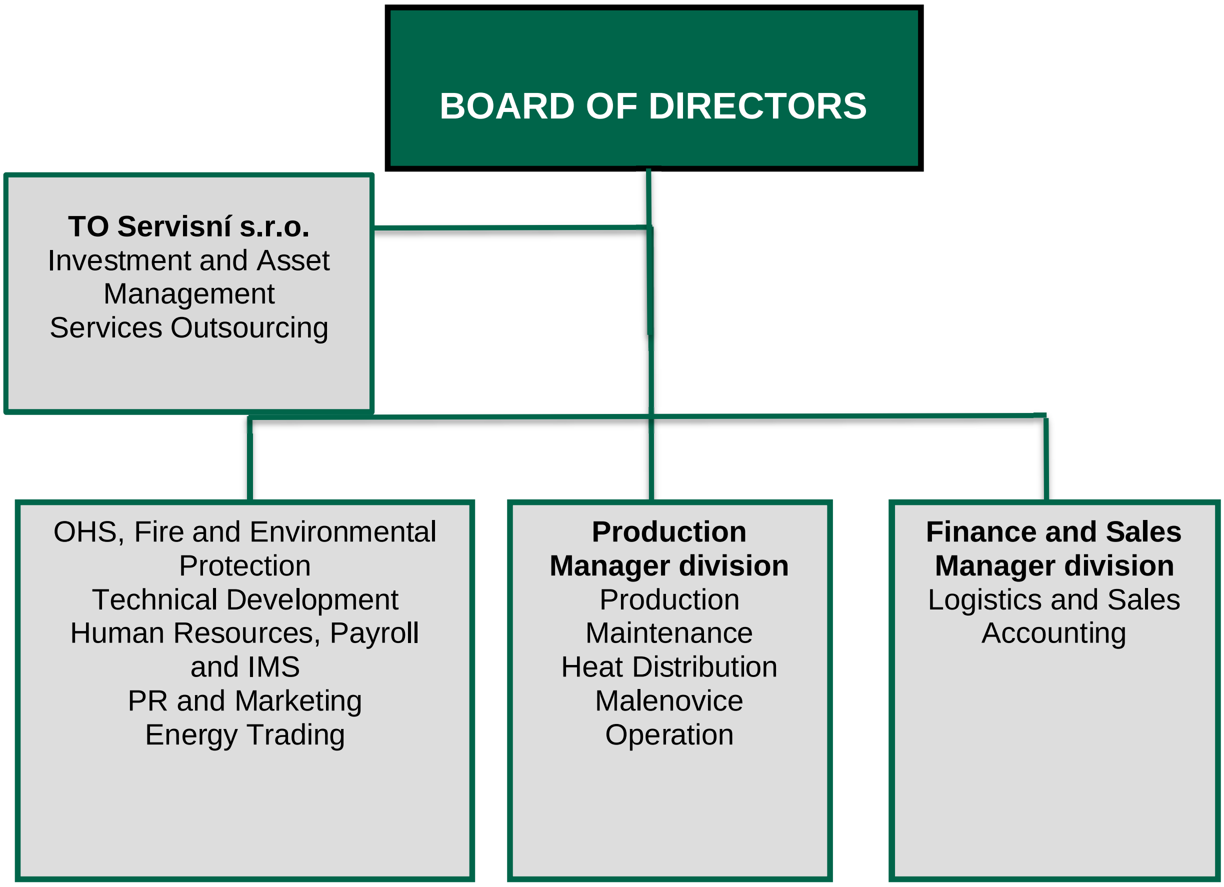
Total remuneration paid in 2019:

| Statutory body | Number of members | Amount in CZK thousand |
|---|---|---|
| Board of Directors | 3 | 5,865 |
| Supervisory Board | 6 | 1,020 |
| Audit Committee | 4 | 480 |
| Total | | 7,365 |

## 2.7 Diversity policy for members of the statutory bodies

Although the Company has not formally implemented and approved diversity policy for its statutory bodies, the composition of these bodies does meet the diversity criteria. In the future, the Company expects to formalize the diversity policy rules.

# III. ORGANIZATIONAL STRUCTURE OF THE ISSUER




## 3.1 Employee headcount

The average number of employees of the Issuer was 151 in 2019. The average number of employees of the Issuer's subsidiary was 8 in 2019.

## 3.2 Subsidiary of the Issuer and its activities

3.2.1 The Group consists of the Issuer and its Subsidiary.

Identification information

| | |
|---|---|
| Company name: | **TO Servisní s.r.o.** |
| Business registration No. (IČO): | 292 26 368 |
| Tax identification No. (DIČ): | CZ29226368 |
| Registered office: | Objízdná 1777, 765 02 Otrokovice, Czech Republic |
| Date of incorporation: | 15 June 2010 |

3.2.2 Scope of business

The scope of business of the Issuer’s Subsidiary as listed in the Commercial Register is:

(a) locksmithery and tooling;
(b) manufacture, installation, repair of electrical machinery and devices, electronic and telecommunication equipment; and
(c) production, trade and services not listed in Annexes 1 to 3 of the Trade Licensing Act.

3.2.3 Statutory bodies of the Subsidiary

The Statutory Representatives of the company as at 31 December 2019 were as follows:

Ondřej Foltýn, date of birth: 18 June 1977, residence: č.p. 158, 767 01 Kostelany
Date of appointment: 15 June 2010

Petr Jeník, date of birth: 18 April 1962, residence: Tlustého 2042/22, Horní Počernice, 193 00 Prague 9
Date of appointment: 26 February 2014

Pavel Prejza, date of birth: 8 July 1966, residence: Chomutovská 2232/22, 434 01 Most
Date of appointment: 26 February 2014

David Lamich, date of birth: 29 March 1988, residence: Boženy Němcové 1264/1, Předměstí 747 01 Opava
Date of appointment: 4. September 2019

3.2.4 Key activities

The Issuer’s Subsidiary primarily provides regular supplies of coal to the Issuer and carries out investment projects for the Issuer. In addition to these activities, the Issuer’s Subsidiary also carries out engineering work for the heat plant Teplárna Kyjov, a.s.

3.2.5 Agreements entered into within the Group

An overview of agreements entered into between the Issuer and its Subsidiary as at 31 December 2019:

| Contracting status of the Issuer’s Subsidiary | Agreement | In effect as of |
|---|---|---|
| Seller | Purchase contract for lignite supply | 30 May 2014 |
| Customer | Service agreement | 30 March 2014 |
| Seller | Purchase contract for coal supply | 1 August 2014 |
| Provider | Framework service agreement | 30 September 2014 |
| Lessee | Agreement on lease of business premises | 31 March 2016 |
| Lessee | Contract for passenger car lease | 13 July 2016 |
| Contractor | Reconstruction of flue gas desulphurization | 21 October 2017 |
| Buyer | Future electricity and heat supply for a back-up power source with gas motors | 15 August 2017 |
| Contractor | Greening of K3, K4 boilers | 10 July 2017 |
| Lessee | Lease of land for construction of a back-up power source | 1 September 2017 |
| Buyer | Preliminary purchase agreement on water supply for the back-up power source and wastewater drainage | 30 August 2017 |
| Lessee | Contract for passenger car lease | 31 August 2017 |
| Seller | Framework purchase agreement | 1 February 2018 |
| Debtor | Loan agreement | 15 February 2018 |
| Seller | Purchase agreement | 1 March 2018 |
| Builder | Contract establishing the right to build | 14 March 2018 |
| Controller | Personal data processing agreement | 24 May 2018 |
| Supplier | Contract for work – construction of K8 boiler | 29 June 2018 |
| Lessee | Contract for passenger car lease | 15 May 2019 |

# IV. STRUCTURE OF THE ISSUER'S GROUP

## 4.1 Sole shareholder of the Issuer

The Sole Shareholder of the Issuer is LAMA ENERGY GROUP a.s., with its registered office at Na Florenci 2116/15, Nové Město, 110 00 Prague 1, business registration number 640 86 259, entered in the Commercial Register under file number B 23653, maintained by the Municipal Court in Prague (the "**Sole Shareholder**"). The Company's shares are held by five natural persons; the majority shareholder is Petr Lamich, date of birth: 21 November 1962, residence: Gudrichova 762, 747 41 Hradec nad Moravicí, who holds an interest of 85% with an equal share in the registered capital and in the voting rights of the Sole Shareholder.

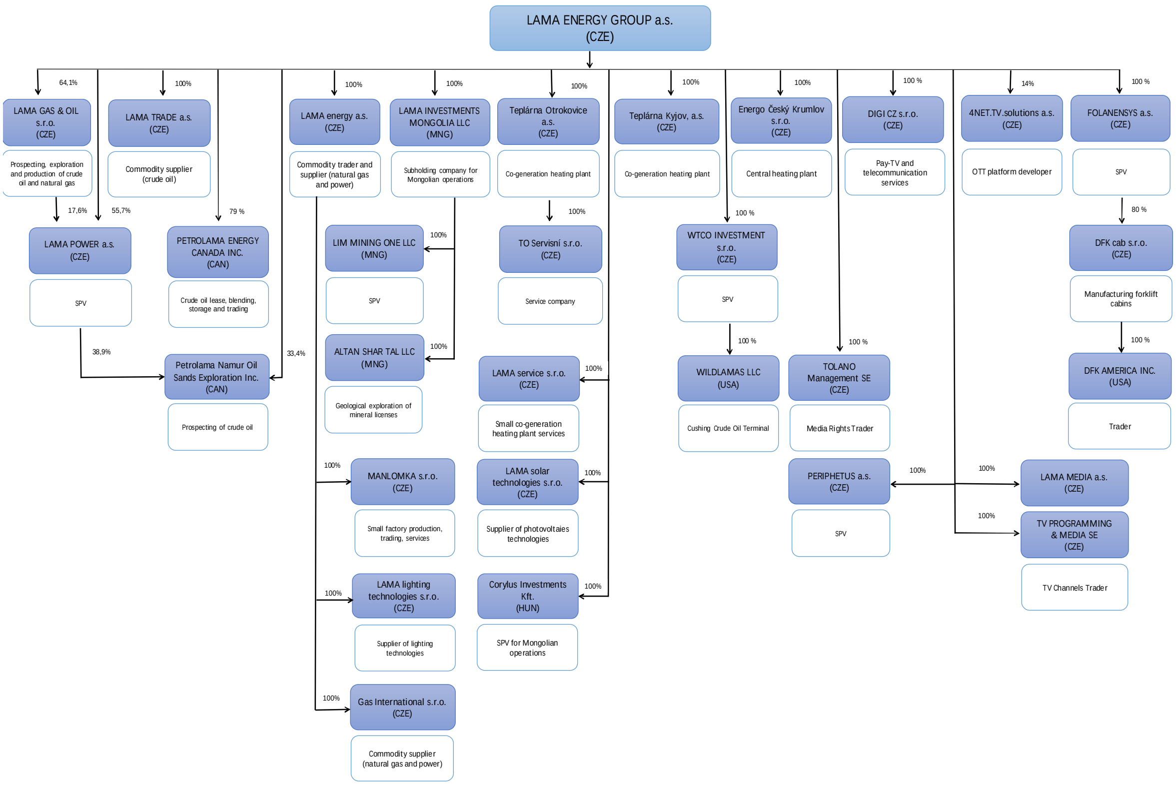
The nature of the Sole Shareholder's control over the Issuer is governed by the rights and obligations of the Sole Shareholder associated with the interest in the Issuer where the Sole Shareholder exercises the powers of the Issuer's supreme body. The Issuer has not adopted any measures against the abuse of control by the majority shareholder. To prevent the control and controlling influence of the controlling entity, the Issuer applies the legal instrument of Report on Related Parties.

The Issuer is not aware of any actions that may lead to a change in its control.

## 4.2 LAMA Group

### 4.2.1 Organizational structure of LAMA Group

The chart depicts all companies of LAMA Group




### 4.2.2 Brief description of LAMA Group

According to an internal analysis of the Issuer, the LAMA Group ranks second in production of crude oil and natural gas in the Czech market. The LAMA Group also focuses on trade in energy commodities, production, distribution and sale of heat and power generation. Other activities of the LAMA Group in the Czech market include the provision of mobile operator services, fixed internet connection, satellite and Internet television operation, and real estate business.

The LAMA Group is also active in the energy sector outside of its home region. The Group is engaged in gas trade in Slovakia and in oil trade in Canada. The LAMA Group also develops its operations in Mongolia where it focuses on geological exploration.

### 4.2.3 History and development of LAMA Group

The history of the LAMA Group dates back to 1991, when its founder and majority owner Petr Lamich began to trade in energy commodities. From the very start, he has focused on the Central European region and the key activity was trade in heavy fuel oils. As LAMA Group's business and reputation grew, the company has expanded its operations to trade in oil, oil derivatives, coal, coal derivatives, natural gas, scrap metal and real estate.

In 2002, Petr Lamich acquired an interest in LAMA GAS & OIL, s.r.o. (formerly Česká naftařská společnost - Czech Petroleum Company), which specialized in providing advisory in the field of crude oil and natural gas extraction. As a result, the company was able to invest in its own prospection, exploration, and production of oil and natural gas in the Czech Republic. According to an internal analysis performed by the Issuer, LAMA GAS & OIL is the only company which succeeded in finding new crude oil and natural gas deposits and in launching commercial extraction without any experience in extraction of these raw materials prior to 1989.

In response to the liberalization of the Czech electricity and gas markets, Petr Lamich and his partners founded LAMA ENERGY a.s. (formerly LAMA INVESTMENTS a.s.), which initially specialized in supplying gas to wholesale customers. Over the years, LAMA ENERGY has acquired major industrial companies and heat plants in the Czech Republic as its customers. Since the liberalization of the household gas market in 2010, the company began to sell gas under the brand levnyplyn.cz for significantly lower rates than the former monopoly suppliers. In 2011, the company's service portfolio was expanded to include electricity supply.

In 2011, LAMA Group was restructured and separate ownership interests were transferred to parent company LAMA ENERGY GROUP a.s., which is responsible for coordination of specific operations and the strategic development of the Group.

In 2013, the Issuer was included in the Group and this step has changed the position of the LAMA Group from energy supplier to energy producer. The Issuer supplies heat and power for the town of Otrokovice and to large companies seated in the nearby industrial zone.

2013 also saw developments in the activities of PETROLAMA ENERGY CANADA INC., founded jointly with experienced Canadian experts and traders in petroleum products in 2011. It was incorporated into the LAMA Group in 2013. Aside from trade in petroleum products and running its own fleet of tank rail cars for railway transport of the products, in September 2013 PETROLAMA ENERGY CANADA launched a terminal for processing and refining of crude oil in the district of Alida (Saskatchewan province), which is connected to the Enbridge-Saskatchewan pipeline. The LAMA Group sold the terminal in mid-2016.

Another Canadian activity involves preparations for extraction from a new crude oil deposit in the Alberta province with production capacity of up to 300 million barrels. The site is operated by Petrolama Namur Oil Sands Exploration Inc., which is also included in the LAMA Group.

In the fourth quarter of 2013, the LAMA Group launched the LAMA MOBILE brand, which is now a full service mobile virtual network operator operated by DIGI CZ s.r.o.

Since April 2015, DIGI CZ s.r.o. has been part of the LAMA Group (or its legal predecessor, DIGI Czech Republic, s.r.o.). The company provides services of paid TV rebroadcasts across the Czech Republic and, in addition to satellite television DIGI TV, it also offers Internet television launched in September 2016.

The LAMA Group is headquartered in Hradec nad Moravicí, where a modern administrative complex has been built. In addition, the Group has office facilities in Prague.

### 4.2.4 Selected LAMA Group companies

Below is a description of the LAMA Group companies (except the Issuer), which are the most important in terms of their impact on the LAMA Group's business.

#### (a) **LAMA GAS & OIL s.r.o.**

LAMA GAS & OIL s.r.o. (**LGO**) was incorporated into the Lama Group in 2011. LGO is one of three companies active in prospection, exploration and extraction of oil and natural gas deposits in the Czech Republic. LGO was founded in 1996. In 1996-2000, the company's main activities comprised advisory in the field of petroleum geology, seeking investment opportunities in exploration and production of hydrocarbons, and business activities.

In 2000, LGO launched prospection and exploration of hydrocarbons in an assigned exploration area near the town of Břeclav. This exploratory work resulted in the localization of oil and flammable natural gas deposits in the Poštorná area. Due to its consistent and professional work, the company has identified several hydrocarbon deposits in the area. With 14 active boreholes, the company currently extracts and supplies from five surface sites about 80,000 cubic meters of natural gas a day to its customers. There has been parallel oil extraction in volumes ranging from 10 to 15 $m^3$/day.

Investments made in the previous years have provided a solid basis for sustaining the current volumes of production in the long run and for generating financial resources to invest in new projects within the LAMA Group.

(b) **LAMA energy a.s.**

LAMA energy a.s. (**LE**) was included into the Lama Group in 2011. LE is an experienced, traditional and reliable supplier of natural gas and electricity. Today its broad range of supplies meets the requirements of both small household consumers and the largest energy consumers in the Czech Republic. Since 2011 the company has also supplied gas to Slovakia.

Unlike single-purpose business companies reselling commodities, LE is part of the LAMA Group with its own gas extraction and power generation. The company’s operations are based on a flexible pricing policy and a tailor-made customer approach. According to OTE’s statistics, LE ranks among the leading energy suppliers in the Czech market.

In 2019, the company supplied a total of 3.37 TWh of natural gas and 0.70 TWh of electricity to over 75,000 points of delivery, of which 0.94 TWh of natural gas and 0.20 TWh of electricity was supplied to the retail segment.

(c) **Teplárna Kyjov, a.s.**

Heat plant Teplárna Kyjov, a.s. (**TKY**) was included in the LAMA Group in 2015. TKY’s principal business comprises production and distribution of heat, provision of ancillary energy services and power generation for the needs of the local region. In the production of heat TKY primarily utilizes waste heat from the neighboring glass production lines of the glassworks VETROPACK MORAVIA GLASS, as well as natural gas.

(d) **DIGI CZ s.r.o.**

DIGI CZ s.r.o. (**DIGI**) joined the LAMA Group in 2015 (or its then legal predecessor, DIGI Czech Republic, s.r.o.). DIGI focuses on the provision of paid satellite and Internet TV rebroadcasts in the Czech market. The company’s inclusion in the LAMA Group has initiated the modernization of the broadcast technology, expansion of the program offering, including exclusive rights to selected sports programs, provision of Internet connection services and online television broadcasting.

(e) **PETROLAMA ENERGY CANADA INC.**

PETROLAMA ENERGY CANADA INC. (**PLEC**) was included in the LAMA Group in 2013. It is the most important foreign company, in which LAMA Group holds an interest. The principal business of PLEC is the purchase, blending, storage, transport and sale of crude oil originating in Canada in the North American market. In May 2016, a substantial part of the company’s assets, including the Alida crude oil terminal, was sold for the purchase price of CAD 53 million.

(f) **PETROLAMA NAMUR OIL SANDS EXPLORATION INC.**

PETROLAMA NAMUR OIL SANDS EXPLORATION INC. (**PNOSE**) joined the LAMA Group in 2013. PNOSE is the second largest owner of the Namur crude oil deposit in Alberta, Canada. The exploration work was completed and the mining approval process with the relevant state administration bodies is underway for the daily extraction volume of some 10,000 barrels. In 2018, the Alberta energy regulator issued approval of the project Alberta.

### 4.2.5 Dependence of the Group on LAMA Group

The Group is indirectly controlled by Mr. Petr Lamich, who is the majority shareholder of the Sole Shareholder. The Group's dependence on the LAMA Group is reflected in the extent to which the Group utilizes the stable support and synergy of the LAMA Group, and is also the result of the central management of the LAMA Group by the Sole Shareholder. The relations between the Group and the LAMA Group are also documented in the following agreements entered into by and between the Issuer, the Issuer's Subsidiary and other members of the LAMA Group. An overview of agreements entered into with other Group companies and the financial data as at 31 December 2019 are included in the Report on Related Parties and in the Consolidated Financial Statements of the Issuer.

# V. HISTORY AND DEVELOPMENT OF THE ISSUER

## 5.1 Founding, incorporation and existence of the Issuer

The Issuer was founded on 9 August 2011 by the deed of foundation (NZ 348/2011, N 423/2011) under the law of the Czech Republic as a joint-stock company named MARRITIMA ENERGY a.s. The Issuer was incorporated by registration in the Commercial Register maintained by the Regional Court in Brno under the file number B 6437 on 18 August 2011.

On 21 June 2013, MARRITIMA ENERGY a.s., as at that date with its registered office at Optátova 708/37, 637 00 Brno - Jundrov, business registration number (IČO) 292 90 171, as the successor company, and Teplárna Otrokovice, as at that date with its registered office at Objízdná 1777, 765 02 Otrokovice, business registration number (IČO) 463 47 089, as the acquired company, approved a merger through consolidation of the foregoing companies pursuant to Act No. 125/2008 Coll., on Transformations of Business Companies and Cooperatives, as amended (the **TBCC Act**), and change in the name and registered office of the successor company to Teplárna Otrokovice a.s., with its registered office at Objízdná 1777, 765 02 Otrokovice, business registration number (IČO) 292 90 171. The relevant date of the merger was determined 1 January 2013 and the merger was recorded in the Commercial Register on 1 November 2013. The revaluation effects were recorded in the closing financial statements and in the opening balance sheet of the Issuer as the successor company. A detailed description of the division in the form of a spin-off through merger is included in the Issuer's closing financial statements for the year ended 31 December 2012 and in the opening balance sheet prepared as at 1 January 2013.

On 15 June 2015, the Issuer, as the successor company, and BioSolar Otrokovice s.r.o., as at that date with its registered office at Objízdná 1777, 765 02 Otrokovice, business registration number (IČO) 276 36 798, as the acquired company, approved a merger through consolidation of the foregoing companies pursuant to the TBCC Act. The relevant date of the merger was determined 1 January 2015 and the merger was recorded in the Commercial Register on 1 September 2015. The effects of the merger were recorded in the closing financial statements and in the opening balance sheet of the successor company prepared as at 1 January 2015.

## 5.2 Registered capital of the Issuer

The Issuer's registered capital amounts to CZK 10,000,000 (in words: ten million Czech crowns) and has been fully paid up. The registered capital is divided into 100 shares with a nominal value of CZK 100,000 per share. All shares are book-entry registered shares.

## 5.3 History and development of the Issuer

### 5.3.1 History of the heat plant

In the 1930s, the footwear company Baťa built a power plant that supplied electricity and heat not only to the Baťa factory in Otrokovice, but also to a housing estate, a hotel and a business center. The power plant was one of the pioneers of combined heat and power cogeneration.

In the second half of the 20th century, demand for energy supplies increased and environmental requirements tightened. Two boilers were installed in the heat plant, and in 1976 three steam boilers and two backpressure turbines were put into operation. The heat plant ranked among the modern combined heat and power plants.

### 5.3.2 Modern history

In 1992, the heat plant Teplárna Otrokovice a.s. was founded, the central heat distribution system was modernized and a hot water supply network was built to supply heat to customers in Otrokovice and Zlín - Malenovice. In 2012, the Issuer purchased a part of NBTH, s.r.o. in Napajedla, which provides heat distribution in the Nábřeží area. In 2013, the Issuer joined the LAMA Group.

## 5.4 History and development of the Issuer’s Subsidiary

The Issuer’s Subsidiary, TO Servisní s.r.o., was founded on 15 June 2010 as E-Eko Malenovice s.r.o. From the start, the company was established for the purpose of building a new biomass source in Zlín - Malenovice, but this project was terminated before construction started due to a change in the subsidy conditions for renewable energy sources. In 2014, already owned by the Issuer, the company resumed its operations comprising transport of fuel (coal) to the Issuer. In addition to providing fuel and implementing investment projects for the Issuer, the company also carries out engineering work for the Teplárna Kyjov heat plant. On 25 March 2014, the company was renamed from E-Eko Malenovice s.r.o. to TO Servisní s.r.o.

# VI. CORE OPERATIONS OF THE ISSUER

The Issuer's core operations include production and distribution of heat, generation and trading of electricity and provision of ancillary services.

## 6.1 General information

The Issuer produces electricity and heat through cogeneration, i.e. high efficiency combined heat and power generation. This production method guarantees the best possible efficiency of operations, is environmentally friendly and is subsidized in accordance with the Act on Supported Energy Sources.

6.1.1 Production and distribution of heat and related services

The Issuer produces heat by firing lignite and black coal and, with regard to the support for the use of renewable sources, also biomass. The total installed thermal capacity of the five boilers is 348.6 MW, of which three are in operation with an installed thermal capacity of 308.6 MW. The volume of heat supplies amounts to approximately 1.5 million GJ annually.

A substantial portion of the heat produced by the Issuer is supplied as steam for the industrial sector; key customers comprise Continental Barum s.r.o., TOMA, a.s. and Fatra, a.s. Heat as hot water is supplied for residential buildings, schools, the service sector and other organizations in Otrokovice, Zlín - Malenovice and Napajedla.

In total, the Issuer supplies heat, directly or indirectly, for more than 9,200 households. In Otrokovice, heat is supplied through the distribution company TEHOS s.r.o., and in other areas directly to final customers. The total length of the steam and hot water networks owned by the Issuer is 64 kilometers.

6.1.2 Power generation and trading

The installation used by the Issuer for electricity generation consists of one backpressure turbine with two controlled outlets and one condensing turbine, also with two controlled outlets. The total installed capacity of the installation is 50 MW.

The principal final buyer of electricity generated in the Issuer's installation is Continental Barum s.r.o. The Issuer also supplies electricity to LAMA energy a.s., which resells it.

6.1.3 Provision of ancillary services

The Issuer also provides ancillary services to ČEPS, a.s. The type of ancillary services provided by the Issuer is referred to as secondary regulation and "Minute Backup (MZt) (t = 15 minutes)". As part of this service, the Issuer undertakes to either supply the volume of the missing power or increase consumption within "t" minutes of the ČEPS dispatching center's alert.

Prices for the ancillary services provided are determined on the basis of a transparent market principle and the selection of ancillary services providers is based on an open and non-discriminatory approach to all entities that meet the qualification requirements for the provision of ancillary services in the relevant category. In most cases, ancillary services are provided under agreements concluded for a period exceeding one year. The agreements are concluded between ČEPS and the ancillary services providers according to the results of transparent tenders.

## 6.2 Other activities of the Issuer

Other activities carried out by the Issuer include the installation and financing of proportional meters, thermal imaging, operation of the water supply network on the premises of TAJMAC-ZPS, a.s. and the sale of technological air.

## 6.3 Research and development activities

Pursuant to the provisions of Section 1746 (2) of Act No. 89/2012 Coll., the Civil Code, as amended, and pursuant to the relevant provisions of Act No. 130/2002 Coll. on the Support for Research, Experimental Development and Innovation from Public Funds and on Amendments to Certain Related Acts (the Act on Support for Research and Development), as amended, the Issuer concluded a cooperation agreement on a research and development project with **Tomáš Baťa University in Zlín**, Nám. T.G. Masaryka 5555, 760 01 Zlín, business registration number (IČ): 70883521, tax identification number (DIČ): CZ7088352. The project leader is the Faculty of Applied Informatics, the title of the project is “Distributed System of Management of the Regional Heat and Cool Supply System Designed as a Smart Energy Grid” (hereinafter the "Project"). The Project was approved by its funder, the Technology Agency of the Czech Republic, under a Grant Agreement No. 2016TH02020979.

Work on the Project is scheduled to continue for several years: from January/2017 to June/2020, the costs of the Issuer for the entire project period are estimated at CZK 4,750 thousand. The costs incurred by the Issuer in 2019 amounted to CZK 1,388,000; the amount of the subsidy in 2019 was CZK 295,000.

## 6.4 Auditor’s fees

The supreme body of the Company determined on 14 October 2019 that the audit firm selected to perform a statutory audit of Teplárna Otrokovice a.s. for the year ended 31 December 2019 is Ernst & Young Audit, s.r.o., registered in the Chamber of Auditors of the Czech Republic under No. 401

The supreme body of the Company determined on 23 May 2019 that the auditor selected to carry out a statutory audit of the subsidiary, TO Servisní s.r.o., for the year ended 31 December 2019 is Kratkyaudit s.r.o., registered in the Chamber of Auditors of the Czech Republic under No. 583.

Auditor’s fees are distributed as follows:
The fees due to Ernst & Young Audit, s.r.o., for statutory audits performed in 2019 and 2018 totaled CZK 751,000 and CZK 675,000, respectively. The cost of other assurance services in 2019 and 2018 amounted to CZK 0 and CZK 0, respectively.

## 6.5 Key customers of the Issuer

For historical reasons, the Issuer supplies heat and electricity to large businesses in the proximity of the Issuer’s location

### 6.5.1 Breakdown of 2019 revenues by product

| *In CZK thousand* | |
|---|---|
| Sale of heat | 575,709 |
| Sale of electricity and related services | 658,746 |
| Other | 15,468 |
| **Total** | **1,249,923** |

### 6.5.2 Sale of electricity and related services

The principal buyer of electricity and related services is Continental Barum s.r.o., which accounts for 62% of total revenues generated in 2019. The contract for power supply to Continental Barum s.r.o. is concluded for a fixed period until 31 December 2020.

In 2018, Teplárna Otrokovice a.s. succeeded in a tender organized by electricity transmission system operator ČEPS for the provision of ancillary services for the period of 2019 - 2021. In the ancillary services market, the share of Teplárna Otrokovice among all market participants increased from 1.8% in 2018 to 3.2% in 2019.
Ancillary services facilitate ensuring the quality and reliability of the electricity supply in the transmission system. Producers providing this service undertake to have the contracted capacity on standby and supply it to the grid when needed.

**Breakdown of 2019 revenues from sale of electricity and related services by customer**

| *In CZK thousand* | |
|---|---|
| Continental Barum s.r.o. | 408,860 |
| LAMA energy a.s. | 142,708 |
| ČEPS, a.s. | 89,711 |
| Other | 17,467 |
| **Total** | **658,746** |

#### 6.5.3 Sale of heat

Heat produced by the Issuer is supplied primarily to households and businesses.

The principal buyer of heat is Continental Barum s.r.o., which accounts of 61% of total revenues generated in 2019. The contract for heat supply to Continental Barum s.r.o. is concluded for a fixed period until 31 December 2020.

Another significant heat buyer is TEHOS s.r.o., which then supplies the purchased heat to households in the Otrokovice area as final customers. The contract for heat supply to TEHOS s.r.o. is concluded for an indefinite period with a floating notice period of 12 months. The Issuer supplies heat directly to households in Napajedla and Zlín.

**Breakdown of 2019 revenues from sale of heat by customer**

| *In CZK thousand* | |
|---|---|
| Continental Barum s.r.o. | 353,787 |
| TEHOS s.r.o. | 51,754 |
| Other | 170,168 |
| **Total** | **575,709** |

### 6.6 Major suppliers of the Group

The key fuel used by the Group for heat production is coal supplied by the Subsidiary to the Issuer. The Issuer also purchases electricity from LAMA energy a.s. of the LAMA Group.

The Issuer purchases materials and services from reliable, proven and annually rated suppliers. The Issuer has concluded long-term contracts for purchases of essential commodities such as coal, water and lime. Likewise, the Issuer has signed long-term contracts for the recurring purchase of office supplies, chemicals, tools, diesel fuel and other materials. The Issuer regularly conducts tenders to ensure the best price for ordered materials, repairs and construction work.

In 2019 the Issuer carried out large investment projects related to the greening of its installation. The Issuer's Subsidiary is in charge of these investment projects for the Issuer.

**Overview of major suppliers of the Group**

| *Supplier* | *Buyer* | *Supplied commodity/service* |
|---|---|---|
| LAMA energy a.s. | Issuer | Electricity |
| CARMEUSE CZECH REPUBLIC s.r.o. | Issuer | Lime for desulphurization technology |
| Povodí Moravy, s.p. | Issuer | Water |
| Sev.en Commodities AG, odštěpený závod (formerly Severní energetická a.s.) | TO Servisní s.r.o. | Coal |
| Sokolovská uhelná, právní nástupce, a.s. | TO Servisní s.r.o. | Coal |
| STAGBET a.s. | TO Servisní s.r.o. | Coal |
| EKOBAU INVEST a.s. | TO Servisní s.r.o. | Construction part of K8 gas boiler |
| INVELT SERVIS s.r.o. | TO Servisní s.r.o. | Machine part of K8 gas boiler |
| TENZA, a.s. | TO Servisní s.r.o. | K3 boiler denitrification |
| GE Power s.r.o. | TO Servisní s.r.o. | L1 line desulphurization |

## 6.7 Key markets

### 6.7.1 Description of key markets

The Issuer operates in the energy market of the Czech Republic. Within this market, the Issuer participates in the electricity and thermal energy markets.

(a) Electricity market

Participants in the electricity market include the electricity producer (produces electricity and sells it to other market participants), the customer (consumes electricity from the grid under an electricity supply contract), the electricity trader, the energy exchange, the distribution system operator (ČEZ Distribuce, a.s., E.ON Distribuce, a.s. and PREdistribuce, a.s., which distribute electricity to final customers), the transmission system operator ČEPS, a.s., the electricity market operator OTE, a.s. (it operates the electricity market, in particular it registers market participants, processes business transactions, meters and evaluates imbalances and carries out their settlement) and the ERO as the regulator (inter alia, it issues licenses to all licensed participants pursuant to the Energy Act and determines the amount of subsidies for supported energy sources pursuant to the SES Act). The Issuer holds a license to generate and trade in electricity.

The electricity market is divided into an organized market where participants trade with one central counterparty, primarily the energy exchange, and a non-organized market where the participants trade separately with each other and are not restricted in executing transactions by any special rules as in the organized market.

Prices of electricity supplied to final customers are to a large extent unregulated and these rates are influenced by supply and demand in the market. The regulated component of the electricity price is comprised of a fee for reserved capacity, a fee for system services, a fee for renewable energy sources, and a fee paid to the market operator.

(b) Thermal energy market

Participants in the thermal energy market include the holder of a license for production or distribution of heat, the customer, and the ERO, which in addition to issuing licenses regulates mainly the prices of thermal energy.

Unlike the electricity market, the thermal energy market is wholly unorganized. In terms of the supplied heat pricing, this market is more regulated, as suppliers are required to calculate the prices of supplied heat in accordance with the relevant price decision issued by the ERO. The regulation of heat prices is based on factual pricing. The Issuer holds a license for heat production and distribution.

(c) Ancillary services market

As the transmission system operator, ČEPS is obligated to ensure a balance between electricity supply and offtake in the transmission system. In order to meet this obligation, ČEPS purchases regulating energy through its ancillary services, which is used for (i) missing capacity when consumption is higher than generation, or (ii) a reduction in generation or an increase in consumption in the event of excess generation.

ČEPS purchases regulating energy in several categories of ancillary services under agreements on provision of ancillary services concluded with individual power producers certified to provide the relevant type of ancillary services. Due to its exclusive position, ČEPS is the sole buyer of ancillary services. The Issuer provides ancillary services in the categories of secondary regulation and "Minute Backup (MZt) (t = 15 minutes)".

(d) Market participation of the Issuer

The Issuer participates in the aforementioned markets on the basis of the operation of its high-efficiency combined heat and power cogeneration installation. The Issuer participates in the electricity market and ancillary services market as the holder of a license for generation and trading of electricity; the Issuer participates in the thermal energy market as the holder of a license for heat production and distribution.

The Issuer holds the following licenses pursuant to the Energy Act:

- electricity generation license - this license permits the Issuer to generate electricity under the conditions set out thereof. The electricity generation license is issued for a maximum of 25 years, whilst the current license held by the Issuer is valid until 17 October 2038;

- electricity trading license - this license permits the Issuer to trade in electricity under the conditions set out thereof. The electricity trading license is always issued for a period of 5 years, whilst the current license held by the Issuer is valid until 15 October 2023;

- thermal energy production license - this license permits the Issuer to produce thermal energy under the conditions set out thereof. The thermal energy production license is issued for a maximum of 25 years, whilst the current license held by the Issuer is valid until 17 October 2038; and

- thermal energy distribution license - this license permits the Issuer to transmit, accumulate, convert heat-transfer substances or their parameters and supply thermal energy to heat distribution facilities under the conditions set out thereof. The thermal energy distribution license has been granted to the Issuer for an indefinite period.
  - To its knowledge, the Issuer is not aware of its dominant or significant market position.

## 6.8 Regulation of the Issuer's activities

### 6.8.1 General information

The Issuer operates in the energy sector. In the Czech Republic, entities may pursue business in the energy sector solely under a license issued by the ERO. The licensing process is governed by the Energy Act. The ERO may change the decision to grant a license or revoke the license if the conditions specified in the Energy Act are met.

### 6.8.2 Support for electricity generation

Since the Issuer generates electricity in a combined heat and power installation, the installation is eligible for subsidies as a supported energy source. In the Czech Republic, support in this area is governed by the Act on Supported Energy Sources (ASES) and the related Decree of the Ministry of Industry and Trade No. 37/2016 Coll., on electricity from combined heat and power cogeneration and electricity from secondary sources.

Specifically, support is provided for electricity produced in combined heat and power cogeneration, which is deemed to be electricity generated in an installation:

- with an installed capacity of more than 1 MW;
- producing power and useful heat in a cogeneration process;
- for which the Ministry of Industry and Trade has issued a certificate of origin of electricity from combined heat and power cogeneration; and

- which in production of heat and power achieves primary energy savings of at least 10% compared to separate production of electricity and heat.

Support for combined heat and power cogeneration is provided in the form of green bonus. The green bonus for electricity is determined in CZK/MWh and for electricity from combined heat and power cogeneration and secondary sources is provided as an annual green bonus for electricity. The green bonus settlement is carried out by the market operator on the basis of metered or computed values of generated electricity recorded by the market operator, i.e. OTE, a.s. If the producer applies, the market operator is obligated to pay out the green bonus for electricity from combined heat and power cogeneration after the aforementioned settlement.

The amount of the green bonus is determined annually by the ERO for the following calendar year based on price decisions. When determining the annual green bonus amount, the ERO takes into account the location of the installation, the installed capacity, the primary fuel used and the operating mode. The green bonus may change every year depending on market electricity prices, thermal energy prices, prices of the primary energy source, production efficiency and the period of operation of the power-generation installation.

The green bonus for electricity from combined heat and power cogeneration consists of two rates - basic and supplementary. However, the supplementary rate applies only for the firing of certain types of fuels and does not impact the Issuer. According to the ERO price decision No. 9/2018, in effect for 2019, the rate applicable for the Issuer ranges from CZK 173/MWh to CZK 268/MWh, but mostly stays at CZK 268/MWh. According to the ERO price decision No. 3/2019, in effect for 2020, the rate applicable for the Issuer has decreased to the level prior to 2019 from CZK 60/MWh to CZK 140/MWh, but the higher rate of CZK 140/MWh prevails.

The Issuer also receives the green bonus for electricity produced by co-firing biomass and different energy sources, with the exception of municipal waste, in the process of combined heat and power cogeneration. This support applies only for a portion of electricity produced in combined heat and power cogeneration, based on the proportion of used biomass. According to the ERO price decision No. 3/2018, in effect for 2019, the rate applicable for the Issuer‘s production is CZK 2,250/MWh for the S1 rate, and CZK 1,110/MWh for the S2 rate. According to the ERO price decision No. 3/2019, which is in force for 2020, these rates will be CZK 2,140 for the S1 rate and CZK 970 for the S2 rate. The Issuer applies primarily the S1 rate.

### 6.8.3 Regulation of heat prices

As the heat supplier, the Issuer has an obligation to sell heat to its customers at regulated prices. The regulation of heat prices is based on factual pricing. Regulated prices are determined to cover “economically justifiable costs” of production and distribution of heat, plus depreciation and a “reasonable profit” to ensure return on investment and value added tax.

In order to regulate prices of thermal energy, the ERO issues price decisions providing guidelines for heat price regulation. At present, the ERO price decision No. 5/2018 of 6 November 2018, amending ERO price decision No. 2/2013 of 1 November 2013 on the prices of thermal energy, is in effect, as amended by the ERO price decision No. 4/2015 of 6 November 2015 (**Price Decision**). The Price Decision provides a formula for calculation of prices of thermal energy that suppliers must observe when calculating their rates, and also specifies the “economically justifiable costs” and “reasonable profit” used in calculating heat prices.

The ERO is not authorized to determine prices of thermal energy. These prices are determined by the heat supplier in compliance with the Price Decision. In addition, in accordance with the principle of non-discrimination, the heat supplier must set prices for all customers in the same pricing area (defined by the supplier in accordance with the mandatory rules) at the same level that is calculated according to the formula specified in the Price Decision.

Prices of thermal energy calculated in compliance with the Price Decision can be negotiated with customers either as a single-component rate based on the unit volume of thermal energy, or as a two-component rate with a variable component related to the unit volume of thermal energy and a fixed component related to the unit volume of thermal energy or a thermal output unit, which correspond to the long-term need of the distribution or consumption thermal installation. The application of a one-component or two-component rate is defined in the agreement concluded between the buyer and the supplier.

Assuming that the price calculated in compliance with the Price Decision does not allow the heat supplier to cover its production costs, the supplier may ask the ERO for an exemption to set a higher rate to generate a “reasonable profit”. However, if the supplier sets rates for its customers for the supply of heat that exceed the regulated prices determined in accordance with the Price Decision without being granted an exemption, the ERO may, pursuant to Act No. 526/1990 Coll., on Pricing, impose a fine on the supplier of up to five times the amount of the excessive financial benefit, which the supplier has generated by setting higher prices, and may order to return the excessive financial benefit to the heat consumer.

#### 6.8.4 Decarbonization of the Issuer’s installation

In response to the increasing regulatory pressure to reduce emissions and use best available technologies, which stems, inter alia, from Directive 2010/75/EU of the European Parliament and of the Council on industrial emissions, the Issuer carries out a partial decarbonization of its installation by replacing one coal-firing boiler with the construction of a boiler firing natural gas (see Article 6.6.).

# VII. BOND ISSUE

## 7.1 Nominal value, type, total nominal value of the issue

The bonds, issued by Teplárna Otrokovice a.s., with its registered office at Objízdná 1777, Otrokovice, postal code 765 02, business registration number: 292 90 171, incorporated under the laws of the Czech Republic in the Commercial Register maintained by the Regional Court in Brno, Section B, File 6437 (the **Issuer**), with a total nominal value of the issue of up to CZK 1,251,000,000 (in words: one billion two hundred and fifty one million Czech crowns), bearing a floating interest rate, mature in 2023 (the **Issue** and separate bonds issued within the **Bond Issue**), are governed by the issue terms and conditions (**Issue Terms and Conditions**) and Act No. 190/2004 Coll., on Bonds, as amended (the **Bonds Act**). The Issue was approved by the decision of the Issuer's Board of Directors of 4 December 2017. The ISIN of the Bonds assigned by the Central Depository (as defined below) is CZ0003517732. The title of the Bonds is "Dluhopisy TEPL. OTR. VAR/23".

The Bonds have been issued as book-entry securities pursuant to the Bonds Act. Each bond has a nominal value of CZK 3,000,000 (in words: three million Czech crowns).

Pursuant to Act No. 256/2004 Coll., on Capital Market Undertakings, as amended, and Commission Regulation (EC) No. 809/2004, implementing Directive 2003/71/EC of the European Parliament and of the Council as regards information contained in prospectuses as well as the format, incorporation by reference and publication of such prospectuses and dissemination of advertisements, as amended (the **Regulation**), the Issuer has drawn up a Bond prospectus (the **Prospectus**), which comprises the Issue Terms and Conditions. The Prospectus was approved by the ČNB decision, ref. no. 2017/165380/CNB/570, file no. S-Sp-2017/00045/CNB/572 of 13 December 2017, which came into force on 14 December 2017. The Prospectus was published in accordance with the relevant legislation. The Issue Terms and Conditions were published as part of the Prospectus and are posted on the Issuer's website www.tot.cz, in the section "About the Company" – "Investor Relations".

The Issuer has applied for an admission of the Bonds to trading on the Regulated Market of the Prague Stock Exchange, a.s. (**BCPP**) and the Bonds were listed on the regulated market as at the Issue Date, i.e. 21 December 2017.

Under a mandate agreement for the procurement of a bond issue of 9 October 2017, as amended by later amendments, (Mandate Agreement), the Issuer has appointed Česká spořitelna, a.s., with its registered office at Olbrachtova 1929/62, Prague 4, postal code 140 00, business registration number: 452 44 782, registered in the Commercial Register maintained by the Municipal Court in Prague, File number B 1171, the manager for activities related to the Issue preparation and to public offering and placement of the Bonds with final investors.

All activities of the administrator in connection with the payment of interest income and redemption of the Bonds are performed by Česká spořitelna, a.s., with its registered office at Olbrachtova 1929/62, Prague 4, postal code 140 00, business registration number: 452 44 782, registered in the Commercial Register maintained by the Municipal Court in Prague, Section B, File 1171.

In 2019, the Issuer made payments to bondholders on the basis of the third and fourth yield periods.

The third yield period was from 21 December 2018 (inclusive) to 21 June 2019 (exclusive) and the date of determining the reference rate was 19 December 2018. The reference rate is 2.08% p.a., the margin is 2.80% p.a. (280 bps), and the total interest rate in the third yield period is 4.88% p.a., which represents interest income per bond of CZK 74,013.33. The payment was made on 21 June 2019.

The fourth yield period was from 21 June 2019 (inclusive) to 21 December 2019 (exclusive) and the date of determining the reference rate was 19 December 2019. The reference rate is 2.22% p.a., the margin is 2.80% p.a. (280 bps), and the total interest rate in the fourth yield period is 5.02% p.a., which represents interest income per bond of CZK 76,555.00. The payment was made on 23 December 2019.

A fifth yield period was set for bondholders in 2020 from 21 December 2019 (inclusive) to 21 June 2020 (exclusive) and the date of determining the reference rate was 19 December 2019. The reference rate is 2.22% p.a., the margin is 2.80% p.a. (280 bps), and the total interest rate in the fifth yield period is 5.02% p.a., which represents interest income per bond of CZK 76,555.00.

## 7.2 Use of the Bonds

The Issuer has used the funds received through the Bond Issue to finance its operating needs in the ordinary course of business, in particular to repay its debts to: Commerzbank Aktiengesellschaft, acting through Commerzbank Aktiengesellschaft, Prague Branch, under a syndicated loan agreement of 4 January 2013, as amended, and to LAMA ENERGY GROUP a.s., under a loan agreement of 2 January 2013.

## 7.3 Status of the Bonds

The Bonds constitute direct, general, unconditional, unsecured and unsubordinated liabilities of the Issuer, which are and will rank *pari passu* among themselves and at least *pari passu* with any present and future unsecured and unsubordinated liabilities of the Issuer, with the exception of liabilities treated preferentially under applicable mandatory laws. The Issuer is required to treat all bond holders equally under the same terms.

Neither the shareholders of the Issuer nor any other person have any pre-emptive and exchange rights to the Bonds, nor any preferential subscription right.

## 7.4 Obligations of the Issuer

The Issuer shall not, until the full repayment of all of its liabilities arising from the Bonds, establish or permit the establishment of any Securing of Indebtedness that would fully or partially restrict its rights to current or future assets or income unless, at the latest concurrently with the establishment of such Securing, the Issuer ensures that all liabilities arising from the Bonds are secured equally with the Securing of Indebtedness or secured using another method approved by a resolution of the Meeting.

The provisions of the preceding paragraph do not apply to any Security (current or future):

- established for shares, interests or similar direct shareholder contributions of the Issuer in its Subsidiary as a security for any debt financing (except financing related to issuance of bonds, bills of exchange and other securities) provided by any third party outside of the Lama Group to the Issuer or to its Subsidiary;
- attached to or arising from the Issuer's assets in the course of ordinary business;
- attached to or arising from the Issuer's assets in connection with hedging derivatives closed on by the Issuer or its Subsidiary to hedge against fluctuations of interest rates or exchange rates (for the avoidance of doubt, with the exception of any derivative used for speculative purposes);
- arising from indebtedness under the contractual arrangements of the Issuer or its Subsidiary and existing as at the Issue Date, including refinancing of debts arising from such arrangements, secured by the Issuer up to the amount of the original Security; or
- established to secure any indebtedness of the Issuer or its Subsidiary arising from Project Financing, assuming that the assets or revenues, for which the Security has been established, constitute the assets which are used or will be used in connection with a project to which the Project Financing is attached, or revenues or receivables arising from the operations, non-compliance with the agreed parameters or other conditions of expropriation, sale, destruction of or damage to said assets; or
- arising out of the law or due to a court or administrative decision.

The Issuer is required to ensure that the aforementioned obligation to not establish a security for current and future assets and revenues is met by the Subsidiary under the same conditions.

The Issuer is required to ensure that until the full repayment of all of its liabilities arising out of the Bonds, it will not execute any transaction that would directly or indirectly lead to an increase in the Group's Indebtedness if, as a result of such transaction, the Consolidated Net Indebtedness Ratio would exceed the Permitted Value or a Case of Breach would occur or was impending or persisting. The Consolidated Net Indebtedness Ratio is calculated on a pro forma basis from the latest Net Indebtedness data available as at the date of the intended increase in Indebtedness, taking into account the relevant transaction. This restriction does not apply for:

- Indebtedness in the form of any guarantee or a guarantee as a guarantor's statement, financial guarantee or warranty, or assumption of the joint and indivisible liability of the Issuer or its Subsidiary to third parties outside of the Lama Group;
- Indebtedness arising from the law or by virtue of a court or administrative decision to the detriment of the Issuer or its Subsidiary;

- Indebtedness arising in the course of ordinary business of the Issuer or its Subsidiary (including documentary letters of credit and bank guarantees issued in connection with the performance of certain obligations of the Issuer or its Subsidiary);
- Indebtedness related to hedging derivatives closed on by the Issuer or its Subsidiary to hedge against fluctuations of interest rates or exchange rates (for the avoidance of doubt, with the exception of any derivative used for speculative purposes);
- Indebtedness related to Project Financing of the Issuer or its Subsidiary;
- Indebtedness related to refinancing of any debts of the Issuer or its Subsidiary existing as at the Issue Date (up to the amount of the refinanced debt);
- Indebtedness in the form of a subordinated loan from the parent company of the Issuer and until the maturity of the Bonds, at no time exceeding the amount of CZK 100,000,000; and
- Any other Group indebtedness than mentioned above under Articles (a) to (g), of up to CZK 50,000,000.

The Issuer is required to ensure that the aforementioned obligation to not execute any transaction that would directly or indirectly lead to an increase in the Group’s Indebtedness if, as a result of such transaction, the Consolidated Net Indebtedness Ratio would exceed the Permitted Value or a Case of Breach would occur or was impending or persisting is met by the Subsidiary under the same conditions.

The Issuer is not authorized to execute any transaction with any Lama Group entity other than on an arm’s-length basis.

The Issuer is required to ensure that the Subsidiary does not execute any similar transaction.

The Issuer is not authorized to sell, lease, transfer, pledge or otherwise dispose of, in one or more transactions, any of its assets the value of which exceeds CZK 50,000,000 (**Limited Disposition**) or the equivalent of the amount in other currencies if, as a result of such transaction, the Consolidated Net Indebtedness Ratio would exceed the Permitted Value, or a Case of Breach would occur or is impending or persisting.

The Issuer is authorized to carry out a Limited Disposition of assets if the transaction is executed at fair market value and more than 75% of the received consideration is paid in cash or Cash Equivalents, unless it involves a transfer of assets to a business undertaking of the Issuer’s Subsidiary, or if a non-pecuniary consideration received by the Issuer is valued by an independent expert, an auditor or a financial institution as an objective equivalent of the asset subject to the Limited Disposition, including the assessment of a possible offset of receivables, in particular in relation to the amount, maturity and objective existence of the relevant receivables, there is no impending or persisting Case of Breach, when executing a transaction in the amount of or exceeding CZK 50,000,000 the Issuer obtains a pre-valuation of the subject of the transaction from an independent expert, an auditor or a financial institution and (iv) uses the proceeds for operating purposes or for redemption of the Bonds.

The Consolidated Net Indebtedness Ratio is calculated from the latest Net Indebtedness data available as at the date of the intended Limited Disposition of Assets, taking into account the execution of the relevant Limited Disposition on a pro forma basis.

The Issuer is required to ensure that the above authorization to execute the Limited Disposition applies for the Subsidiary under the same conditions.

Until the full repayment of all liabilities arising from the Bonds, the Issuer is not authorized to propose the payment of any dividends, other profit shares, equity interests or similar amounts (such as advances for dividends or interest on unpaid dividends) (**Payment**) and make any direct or indirect payment to repay subordinated debts (including payment of interest) (**Prohibited Payment**) if, as a result of such Payments or Prohibited Payments, the Consolidated Net Indebtedness Ratio would exceed the Permitted Value or if a Case of Breach would be impending or persisting. The Consolidated Net Indebtedness Ratio is calculated from the latest Net Indebtedness data available as at the date of Payment or Prohibited Payment, taking into account such Payment or Prohibited Payment on a pro forma basis.

## 7.5 Definitions

For the purposes of Article 7.4 (Obligations of the Issuer), the following terms have the following meaning (if any term used in this Article is not defined, it has a meaning assigned to it in IFRS).

**Net Indebtedness** is calculated from the consolidated statement of financial position and is the result of the following formula:
Long-term loans and borrowings + Short-term loans and borrowings – Cash and cash equivalents. The Net Indebtedness Indicator is included for the calculation of the Consolidated Net Indebtedness Ratio.

**EBITDA** is a financial performance indicator of the enterprise's operating performance because it does not include interest and tax payments, depreciation and amortization. The EBITDA indicator is included for the calculation of the Consolidated Net Indebtedness Ratio.

The Issuer's EBITDA is calculated from data based on the Consolidated profit and loss statement and the Notes to the consolidated financial statements. For the Relevant Period it is calculated as follows:
Profit before taxes (Consolidated statement of comprehensive income)

- increased by depreciation of fixed assets (Consolidated statement of comprehensive income);
- increased by interest expense and the loss on revaluation of derivatives (Notes to the consolidated financial statements - Article Financial revenues and expenses –Item Interest expense - Other financial items – Gain (loss) on revaluation of profit/loss from financial instruments to fair value;
- reduced by the gain on revaluation of derivatives (Notes to the consolidated financial statements – Article Financial revenues and expenses – Item Interest expense - Other financial items – Gain (loss) on revaluation of profit/loss from financial instruments to fair value;
- reduced by interest income (Notes to the consolidated financial statements - Article financial revenues and expenses - Item Interest income); and
- reduced by the profit share (increased by the share of the loss) of affiliates and joint ventures after taxes (Consolidated statement of comprehensive income).

**Consolidated Net Indebtedness Ratio** means the Group's Net Indebtedness Ratio to the Group's EBITDA for the last ended Relevant Period, for which internal financial statements are available immediately before the Relevant Date.

**Permitted Value** means 4.5.

# VIII. INFORMATION ON PROJECTED DEVELOPMENT OF THE ENTITY AND EXPECTED ECONOMIC AND FINANCIAL POSITION IN 2020

In 2020, the Company will continue to make scheduled investments in the Company's assets in accordance with the approved investment and repair plan. The largest investment projects are related to greening measures at the heating plant aimed to reduce emissions. These measures will ensure the Company's readiness to meet tighter environmental limits that come into effect as of 1 July 2020. All investment projects are carefully evaluated in terms of economics to ensure a positive financial benefit for the Company.

Considering the current market and regulatory conditions for doing business in the heating, power generation and support services industries, and the existing parameters of major supply chains, the financial plan for 2020 assumes that the Company's financial performance will improve in 2020. An important prerequisite for meeting the plan will be the increase in heat prices agreed with some major customers as of 1 January 2020, a measure that the Company had to take due to the increase in emission right costs in the power sector, uncompensated by the government, and due to the reduction in state aid, following the aforementioned Energy Regulatory Office pricing decisions. In 2020, the Company will continue in implementing cost savings and streamlining its operations.

All relevant information is and will be posted on the Company's website.

# IX. REPORT OF THE BOARD OF DIRECTORS ON BUSINESS OPERATIONS AND ASSETS

## 9.1 Company operations

The core operations of Teplárna Otrokovice a.s. (the "Company") include production and distribution of heat and the related services, generation and trading of electricity and provision of ancillary services. The Company produces electricity and heat through cogeneration, i.e. high efficiency combined heat and power generation. This production method guarantees the best possible efficiency of operations and is environmentally friendly.

Thermal energy is supplied to industrial customers as steam and to households as hot water to ensure heating and hot water for household use.
A substantial portion of the produced heat is supplied for the industrial sector; key customers comprise Continental Barum s.r.o., Fatra, a.s. and TEHOS s.r.o.
Heat as hot water is supplied for residential buildings, schools, shopping centers and other organizations in Otrokovice, Zlín – Malenovice and Napajedla.
In Otrokovice, heat is supplied through the distribution company TEHOS s.r.o., and in other areas directly to final customers. The Company supplies heat for more than 9,200 households.
The Company's subsidiary, TO Servisní s.r.o., ensures transport of fuel and provision of services related to investment activities for the Company.

On 21 December 2017, the Company issued bonds that have been admitted to trading on the Prague Stock Exchange regulated market. Since the Company became publicly listed in 2017 and the Company's reporting is based primarily on IFRS, the General Meeting of Shareholders has decided that as of 1 January 2017 the Company prepares financial statements only in accordance with IFRS.

In 2018, the Company succeeded in ČEPS's tender for the provision of ancillary services for the period of 2019 - 2021. The Company will provide positive secondary regulation in the next three years. In the ancillary services market, the share of Teplárna Otrokovice among all market participants increased to 3.2% in 2019.

In 2019, the Company recorded a slight decline in sales, particularly electricity sales, due to lower market prices. Although overall heat supplies were lower than in 2018, heat sales increased slightly in 2019, which was due to changes in the Company's pricing policy. Other sales were also higher than in 2018. Revenues generated in 2019 amounted to CZK 1,249,923 thousand, representing a decline of CZK 8,158 thousand year-on-year. Of the total, heat sales totaled CZK 575,709 thousand, representing an increase of CZK 9,053 thousand year-on-year, and sales of electricity and related services totaled CZK 658,746 thousand, which constitutes a drop of CZK 19,487 thousand compared to 2018.

Heat supplies in 2019 fell by 15,734 GJ year-on-year to a total of 1,512,643 GJ. The drop in heat supply was primarily due to unseasonably warm weather. Temperatures stayed above the long-time average throughout the year except for May. As a result, heat supply in 2019 fell by 1.03% compared to 2018, but it did not affect revenues due to change in heat rates. Overall revenues from the sale of heat moderately rose.

The Company posted a loss before taxes of CZK 75.8 million for 2019 according to IFRS, and loss after taxes in the amount of CZK 61.4 million.

The Group reported a consolidated loss before taxes of CZK 78.9 million for 2019 according to IFRS, loss after taxes of CZK 63.8 million.

The negative economic result of the Company and of the Group stems in particular from operating costs which rose by CZK 41 million compared to 2018. The operating costs represent predominantly the consumption of emission rights that the Company has to purchase in addition to the allocated emission rights. Between the end of 2017 and the end of 2018, the price of the emission rights increased from EUR 8.09/t to EUR 24.63/t. In 2019, the price was at the same level as in 2018, but the Company has to buy a larger volume of allowances, as the allowance allocation was reduced by 18,558 units year-on-year.

In 2019, total assets of the Group and of the Company increased by 0.5% and 0.7%, respectively, and totaled CZK 2,387 million (Group) and CZK 2,391 million (Company) as at 31 December 2019. Even though neither the Group nor the Company generated net profit, their assets recorded a moderate increase, primarily as a result of a long-term increase in fixed assets due to investments carried out by the Group and the Company in 2019. Spending of the Group and the Company on investments (incl. consumption of emission rights) in 2019 amounted to CZK 224 million and CZK 219 million, respectively. Conversely, the volume of cash of the Group and the Company fell by CZK 91 million and CZK 72 million, respectively, compared to 2018.

The Company's financial position has significantly stabilized owing to operating financing provided by its sole shareholder through a revolving loan of CZK 200 million.

## 9.2 Investments and repairs

The Company focuses on upgrades and reliability of the technological equipment while minimizing the environmental impact and increasing occupational safety.

The Company's major investment projects in 2019 comprised the construction of a new gas boiler K8 that will replace the coal boiler K5, following its putting into operation in 2020. Furthermore, the greening of the K3 boiler (reduction of nitrogen oxide emissions) commenced in 2019, and the trial operation and tuning up of the K3 boiler continued with an implementation of environmental measures. The reconstruction of the flue gas desulphurization line No. 1 in the second half of 2019 resulted in further reduction in sulfur oxides emissions.

The Company also invested in expansion and reconstruction of the distribution network and the connection of new customers. Hot water connections and heat exchanger stations were built in 2019 for companies Prozax, Svorto and Hu-Fa Dental in Otrokovice. The reconstruction of internal heat distribution systems in the Elektrosystém company compound was carried out in Zlín – Malenovice, and hot-water connections were built for the PSG office building in Otrokovice.

## 9.3 Environmental protection

No significant failure or accident occurred in 2019 that would result in an uncontrolled discharge of emissions and the need to deal with emergency situations. The K3, K4 and K5 boilers are equipped with a continuous emission monitoring device installed at the flue. A one-time measurement of emissions by a certified measurement laboratory confirmed the proper operation of the continuous monitoring equipment for emissions discharged into the atmosphere.

The emission limits set out in the integrated permit for solid pollutants, sulfur dioxide and oxides of nitrogen were not exceeded in 2019.

The Company was included in the Transitional National Emission Reduction Plan.

The Company has been gradually implementing greening measures; projects carried out in 2019 included the construction of DeNOx emission reduction technology in the K3 boiler and reconstruction of the desulphurization line 1.

The construction of the K8 gas boiler continued in 2019. The gas boiler will be used as an operating substitute for the K5 boiler, which will be decommissioned after 30 June 2020.

These measures will ensure the Company's readiness to comply with more stringent environmental limits that will come into effect as of 1 July 2020.

## 9.4 Human resources

The Company had 151 employees as at 31 December 2019, of whom 42 held administrative jobs and 109 were blue-collar workers.

In December 2019, the Company and the local organization of the ECHO trade union at Teplárna Otrokovice a.s. signed a collective agreement for 2020, which governs the relations between the two parties, their rights and obligations, and provides for increased or additional labor, payroll, social and other requirements of the employees.

The employer provides preventive medical care for all employees, contributes to supplementary pension insurance, ensures catering on site and pays 55% of the value of meal vouchers. Employees may also obtain interest-free loans for housing purposes. In addition, employees receive another benefit – a contribution to their sports activities, cultural events, health and recreation.

## 9.5 Occupational health and safety

One light occupational injury requiring medical intervention was reported in 2019. Activities carried out in the area of occupational health and safety (OSH) include ongoing refurbishment and modernization of some sections of the Company operations and regular inspections and maintenance, ongoing identification and evaluation of potential risks to life and health of the employees and adoption of measures to eliminate them.

## 9.6 Research and development

The Company supports R&D activities and in 2017 signed a Cooperation Agreement for a R&D Project with Tomáš Baťa University in Zlín. Within the scope of mutual collaboration, the Company participates in the project "Distributed Management System of the Regional Heat and Cooling Supply Network", designed as a Smart Energy Grid. The project was launched in January 2017 and is slated for completion in June 2020.
At the end of 2019, the Company with Tomáš Baťa University in Zlín submitted to TA ČR the project Application of Research and Development Results to the Low-Emission Regional Heat Supply System. The project will compete in the public tender of the Program for the Support for Applied Research, Experimental Development and Innovation THÉTA.
The project is scheduled to begin in July 2020 and to finish in June 2024.

## 9.7 Corporate social responsibility

Teplárna Otrokovice a.s. is aware of its social responsibility. The Company actively participates in the development of the region, supports projects of nearby municipalities, organizations and associations, primarily in the areas of healthcare, educational, cultural, social and leisure activities for children and youth. Most of the funds earmarked for donations or sponsorships are disbursed in Otrokovice, Napajedla and Zlín.

In 2019, the Company supported, among others, the non-profit organizations Charita Otrokovice, Senior Otrokovice, and Nadace Křižovatka. It also funded the preschool in Zlín – Malenovice, the elementary school Mánesova in Otrokovice and the Fire Squad of the Zlín region.

## 9.8 Projected development

The Company wants to continue to be a reliable and stable supplier of heat and electricity, to behave responsibly towards the environment and participate in the regional development. In the coming period, the Company will make every effort to ensure stable, cost effective and environmentally friendly supply of heat and electricity to customers and to expand and improve the range of services provided.

The Company's priorities include the completion of the reconstruction of a new natural gas boiler, investments in the greening of the heat plant and in the development and upgrade of networks.

Investments scheduled for 2020 total CZK 148 million.

## 9.9 Subsequent events

Based on the decision of the sole shareholder of the Company, the following changes, recorded by the notarial deed NZ 137/2020 of 26 February 2020, were made to a public register on 8 March 2020: amendments of the Company's Articles of Association, removal of the Board of Directors and of the Supervisory Board, and appointment of the new Board of Directors and of the new Supervisory Board. Incumbent Directors Petr Jeník, Petrik Brom and Jan Stuchlík were reelected to the new Board of Directors; incumbent members Petr Lamich, Miroslav Kopřiva and Pavel Ondra were reelected to the new Supervisory Board. Removed members of the Supervisory Board included Jiří Veselý, Pavla Gromusová and Bedřich Landsfeld.

In late 2019, reports of COVID-19 started coming out of China. In the first months of 2020, the virus spread worldwide, causing extensive economic damage. Although the management of the Company did not see a significant decrease in sales at the time of the issue of this consolidated annual report, the situation is constantly changing and, therefore, the future impact of this pandemic on the Group's activities cannot be predicted. The management of the Company will continue to monitor the potential impact and take all possible steps to mitigate any adverse effects on the Group companies and their employees. Any adverse effects and losses will be recognized in the books in 2020 and presented in the financial statements prepared for 2020.

The management of the Company considered the potential impact of COVID-19 on the Group's activities and business and concluded it did not have a significant impact on its ability to continue as a going concern. Accordingly, the financial statements and consolidated financial statements for the year ended 31 December 2019 were prepared on the assumption that the Company and the Group would be able to continue as a going concern.

### 9.10 Other disclosures

The Company has no foreign branch or part of a business company.

The Company has not acquired or held treasury shares.

# X. STATEMENT OF PERSONS RESPONSIBLE FOR THE CONSOLIDATED ANNUAL REPORT

The Board of Directors of the Company is responsible for the preparation and contents of the Consolidated Annual Report of Teplárna Otrokovice a.s.

The Consolidated Annual Report gives a true and fair view of the financial position, business activities and financial performance of the Issuer and of the consolidated group for the past reporting period and of the projected developments regarding the financial position, business activities and financial performance.

The Consolidated Annual Report has been prepared with due professional care and to the best of our knowledge. Information included in this Consolidated Annual Report is correct and is consistent with the facts. No information has been omitted that may alter the meaning of the Consolidated Annual Report or affect the accurate and correct assessment of the Issuer or the consolidated group.

In Otrokovice, 7 April 2020

| | | |
|---|---|---|
| Ing. Petr Jeník | Ing. Patrik Brom | Ing. Jan Stuchlík |
| Chairman of the Board of Directors | Vice-chairman of the Board of Directors | Member of the Board of Directors |

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Teplárna Otrokovice a.s.:

**Report on the Audit of the Consolidated Financial Statements**

*Opinion*

We have audited the accompanying consolidated financial statements of Teplárna Otrokovice a.s. and its controlled undertaking ("the Company"; together with controlled undertaking "the Group") prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU"), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit and loss, consolidated statement of other 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. For details of the Company and the Group, see Note 1 to the consolidated financial statements.

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

*Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council, 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 clauses. 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.

*Key Audit Matters*

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

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### Impairment of assets

| | |
|---|---|
| The Group conducts annual impairment tests of assets' balances. The impairment test involves determining the recoverable amount of the cash-generating unit as a whole or individual assets as practicable, which corresponds to the value in use or selling price less cost to sell. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit.<br><br>These calculations of potential impairment amounts are a key audit matter as there is a significant uncertainty in relation to regulatory matters, which are, together with other significant assumptions included in the estimated future cash flows, main inputs to the calculations. Main assumptions that are subject to significant estimation uncertainty are projected future coal prices, prices of emission allowances, development of the regulatory environment and discount rates, volume of deliveries to key customers as well as the strategy of the Group and LAMA ENERGY GROUP. Future cash flows relate to events and actions that have not yet occurred and may not occur. | Our procedures included assessing the assumptions and methodologies used by the Group in their value in use model and assessment of the fair value less cost to sell. We involved valuation specialists in assessing the adequacy of the Group's model used for the calculation of weighted average cost of capital and we also evaluated mathematical accuracy, underlying data and assumptions used in the calculation. We evaluated main assumptions that are subject to significant estimates, such as future coal prices, prices of emission allowances, development of the regulatory environment and compared them to those observable on the market. We compared the coal prices as well as the prices of emission allowances to the contracts, which are actively traded on the market, and we assessed reasonableness of the Group's projections of these future prices for periods, for which the market data are not available. We also discussed the assumptions with the transaction specialists.<br><br>We analyzed the budgets and future cash flows. We compared the expected developments in budgeted cash flows to the expectations presented by the management while assessing the main assumptions of the model and discussing alternatives. We also assessed the adequacy of the model used for the impairment test calculation together with the mathematical accuracy of the calculations.<br><br>Finally, we also focused on whether the Group's disclosures in the consolidated financial statements in relation to the impairment of assets, as presented and disclosed in Note 7 Property, Plant and Equipment, are compliant with the IFRS EU. |

### *Other Information*

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.

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

*Responsibilities of the Board of Directors and Audit Committee 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 IFRS 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 Audit Committee 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 above regulations will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with the above 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 Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

## Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

### *Appointment of Auditor and Period of Engagement*

We were appointed as the auditors of the Company by the General Meeting of Shareholder on 14 October 2019 and our uninterrupted engagement has lasted for 7 years.

### *Consistence with Additional Report to Audit Committee*

We confirm that our audit opinion on the consolidated financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 1 April 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

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*Provision of Non-audit Services*

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Group. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertaking and which have not been disclosed in the consolidated financial statements.

*Statutory auditor responsible for the engagement*

Roman Hauptfleisch is the statutory auditor responsible for the audit of the consolidated financial statements of the Group as at 31 December 2019, based on which this independent auditor's report has been prepared.

Ernst & Young Audit, s.r.o.
License No. 401

Roman Hauptfleisch, Auditor
License No. 2009

7 April 2020
Prague, Czech Republic

# Teplárna Otrokovice a.s.

Consolidated Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2019

# Consolidated Statement of Profit and Loss

for the year ended 31 December 2019

| | Note | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|---|
| Revenue | 4 | 1,249,923 | 1,258,081 |
| Consumption of material and energy | | (751,163) | (715,155) |
| Services | | (121,552) | (134,037) |
| Personnel expenses | 5.5 | (118,899) | (113,420) |
| Depreciation and amortization | | (144,921) | (144,456) |
| Other operating income | 5.1 | 72,019 | 40,092 |
| Other operating expenses | 5.2 | (203,932) | (164,785) |
| Profit or loss on operating activities | | (18,524) | 26,319 |
| Interest expense, net | 5.3 | (63,499) | (51,043) |
| Other financial items, net | 5.4 | 3,125 | (6,429) |
| Financial profit/loss | | (60,374) | (57,472) |
| Pre-tax profit | | (78,898) | (31,153) |
| Income tax | 6 | 15,056 | 5,576 |
| Net profit for the year | | (63,842) | (25,577) |

# Consolidated Statement of Other Comprehensive Income

for the year ended 31 December 2019

| | Note | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|---|
| Net profit for the year | | (63,842) | (25,577) |
| Other comprehensive income (loss) for the year, net of tax | | - | - |
| Total comprehensive income for the year, net of tax | | (63,842) | (25,577) |

# Consolidated Statement of Financial Position

as at 31 December 2019

| | Note | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Intangible assets | 8 | 91,791 | 83,436 |
| Tangible assets | 7 | 1,988,837 | 1,909,962 |
| Land | | 159,823 | 159,823 |
| Structures | | 901,676 | 899,867 |
| Movable assets and sets of movable assets | | 685,209 | 632,524 |
| Tangible fixed assets in progress | | 214,265 | 190,099 |
| Advances granted for tangible fixed assets | | 27,864 | 27,649 |
| Long-term receivables | | 984 | 890 |
| Total non-current assets | | 2,081,612 | 1,994,288 |
| | | | |
| CURRENT ASSETS | | | |
| Inventories | 10 | 88,640 | 88,913 |
| Trade receivables and other assets | 11 | 168,079 | 162,013 |
| Current income tax receivable | | 17,517 | 8,010 |
| Cash | 12 | 31,427 | 122,411 |
| Prepaid expenses and accrued income | | 100 | 69 |
| Total current assets | | 305,763 | 381,416 |
| | | | |
| TOTAL ASSETS | | 2,387,375 | 2,375,704 |
| | | | |
| EQUITY | | | |
| Basic capital | 13 | 10,000 | 10,000 |
| Reserves from profit | | 2,000 | 2,000 |
| Retained earnings of previous years | | 446,926 | 472,503 |
| Net profit for the year | | (63,842) | (25,577) |
| Total equity | | 395,084 | 458,926 |
| | | | |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Interest bearing loans from related parties | 9.2 | 431 | - |
| Interest bearing loans from credit institutions | 9.2 | 12,958 | 16,174 |
| Bonds | 9.2 | 1,240,829 | 1,238,287 |
| Other liabilities | 9.2 | 9,617 | - |
| Provisions | 15 | 8,376 | 6,706 |
| Deferred tax liability | 6 | 216,285 | 232,908 |
| Total non-current liabilities | | 1,488,496 | 1,494,075 |
| | | | |
| Current liabilities | | | |
| Provisions | 15 | 203,226 | 157,976 |
| Trade payables | 17 | 212,897 | 232,296 |
| Interest bearing loans from related parties | 9.2 | 50,215 | - |
| Interest bearing loans from credit institutions | 9.2 | 3,261 | 3,156 |
| Liabilities to employees | 17 | 10,765 | 13,121 |
| Current income tax liabilities | | 187 | 87 |
| Other liabilities | 17 | 12,590 | 10,895 |
| Accruals and deferred income | 16 | 10,654 | 5,172 |
| Total current liabilities | | 503,795 | 422,703 |
| Total liabilities | | 1,992,291 | 1,916,778 |
| | | | |
| TOTAL EQUITY AND LIABILITIES | | 2,387,375 | 2,375,704 |

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2019

| | Basic capital | Reserves from profit | Retained earnings of previous years | Net profit for the year | Total |
|---|---|---|---|---|---|
| | CZK 000 | CZK 000 | CZK 000 | CZK 000 | CZK 000 |
| As at 31 December 2017 | 10,000 | 2,000 | 538,771 | 68,732 | 619,503 |
| Profit allocation to retained earnings | - | - | 68,732 | (68,732) | - |
| Loss for the year | - | - | - | (25,577) | (25,577) |
| Other comprehensive income | - | - | - | - | - |
| Dividends | - | - | (135,000) | - | (135,000) |
| As at 31 December 2018 | 10,000 | 2,000 | 472,503 | (25,577) | 458,926 |
| Loss allocation to retained earnings | - | - | (25,577) | 25,577 | - |
| Loss for the year | - | - | - | (63,842) | (63,842) |
| Other comprehensive income | - | - | - | - | - |
| Dividends | - | - | - | - | - |
| As at 31 December 2019 | 10,000 | 2,000 | 446,926 | (63,842) | 395,084 |

# Consolidated Statement of Cash-Flows

for the year ended 31 December 2019

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| ***Cash flows from operating activities*** | | |
| **Profit or loss on ordinary activities before taxation (+/-)** | (78,898) | (31,153) |
| Adjustments to reconcile profit or loss to net cash provided by or used in operating activities | 244,095 | 260,476 |
| *Depreciation and amortization of fixed assets and write-off of receivables* | 144,921 | *144,456* |
| *Change in allowances* | 197 | *1,435* |
| *Change in provisions* | 46,920 | *98,522* |
| *Foreign exchange differences* | - | - |
| *(Gain)/Loss on disposal of fixed assets* | 225 | *(1,665)* |
| *Interest expense and interest income* | 63,499 | *51,043* |
| *Other non-cash movements (e.g. revaluation at fair value to profit or loss)* | (11,667) | *(33,315)* |
| **Net cash from operating activities before taxation, changes in working capital and extraordinary items** | 165,197 | 229,323 |
| Change in non-cash components of working capital | (7,965) | 127,709 |
| *Change in inventory* | (200) | 9,077 |
| *Change in trade receivables* | (5,790) | (3,492) |
| *Change in other receivables and in prepaid expenses and unbilled revenue* | (31) | 173 |
| *Change in trade payables* | (19,399) | 134,037 |
| *Change in other payables, and in accruals and deferred income* | 17,455 | (12,086) |
| **Net cash from operating activities before taxation, interest paid and extraordinary items** | 157,232 | 357,032 |
| Interest paid | (60,957) | (48,501) |
| Income tax paid | (10,299) | (36,213) |
| **Net cash provided by (used in) operating activities** | 85,976 | 272,318 |
| ***Cash flows from investing activities*** | | |
| Purchase of fixed assets | (224,176) | (276,457) |
| Proceeds from sale of fixed assets | (225) | 1,665 |
| Loans granted | (94) | 133 |
| Interest received | - | - |
| Dividends received | - | - |
| **Net cash provided by (used in) investing activities** | (224,495) | (274,659) |
| ***Cash flows from financing activities*** | | |
| Change in long-term and short-term loans and borrowings | 47,535 | (3,271) |
| Proceeds from bond issue | - | - |
| Transaction costs on issue of bonds | - | - |
| Effect of changes in own capital on cash | - | -135,000 |
| **Net cash provided by (used in) financing activities** | **47,535** | **(138,271)** |
| **Net increase (decrease) in cash** | (90,984) | (140,612) |
| **Cash and cash equivalents at beginning of year** | 122,411 | 263,023 |
| **Cash and cash equivalents at end of year** | 31,427 | 122,411 |

# Contents

# 1. Corporate information

The consolidated financial statements of Teplárna Otrokovice a.s. and its subsidiary (collectively, the Group) for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the board of directors on 7 April 2020.

Teplárna Otrokovice a.s. (the Company) is a joint-stock company incorporated and domiciled in the Czech Republic whose shares are not publicly traded. The Company is an issuer of bonds admitted to trading on a regulated market of Prague Stock Exchange. The registered office is located at Objízdná 1777, 765 02 Otrokovice. The Group is principally engaged in production and distribution of heat and generation and trading of electricity.

The Group's parent and ultimate parent company is LAMA ENERGY GROUP a.s., with its registered office at Na Florenci 2116/15, Nové Město, 110 00 Prague 1, holding 100% interest in the Company.

Information on other related party relationships of the Group is provided in Note 20.

Members of statutory, supervisory and control bodies as at 31 December 2019 were as follows:

| Board of Directors | |
|---|---|
| Chair: | Petr Jeník |
| Vice-chair: | Patrik Brom |
| Member: | Jan Stuchlík |

| Supervisory Board | |
|---|---|
| Chair: | Petr Lamich |
| Vice-chair: | Miroslav Kopřiva |
| Member: | Jiří Veselý |
| Member: | Pavel Ondra |
| Member: | Pavla Gromusová |
| Member: | Bedřich Landsfeld |

| Audit committee | |
|---|---|
| Chair: | Václav Moll |
| Member: | Marek Janča |
| Member: | David Lamich |
| Member: | Pavel Průdek |

# 2. Significant accounting policies

## 2.1. Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (hereinafter 'IFRS as endorsed by the EU', or 'IFRS').

As the Company became a public interest entity in 2017 and IFRS is the Company's primary reporting framework, the General Meeting of Shareholders adopted the decision to prepare solely IFRS financial statements from 1 January 2017.

The consolidated financial statements have been prepared under the going concern assumption on a historical cost basis, except when IFRS requires other measurement basis as disclosed in the accounting policies below.

The consolidated financial statements are presented in Czech crowns (CZK), which had been determined the Group's functional currency, and all values are rounded to the nearest thousand (CZK 000), except when otherwise indicated.

## 2.2. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2019.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the cumulative translation differences, recorded in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss;
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

## 2.3. Summary of significant accounting policies

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

### 2.3.1. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at the acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interest in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. All contingent consideration (except that which is classified as equity) is measured at fair value with the changes in fair value in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held, over the net identifiable assets acquired and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash generating unit retained.

### 2.3.2. Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

### 2.3.3. Fair value measurement

The Group measures financial instruments, such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

| | |
|---|---|
| Accounting policy disclosures | Note 2.3.3 |
| Disclosures for valuation methods, significant estimates and assumptions | Notes 3, 9 |
| Quantitative disclosures of fair value measurement hierarchy | Note 9 |
| Financial instruments (including those carried at amortized cost) | Note 9 |

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted available-for-sale financial assets, and for nonrecurring measurement, such as assets held for distribution in discontinued operations.

External valuers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration.

Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company's management decides, after discussions with the Group's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the Group's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the management and the Group's external valuers present the valuation results to the Group's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

### 2.3.4. Revenue recognition

The core principle of IFRS 15 – Revenue from Contracts with Customers is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management has assessed that in relation to the products and services of the Group, revenue will be recognized for each performance obligations when control over the corresponding goods or services is transferred to customer.

Requirements to identify a contract with a customer

A contract with a customer meets its definition when all of the following criteria are met: the parties of the contract have approved the contract and are committed to perform their obligations; the Group can identify each party's rights regarding goods or services to be transferred; the Group can identify the payment terms for the goods or services to be transferred; the contract has commercial substance and it is probable that the Group will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Identification of performance obligation

At contract inception the Group assesses the goods or services promised in the contract with a customer and identifies as a performance obligation each promise to transfer to the customer: goods or services (or a bundle of goods or services) that can be separated or groups of separate goods or services which are basically the same and for which the transfer to the customer is of the same nature.

Determination of transaction price

The Group considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Group expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in the contract with a customer may include fixed amounts, variable amounts or both.

Allocating the transaction price to individual performance obligations

The Group allocates the transaction price to each performance obligation (or distinct good or service) at an amount that reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Recognition of revenue when performance obligations are satisfied

The Group recognizes revenue when (or as) the Group satisfies performance obligations by transferring a promised good or service (i.e. an asset) to a customer (the customer obtains control of that asset). Revenue is recognized as amounts equal to the transaction price that has been allocated to a given performance obligation.

The Group transfers control of good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits from performance as the Group performs;

- The asset is created or enhanced as a result of the performance, and the customer controls the asset as it is created or enhanced;

- As a result of the performance of the service, an alternative component for the Group is not created, and the Group has an enforceable right to payment for performance completed to date.

Specific revenue categories are treated by the Group as follows:

#### Revenue from sale of thermal energy and electricity

Revenue from the sale of thermal energy and electricity (hereinafter referred as 'the energies') is recognized upon their delivery. Total revenue from the sale of energies consists of billed amount of the energies supplied based on the reading of the measuring device as at the balance sheet date in the case of thermal and electrical energy or through unbilled revenue if the reading is not available as at the balance sheet date); the sales revenue is presented net of discounts and value added tax.

### Sale of goods

Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

### Interest income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss.

## 2.3.5. Foreign currencies

The Group's consolidated financial statements are presented in Czech crowns (CZK), which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

### Transactions and balances

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognized in OCI until the net investment is disposed of, at which time, the cumulative amount is classified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

Any goodwill arising on the acquisition of a foreign operation subsequent to 1 January 2015 and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

### Group companies

The Company's subsidiary is incorporated in the Czech Republic and its functional currency is CZK. Consequently, no exchange differences arise on translation of its operations.

## 2.3.6. Government grants

Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary grants, the asset and the grant are recorded gross at fair value and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant.

For more details on accounting policy related to emission rights refer to Note 2.3.11.

## 2.3.7. Taxes

### Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

### Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future

Deferred tax assets are recognized for: i) all deductible temporary differences and ii) the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either be treated as a reduction to goodwill (as long as it does not exceed goodwill) if it is incurred during the measurement period or recognized in profit or loss.

### Value added tax

Revenues, expenses and assets are recognized net of the amount of value added tax, except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable

- Receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

## 2.3.8. Property, plant and equipment

Construction in progress, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use, is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated based on the acquisition costs and the estimated useful life of the related asset. The useful economic lives are as follows:

| | Years |
|---|---|
| Construction | 30 – 45 |
| Machinery | 15 – 30 |
| Vehicles | 8 – 15 |
| Furniture and fixtures | 4 – 8 |

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

## 2.3.9. Leases

Until 31 December 2018, leases were classified as either finance or operating leases. Payments made under operating leases (less any lease incentives received from lessors) were charged to “services” on a straight-line basis over the lease term.

### Application of IFRS 16 Leases as at 1 January 2019

IFRS 16 replaces IAS 17 Leases and related interpretations. The standard removes the current dual accounting model for lessees and instead requires companies to report most of their rental contracts on the balance sheet according to one model, eliminating the difference between operating and finance leases. Under IFRS 16, a contract is considered to be a lease if it gives the right to make decisions about the use of the asset during the period of use in exchange for consideration. For such contracts, the new model requires the lessee to recognize the used asset and the lease liability. The used asset is depreciated, and the related lease liability bears interest. This will be reflected in the majority of leases by the decrease of the leased lease costs over the term of the lease, even if the lessee pays constant lease instalments.

The Group used the modified retrospective method to apply IFRS 16 Leases, i.e. the comparatives were not restated and the cumulative effect of initially applying IFRS 16 Leases was recognized in equity as at 1 January 2019. The Group applied the following practical expedients to leases previously classified as operating leases:
- The Group elected to recognize leases for which the lease term ended within 12 months of the date of initial application as short-term leases under IFRS 16;
- The Group excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

As at 1 January 2019, the Group recognized a lease liability under contracts that were classified as “operating leases” under IAS 17. The liability was measured at the present value of the remaining lease payments that were discounted using the lessee's incremental borrowing rate as at 1 January 2019.

A right-of-use asset was measured at its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee’s incremental borrowing rate at 1 January 2019. As at the date of initial application, the Group did not identify any onerous contracts requiring an adjustment of the right-of-use asset. In applying IFRS 16 Leases, the Group also assessed the economic nature of its lease contracts.

The effects on equity of the initial recognition of a right-of-use asset and a lease liability totaled CZK 0 thousand as at 1 January 2019.

Operating lease liabilities recognized in the financial statements for the year ended 31 December 2018 can be reconciled with the lease liability and the right-of-use asset as at 1 January 2019 as follows:

| (CZK 000) | 1 January 2019 |
|---|---|
| Operating lease liabilities recognized as at 31 December 2018 | 17,275 |
| Discounting effects | (843) |
| Practical expedient: short-term leases and low-value leases | 154 |
| Future lease payments for periods covered by an option to extend the lease | - |
| Lease liability under IFRS 16 as at 1 January 2019 | 16,586 |

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the statement of financial position at the date of initial application is 4.88%.

The right-of-use asset relates to the following asset categories:

| (CZK 000) | 1 January 2019 |
|---|---|
| Land | - |
| Buildings and structures | 12,408 |
| Office premises | 2,632 |
| Machinery and equipment | 1,546 |
| Other | - |
| Right-of-use asset under IFRS 16 | 16,586 |

Given the materiality, the Group recognized non-current assets arising from leases of CZK 16,586 thousand (see Note 7) in connection with the application of IFRS 16 Leases as at 1 January 2019, and a corresponding lease liability of the same amount (see Note 18).

### 2.3.10. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs incurred on or after the date of transition (1 January 2015) for all eligible qualifying assets are capitalized. The borrowing costs capitalized under Local GAAP on qualifying assets prior to the date of transition to IFRS are included in the carrying amount of assets at that date.

### 2.3.11. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in the statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

The Group assessed all intangibles having finite useful lives and are amortized over period not exceeding five years.

#### Emission rights (emission allowances)

Emission rights held under national and international emission-rights systems for the settlement of obligations are reported as intangible assets. Because emission rights are not depleted as part of the production process, they are reported as intangible assets not subject to amortization. Emission rights are capitalized at cost at the time of acquisition or at fair value in case of emission rights provided for free.

A provision is recognized for emissions produced. The provision is measured at the carrying amount of the emission rights held or, in the case of a shortfall, at the current fair value of the emission rights needed. The expenses incurred for the recognition of the provision, if any, are reported under other operating expenses.

### 2.3.12. Financial instruments — initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### i) Financial assets

Initial recognition and measurement

The Group classifies financial assets into one of the following categories:

- Measured at amortized cost;

- Measured at fair value through other comprehensive income;

- Measured at fair value through profit or loss.

Debt financial assets are classified into the appropriate category based on the business model used for the management of financial assets and on the characteristics of contractual cash flows for a given financial asset.

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

The table below presents the classification and measurement of the Group's financial assets:

| Financial instrument by type | Classification under IFRS 9 |
|---|---|
| Loans | Assets measured at amortized cost |
| Trade and other receivables | Assets measured at amortized cost |
| Cash and cash equivalents | Assets measured at amortized cost |

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date on which the Group commits to purchase or sell the asset

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance income (positive net changes in fair value) or finance costs (negative net changes in fair value) in the statement of profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held-for-trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognized in the statement of profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Assets measured at amortized cost

This category is the most relevant to the Group. Assets measured at amortized cost include loans and trade receivables. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables. For more information on receivables, refer to Note 11.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through arrangement, and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and, to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of its continuing involvement in it. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

### ii) Impairment of financial assets

Disclosures relating to impairment of financial assets are summarized in the following notes:

- Accounting policy disclosures Note 2.3.12
- Disclosures for significant assumptions Note 3
- Financial assets Note 9
- Trade receivables Note 11

The impairment model for financial assets is based on the expected loss calculation. The most important items of financial assets in the Group's financial statements, which are subject to the new principles of calculating expected credit losses, are trade receivables.

The Group uses the simplified model for determining impairment allowances of trade receivables. In the model, the Group does not monitor changes in the credit risk level during the life of the instrument and estimates the expected credit loss in the horizon up to maturity of the instrument. For the purpose of estimating the expected credit loss, the Group uses a provision matrix estimated on the basis of historical levels of repayment and recoveries of receivables from customers. The Group includes prospective information in the parameters used in the expected loss estimation model, through the management adjustment of the basic insolvency probability parameters. To calculate the expected credit loss, the Group determines the probability parameter of receivables defaults estimated on the basis of the analysis of the number of unpaid invoices in the last five years, and the liabilities default rate estimated on the basis of the value of unpaid invoices in the last five years. The expected credit loss is calculated when the receivable is recognized in the statement of financial position and is updated at the end of every subsequent reporting period, depending on the number of days to maturity.

### iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, financial liabilities measured at amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value, in the case of financial liabilities measured at amortized cost, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings, bonds, bank overdrafts, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held-for-trading are recognized in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Group has not designated any financial liabilities as at fair value through profit or loss.

Financial liabilities measured at amortized cost

This is the category most relevant to the Group. After initial recognition, financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings and bonds.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

#### iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the consolidated statement of financial position only if there is a current enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### 2.3.13. Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts, interest rate swaps and forward commodity contracts to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity contracts that meet the definition of a derivative as defined by IFRS 9 are recognized in the statement of profit or loss as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Group's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognized in OCI and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk)
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as described below:

Fair value hedges

The change in the fair value of an interest rate hedging derivative is recognized in the statement of profit or loss in finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the statement of profit or loss in finance costs.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the statement of profit or loss over the remaining term of the hedge using the EIR method. Effective interest rate amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognized, the unamortized fair value is recognized immediately in the statement of profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the statement of profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss as other operating expenses.

Amounts recognized as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment affects profit or loss.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized as other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss.

### 2.3.14. Inventories

Inventories are valued at the lower of cost and net realizable value. The inventories are stated at actual costs being determined using the weighted average method. Costs of purchased inventory include acquisition-related costs (mainly freight, customs, etc.). Coal and biomass inventories are stated at actual costs being determined using the standard costing and price variances; price variances, including the related costs, are calculated on a monthly basis.

Initial cost of raw materials includes the transfer of gains and losses on qualifying cash flow hedges, recognized in other comprehensive income, if any.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

### 2.3.15. Impairment of non-financial assets

Disclosures relating to impairment of non-financial assets are summarized in the following notes:

- Accounting policy disclosures Note 2.3.15
- Disclosures for significant assumptions Note 3
- Property, plant and equipment Note 7
- Intangible assets Note 8

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the statement of profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to OCI. In this case, the impairment is also recognized in OCI up to the amount of any previous revaluation.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Goodwill

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

### 2.3.16. Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

### 2.3.17. Cash dividend and non-cash distribution to owners of equity

The Group recognizes a liability to make cash or non-cash distributions to owners of equity when the distribution is authorized and the distribution is no longer at the discretion of the Group. As per the business corporation law applicable in the Czech Republic, a distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity.

Upon settlement of the distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in profit or loss.

### 2.3.18. Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Greenhouse gas emissions (emission rights)

The Group receives free emission rights in the Czech Republic as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Group is required to remit rights equal to its actual emissions. A provision is recognized for emissions produced. The provision is measured at the carrying amount of the emission rights held or, in the case of a shortfall, at the current fair value of the emission rights needed. The expenses incurred for the recognition of the provision, if any, are reported under other operating expenses.

### 2.3.19. Pensions and other long-term employment benefits

The Group provides long-term employment benefits, where employees are entitled to benefits dependent on the number of years of employment, jubilee bonuses and bonuses paid upon retirement of an employee. There is no liability to the Group after the employee is retired or employment ceased.

The cost of providing the benefits is determined using the projected unit credit method and the long-term employment benefit costs are recognized in the profit and loss as a personnel expense.

### 2.3.20. New standards adopted in 2019

IFRS 16 Leases

The Group newly applied IFRS 16 Leases. For details, including the quantification of the related effects, please refer to Note 2.3.9.

## 3. Significant accounting judgements, estimates and assumptions

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the consolidated financial statements:

Products

The management monitors the Group's performance in two principal products:

- Thermal energy
- Electricity

Due to the nature of the production the costs (comprising namely fixed assets depreciation and raw materials consumption) used to produce the energies are shared and largely indistinguishable and any allocation of the costs related to the two main products would be arbitrary and unreliable. Due to this fact the management concluded that there are no separate reportable segments.

Deemed costs

The Group applied certain exemptions from IFRS. The exemption that has the most significant impact on the consolidated financial statements is the usage of deemed costs for property, plant and equipment based on fair values established in 2013.

Embedded derivatives in purchase contracts

The Group entered into long-term contracts to purchase of coal it uses in production. The Group analysed the contracts and concluded they are not in scope of IFRS 9 and has not separated the embedded derivatives as the embedded derivative is clearly and closely related to the host commodity contract.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The Group performs impairment tests at least annually or if indicators of impairment exists.

Long-term employment benefits

The cost of long-term employment benefits and the present value of the related obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate and attrition rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, an obligation from the long-term employment benefits is sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the long-term employment benefits. The attrition rate is based on historical figures. Further details about long-term employment benefit obligations are provided in Note 15.

# 4. Revenue and segment information

As discussed in Note 3, due to the nature of the production the Group has no separate reportable segments i.e. the whole Group is one segment.

Revenue from external customers by product and services

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Sales of thermal energy | 575,709 | 566,656 |
| Sales of electricity and related services | 658,746 | 678,233 |
| Other | 15,468 | 13,192 |
| Total Revenue | 1,249,923 | 1,258,081 |

Geographical information about non-current assets and revenues

All Group's non-current assets are located in the Czech Republic. All revenues are from customers based in the Czech Republic.

Information about major customers

The revenue from each of the two largest customers amount to more than 10% individually. The revenue in the respective years from these customers were as follows:

| | 2019 Revenue CZK 000 | 2018 Revenue CZK 000 | 2019 Share on total Group's revenue % | 2018 Share on total Group's revenue % |
|---|---|---|---|---|
| Customer 1 | 771,767 | 738,075 | 62 % | 59 % |
| Customer 2 | 143,177 | 155,273 | 12 % | 12 % |

# 5. Other income and expenses

## 5.1. Other operating income

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Granted emission rights | 55,955 | 35,414 |
| Other income | 16,064 | 4,678 |
| Total Other operating income | 72,019 | 40,092 |

For more details on the Groups accounting policy on accounting for emission rights please refer to Note 2.3.11.

## 5.2. Other operating expenses

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Provision for emission allowances | 193,474 | 153,371 |
| Other expenses | 10,458 | 11,414 |
| Total Other operating expenses | 203,932 | 164,785 |

## 5.3. Interest expense

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Interest income | - | (5) |
| Interest expense | 63,499 | 51,048 |
| Interest expense, net | 63,499 | 51,043 |

## 5.4. Other financial items

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Foreign exchange gains (losses), net | (32) | (8) |
| Fair value gain (loss) on financial instruments at fair value through profit or loss, net | 3,246 | (6,433) |
| Bank and similar fees | (83) | (211) |
| Other | (6) | 223 |
| Total Other financial items, net | 3,125 | (6,429) |

## 5.5. Personnel expenses

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Wages and salaries including management remuneration | 86,151 | 80,610 |
| Social security costs | 28,008 | 27,037 |
| Other personnel expenses | 4,009 | 3,020 |
| Employment benefits | 731 | 2,753 |
| Total Personnel expenses | 118,899 | 113,420 |

Bonuses to members of statutory and supervisory bodies in CZK 000:

| Body | 2019 | 2018 |
|---|---|---|
| Board of Directors | 5,865 | 6,890 |
| Supervisory Board | 1,020 | 1,140 |
| Audit Committee | 480 | 476 |
| Total | 7,365 | 8,506 |

# 6. Income tax

The major components of income tax expense for the years ended 31 December 2019 and 31 December 2018 are:

Consolidated statement of profit or loss

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Current income tax: | | |
| Current income tax charge | 1,573 | 22,191 |
| Adjustments in respect of current income tax of previous year | (6) | (7) |
| Deferred tax: | | |
| Relating to origination and reversal of temporary differences | (16,623) | (27,760) |
| Income tax expense reported in the statement of profit or loss | (15,056) | (5,576) |

Consolidated statement of other comprehensive income

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Deferred tax related to items recognized in other comprehensive income during the year: | - | - |
| Income tax recognized in other comprehensive income | - | - |

A reconciliation between tax expense and the product of accounting profit multiplied by Czech domestic tax rate for the years ended 31 December 2019 and 31 December 2018 is as follows:

| | 2019 | 2018 |
|---|---|---|
| | CZK 000 | CZK 000 |
| Accounting profit before income tax | (78,898) | (31,153) |
| At Czech statutory income tax rate of 19% | (14,991) | (5,919) |
| Adjustments in respect to current income tax of previous years | 6 | 7 |
| Non-deductible expense, non-taxable income for tax purposes | (71) | 336 |
| Income tax expense reported in the consolidated statement of profit or loss | (15,056) | (5,576) |
| Effective tax rate | 19.1 % | 17.9 % |

Deferred tax

Deferred tax relates to the following:

| | Consolidated Statement of Financial Position | | Consolidated Statement of Profit or Loss | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| | CZK 000 | CZK 000 | CZK 000 | CZK 000 |
| Difference in net book value of non-current assets for tax purposes | (260,862) | (266,298) | 5,436 | 7,476 |
| Provisions and valuation allowances | 39,591 | 32,653 | 6,938 | 16,927 |
| Unrealized profit on intercompany transactions | 2,503 | 1,728 | 775 | 1,284 |
| Leases | 1,827 | - | 1,827 | (1) |
| Amortization of loans using effective interest rate | (1,932) | (2,397) | 465 | 483 |
| Employment benefits | 2,588 | 1,406 | 1,182 | 701 |
| Deferred tax (expense)/income | | | 16,623 | 26,870 |
| Net deferred tax assets/(liabilities) | (216,285) | (232,908) | | |
| Reflected in the statement of financial position as follows: | | | | |
| Deferred tax assets | - | - | | |
| Deferred tax liabilities | (216,285) | (232,908) | | |
| Deferred tax liabilities net | (216,285) | (232,908) | | |

Reconciliation of deferred tax liabilities, net

| | 2019 | 2018 |
|---|---|---|
| | CZK 000 | CZK 000 |
| Opening balance as of 1 January | (232,908) | (259,778) |
| Tax income/(expense) during the period recognized in profit or loss | 16,623 | 26,870 |
| Tax income/(expense) during the period recognized in other comprehensive income | - | - |
| Closing balance as at 31 December | (216,285) | (232,908) |

The Group offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

# 7. Property, plant and equipment

| Cost | Land CZK 000 | Structures CZK 000 | Movable assets and sets of movable assets CZK 000 | Leased movable assets CZK 000 | Tangible fixed assets in progress CZK 000 | Advances granted for tangible fixed assets CZK 000 | Total CZK 000 |
|---|---|---|---|---|---|---|---|
| At 31 December 2017 | 159,823 | 1,193,750 | 1,067,515 | 1,638 | 38,204 | 29 | 2,460,959 |
| Additions | - | - | - | - | 264,588 | 27,620 | 292,208 |
| Transfers | - | 16,840 | 95,853 | - | (112,693) | - | - |
| Disposals | - | (110) | (21,775) | - | - | - | (21,885) |
| At 31 December 2018 | 159,823 | 1,210,480 | 1,141,593 | 1,638 | 190,099 | 27,649 | 2,731,282 |
| Additions* | - | - | - | 16,586 | 206,675 | 215 | 223,476 |
| Transfers | - | 50,952 | 131,493 | - | (182,445) | - | - |
| Disposals | - | - | (13,155) | (1,742) | (64) | - | (14,961) |
| At 31 December 2019 | 159,823 | 1,261,432 | 1,259,931 | 16,482 | 214,265 | 27,864 | 2,939,797 |
| | | | | | | | |
| Accumulated depreciation | | | | | | | |
| At 31 December 2017 | - | 249,839 | 447,922 | 1,601 | - | - | 699,362 |
| Depreciation charge for the year | - | 60,884 | 82,922 | 37 | - | - | 143,843 |
| Disposals | - | (110) | (21,775) | - | - | - | (21,885) |
| At 31 December 2018 | - | 310,613 | 509,069 | 1,638 | - | - | 821,320 |
| Depreciation charge for the year | - | 49,143 | 88,425 | 6,970 | - | - | 144,538 |
| Disposals | - | - | (13,155) | (1,742) | - | - | (14,897) |
| At 31 December 2019 | - | 359,756 | 584,339 | 6,866 | - | - | 950,961 |
| | | | | | | | |
| Net book value | | | | | | | |
| At 31 December 2018 | 159,823 | 899,867 | 632,524 | - | 190,099 | 27,649 | 1,909,962 |
| At 31 December 2019 | 159,823 | 901,676 | 675,592 | 9,617 | 214,265 | 27,864 | 1,988,837 |

Note*: Additions to 'Leased movable assets' reflect the effects of the application of IFRS 16 – Leases (see also the disclosures below and Note 18).

Capitalized borrowing costs

The amount of borrowing costs capitalized during the year ended 31 December 2019 was CZK 0 thousand (2018: CZK 0 thousand).

Leases

The net book value of plant and equipment held under leases at 31 December 2019 was CZK 9,617 thousand (2018: CZK 0 thousand).

Land and buildings

Land and buildings are subject to a first charge to secure the Group's bank loans (Note 9.2). The Group refinanced and fully repaid its long-term bank loans by issuing bonds in December 2017 and the pledge was removed in January 2018.

Assets under construction

The balance as at 31 December 2019 and 2018 included, in particular, expenditures on enhancing efficiency and environmental compliance of existing boilers and on building infrastructure to connect customers.

Impairment

In 2019 and 2018 the Group performed impairment test of Property, Plant and Equipment. The impairment test involves determining the recoverable amount of an asset or a CGU. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or a cash-generating unit. Value in use is determined on the basis of an enterprise valuation model and is assessed from a Group internal perspective.

Values in use are determined based on the medium-term budget for a period of 5 years and on the anticipated development of the expected cash flows in the long-term, which is valid when the impairment test is performed. These budgets are based on the past experience, as well as on the anticipated future market trends and on the macroeconomic development.

The development of commodity prices, namely coal prices, the development of emission right prices and the anticipated demand from key customers are the key assumptions used for the valuation model.

The calculations of value in use are most sensitive to the following assumptions:

Prices of key inputs – Overall profitability is affected especially by the coal prices and prices of emission rights. Forecast figures are used if data is available, otherwise past actual raw material price movements have been used as an indicator of future price movements.

Discount rate – Discount rate reflects the management's estimate of the risk specific to the business. The basis used to determine the value assigned is weighted average cost of capital (WACC) of the business.

Estimated growth rate – The basis used to determine the value assigned to estimated growth rate is the anticipated future development of the market and interest rates, changes in strategy of the Group and LAMA Group, and the forecast of the regulatory environment, where the Group conduct the business.

As a results of impairment tests performed, no impairment has been recognized in 2019 and 2018 financial statements.

## 8. Intangible assets

| | Software CZK 000 | Other intangible assets CZK 000 | Intangible assets in progress and advances granted CZK 000 | Total CZK 000 |
|---|---|---|---|---|
| Cost | | | | |
| At 31 December 2017 | 8,798 | 48,188 | 15,000 | 71,986 |
| Additions | - | - | 78,202 | 78,202 |
| Transfers | 388 | 92,814 | (93,202) | - |
| Disposals | (298) | (58,540) | - | (58,838) |
| At 31 December 2018 | 8,888 | 82,462 | - | 91,350 |
| Additions | - | - | 156,269 | 156,269 |
| Transfers | 239 | 155,950 | (156,189) | - |
| Disposals | (201) | (147,531) | - | (147,732) |
| At 31 December 2019 | 8,926 | 90,881 | 80 | 99,887 |
| | | | | |
| Accumulated amortization | | | | |
| At 31 December 2017 | 7,588 | 11 | - | 7,599 |
| Amortization charge for the year | 613 | - | - | 613 |
| Disposals | (298) | - | - | (298) |
| At 31 December 2018 | 7,903 | 11 | - | 7,914 |
| Amortization charge for the year | 383 | - | - | 383 |
| Disposals | (201) | - | - | (201) |
| At 31 December 2019 | 8,085 | 11 | - | 8,096 |
| | | | | |
| Net book value | | | | |
| At 31 December 2018 | 985 | 82,451 | - | 83,436 |
| At 31 December 2019 | 841 | 90,870 | 80 | 91,791 |

Other intangible assets

Included in the other intangible assets are emission rights. The balances measured at cost were as follows:

| | Purchased emission rights CZK 000 |
|---|---|
| At 31 December 2017 | 48,177 |
| At 31 December 2018 | 82,451 |
| At 31 December 2019 | 90,870 |

For details on the accounting policy adopted by the Group for measuring the emission rights please refer to Note 2.3.11.

# 9. Financial assets and financial liabilities

## 9.1. Financial assets

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Derivatives not designated as hedging instruments: | | |
| Interest rate swaps | 3,692 | - |
| Total financial instruments at fair value | - | - |
| Financial assets at amortized cost: | | |
| Trade receivables and other assets | 169,063 | 162,903 |
| Total financial assets | 172,755 | 162,903 |
| Of which: | | |
| Total current | 171,771 | 162,013 |
| Total non-current | 984 | 890 |

Derivatives not designated as hedging instruments reflect the positive change in fair value of interest rate swap contracts that are not formally designated in hedge relationships, but are nevertheless intended to reduce the level of interest rate risk of floating interest-bearing loans and bonds.

## 9.2. Financial liabilities

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Derivatives not designated as hedging instruments: | | |
| Interest rate swaps | - | 2,097 |
| Total financial liabilities at fair value | - | 2,097 |
| Other financial liabilities at amortized cost, other than interest-bearing loans, borrowings and bonds: | | |
| Trade and other payables | 220,199 | 235,597 |
| Total other financial liabilities | 220,199 | 237,694 |
| Of which: | | |
| Total current | 217,199 | 233,694 |
| Total non-current | 3,000 | 4,000 |

Derivatives not designated as hedging instruments reflect the positive change in fair value of interest rate swap contracts that are not formally designated in hedge relationships, but are nevertheless intended to reduce the level of interest rate risk of floating interest-bearing loans and bonds.

Interest-bearing loans and borrowings, including bonds

| | Interest rate | Maturity | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|---|---|
| Current interest-bearing loans and borrowings | | | | |
| Lease liabilities | 4.8 % | 2020 | 3,020 | - |
| Bank loan | - | - | - | - |
| Other loans for financing non-current assets (short-term portion) | 3.1 %-3.6 % | 2024 | 3,261 | 3,156 |
| Loan from shareholders | 3.0 %-3.2 % | 2020 | 50,215 | - |
| Total current interest-bearing loans and borrowings | | | 56,496 | 3,156 |
| | | | | |
| Non-current interest-bearing loans and borrowings | | | | |
| Lease liabilities | 4.8 % | 2024 | 6,597 | - |
| Bonds | PRIBOR + 2.8 % | 2023 | 1,240,829 | 1,238,287 |
| Other loans for financing non-current assets | 3.1 %-3.6 % | 2024 | 12,958 | 16,174 |
| Loan from shareholders | 3.0 % | 2022 | 431 | - |
| Total non-current interest-bearing loans and borrowings | | | 1,260,815 | 1,254,461 |
| | | | | |
| Total interest-bearing loans and borrowings | | | 1,317,311 | 1,257,617 |

On 15 December 2018, the Group entered into a revolving loan agreement up to the limit of CZK 200,000 thousand with the parent company LAMA ENERGY GROUP a. s. The agreement has the following covenants: The Group, as a borrower, is entitled to a partial and repeated drawdown up to the above limit, provided the restrictions stipulated by Art. 4.2. of the issuing conditions of bonds maintained under ISIN CZ0003517732 and title “TEPL. OTR. VAR/23 Bonds” are met. The interest rate is set at 3.20% p. a. The loan will mature on 15 December 2020. Interest on the outstanding amount will be calculated annually at the end of a calendar year and will be due on 15 January of the subsequent year. The revolving loan has been granted for the period of two years from the date the agreement is entered into. In 2019, the Group drew a loan of CZK 50,215 thousand; no loan was drawn in 2018. On 2 September 2019, an amendment was signed to the above loan contract, stipulating the subordination of the receivable arising from the contract.

Pursuant to the agreement entered on 12 September 2019, the Group took over a portion of the debt of LAMA lighting technologies s.r.o. owed to LAMA ENERGY GROUP a. s.; the portion of CZK 700 thousand is due by 31 December 2022, is payable in equal quarterly installments and bears interest at the rate of 3.0% p.a. By taking over the debt, the Group settled its liability to LAMA lighting technologies s.r.o. incurred under the purchase agreement of 28 August 2019 for the purchase of two passenger cars. The first installment was paid as at 31 December 2019; the balance of the debt at the balance sheet date was CZK 646 thousand.

Reconciliation of liabilities from financing activities

| | Bank loans and bonds<br>CZK 000 | Other long-term liabilities<br>CZK 000 | Loan from shareholders<br>CZK 000 | Lease liabilities<br>CZK 000 | Total liabilities from financing activities<br>CZK 000 |
|---|---|---|---|---|---|
| Amount presented on balance sheet at 1 January 2019 | 1,238,287 | 19,330 | - | - | 1,257,617 |
| Cash flows | - | (3,111) | 50,646 | - | 47,535 |
| Foreign exchange movement | - | - | - | - | - |
| Changes in fair values | - | - | - | - | - |
| Other | 2,542 | - | - | 9,617 | 12,159 |
| Amount presented on balance sheet at 31 December 2019 | 1,240,829 | 16,219 | 50,646 | 9,617 | 1,317,311 |

Bonds

On 21 December 2017 the Group issued bonds TEPL. OTR. VAR/23 (ISIN CZ0003517732) that were accepted for trading on Prague Stock Exchange. Nominal amount of one bond is CZK 3,000 thousand. The bonds were subscribed in total nominal amount of CZK 1,251,000 thousand. The bonds VAR/23 bear interest of 6M PRIBOR + 2.8%, which is payable semi-annually on 21 June and 21 December each year. The ultimate maturity of the bonds is 21 December 2023. The bonds could be repaid up to one year before its ultimate maturity, subject to meeting certain conditions. The proceeds from the bonds were predominantly used to repay bank loans and borrowings.

## 9.3. Hedging activities and derivatives

Derivatives not designated as hedging instruments

The Group uses interest rate swaps to manage interest rate risk. These contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods broadly consistent with the maturity of the underlying interest-bearing borrowings.

The Group has not designated any other derivative as a hedging instrument.

## 9.4. Fair values

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Financial assets | CZK 000 | CZK 000 | CZK 000 | CZK 000 |
| Interest rate swaps | 3,692 | - | 3,692 | - |
| Loans and receivables | 739 | 645 | 654 | 571 |
| Total financial assets | 4,431 | 645 | 4,346 | 571 |
| | | | | |
| Financial liabilities | | | | |
| Lease liabilities | 9,617 | - | 9,821 | - |
| Bank loan | - | - | - | - |
| Bonds | 1,240,829 | 1,238,287 | 1,251,000 | 1,251,000 |
| Other loans for financing non-current assets | 16,219 | 19,330 | 15,671 | 18,568 |
| Loan from shareholders | 50,646 | - | 50,646 | - |
| Interest rate swaps | - | 2,097 | - | 2,097 |
| Total financial liabilities | 1,317,311 | 1,259,714 | 1,327,138 | 1,271,665 |

The management assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed item.
- The fair values of the quoted notes and bonds are based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, lease liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In addition to being sensitive to a reasonably possible change in the forecast cash flows or the discount rate, the fair value of the equity instruments is also sensitive to a reasonably possible change

in the growth rates. The valuation requires management to use unobservable inputs in the model, of which the significant unobservable inputs are disclosed in the tables below. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.

- The Group enters into derivative financial instruments principally with financial institutions with investment grade credit ratings. Interest rate swaps are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, yield curves of the respective currencies and interest rate curves. As at 31 December 2019 and 31 December 2018 the marked-to market values of derivative asset positions are net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the financial instruments recognized at fair value.
- The fair values of the Group's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2019 and 31 December 2018 was assessed to be insignificant.

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The following table provides the fair value measurement hierarchy and quantitative disclosures of the Group's financial assets and liabilities 31 December 2019:

| | Date of valuation | Total CZK 000 | Level 1 CZK 000 | Level 2 CZK 000 | Level 3 CZK 000 |
|---|---|---|---|---|---|
| Financial assets measured at fair value: | | | | | |
| Interest rate swaps | 31 December 2019 | 3,692 | - | 3,692 | - |
| Financial assets for which fair values are disclosed: | | | | | |
| Loans and receivables | 31 December 2019 | 654 | - | - | 654 |
| Financial liabilities measured at fair value: | | | | | |
| Interest rate swaps | 31 December 2019 | - | - | - | - |
| Financial liabilities for which fair values are disclosed: | | | | | |
| Finance lease liabilities | 31 December 2019 | 9,821 | - | 9,821 | - |
| Bonds | 31 December 2019 | 1,251,000 | - | 1,251,000 | - |
| Other loans for financing non-current assets | | 15,671 | - | 15,671 | - |
| Loan from shareholders | 31 December 2019 | 50,646 | - | 50,646 | - |

The following table provides the fair value measurement hierarchy and quantitative disclosures of the Group's financial assets and liabilities 31 December 2018:

| | Date of valuation | Total CZK 000 | Level 1 CZK 000 | Level 2 CZK 000 | Level 3 CZK 000 |
|---|---|---|---|---|---|
| Financial assets measured at fair value: | | | | | |
| Interest rate swaps | 31 December 2018 | - | - | - | - |
| Financial assets for which fair values are disclosed: | | | | | |
| Loans and receivables | 31 December 2018 | 571 | - | - | 571 |
| Financial liabilities measured at fair value: | | | | | |
| Interest rate swaps | 31 December 2018 | 2,097 | - | 2,097 | - |
| Financial liabilities for which fair values are disclosed: | | | | | |
| Finance lease liabilities | 31 December 2018 | - | - | - | - |
| Bank loan | 31 December 2018 | 1,251,000 | - | 1,251,000 | - |
| Other loans for financing non-current assets | 31 December 2018 | 18,568 | - | 18,568 | - |

There were no transfers between the levels during 2019 and 2018.

## 9.5. Financial instruments risk management objectives and policies

The Group's principal financial liabilities, other than derivatives, comprise loans and borrowings, including bonds, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Group's operations and to provide guarantees to support its operations. The Group's principal financial assets include loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Group also enters into derivative transactions.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's senior management oversees the management of these risks. The Group's senior management is supported by senior management team of the ultimate parent that advises on financial risks and the appropriate financial risk governance framework for the Group. The involvement of the ultimate parent's senior management provides additional assurance to the Group's senior management that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with group policies and group risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Group's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk such as equity price risk and commodity price risk. Financial instruments affected by market risk include: loans and borrowings, including bonds, deposits and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December in 2019 and 31 December 2018.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed-to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2019 and 31 December 2018.

The analyses exclude the impact of movements in market variables on the carrying value of employment long-term benefit obligations and provisions.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2019 and 31 December 2018 including the effect of hedge accounting.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group manages its interest rate risk by having a portfolio of fixed and variable rate loans. The Group enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2019, after taking into account the effect of interest rate swaps, approximately 51% of the Group's borrowings are at a fixed rate of interest (2018: 44%).

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings, including bonds, after the impact of interest rate swaps. With all other variables held constant, the Group's profit before tax is affected through the impact on floating rate borrowings, as follows:

| | Increase/ decrease in basis points | Effect on profit before tax CZK 000 |
|---|---|---|
| 2019 | 50 | (3,204) |
| | (25) | 1,602 |
| 2018 | 50 | (3,503) |
| | (25) | 1,752 |

All loans and bonds are denominated in CZK.

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates is nominal as vast majority of activities are denominated in Group's functional currency CZK. The Group's management uses economic hedging – concluding purchase contracts in the same currency as the sales contracts – i.e. CZK. The Group is exposed indirectly to fluctuations in foreign currencies as the CZK price of purchased fuel and emission allowances is broadly responsive to development on prices on international markets, denominated in USD and EUR.

Foreign currency sensitivity

With all other variables held constant, the Group's profit before tax is not sensitive to reasonably possible changes in foreign exchange rates as the Group's exposure to foreign currency changes is not material as at 31 December 2019 and 31 December 2018.

### Commodity price risk and emission right risk

The Group is affected by the volatility of certain commodities and emission rights. Its operating activities involve predominantly the ongoing purchase of coal used in production, and purchase and sale of electricity and emission rights. The Group manages the commodity price risk by deploying economic hedging, where the purchase prices of commodities are set for a period of time that is responsive to the duration of sales contracts and also the changes of commodity prices are to certain extent passed to the customers, which reduces the Group's profit sensitivity to changes in commodity prices. The risk of changes in the price of emission rights is managed by purchasing emission rights for electricity generation when selling the energy; emission rights for heat production are managed by monitoring the price on the stock exchange and buying by instalments when the price goes down. The price of emission rights is partly borne by end customers.

Commodity price sensitivity

As the group has no financial assets and liabilities linked to commodity prices, with all other variables held constant, the Group's profit before tax is not sensitive to reasonably possible changes in their prices.

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Group is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, loans and other financial instruments.

Trade receivables

Customer credit risk is managed by the Group's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer requesting product or services above a defined threshold is assessed based on a credit rating analysis and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and exposure to credit risk are regularly monitored and the Group limits credit risk by credibility analysis and monitoring of repayment morale of existing customers. At 31 December 2019, the Group had 8 customers (2018: 9 customers) that owed more than CZK 1 million each and accounted for approximately 87% (2018: 89%) of all outstanding receivables.

The requirement for an impairment is analyzed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 9.1. The Group does not hold collateral as security. The Group evaluates the concentration of risk with respect to trade receivables as adequate given the nature of business it operates as its principal customers are located in one geographical area.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed by the Group in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Group's maximum exposure to credit risk for the components of the statement of financial position is the carrying amounts as illustrated in 9.1. except for derivative financial instruments. The Group's maximum exposure for financial derivative instruments are noted in the liquidity table below, respectively.

### Liquidity risk

The Group monitors its risk to a shortage of funds using a liquidity planning tools.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of long-term bank loans or bonds, finance leases and hire purchase contracts. The Group assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

| Year ended 31 December 2019 | <1 year | 2-5 years | Over 5 years | Total |
|---|---|---|---|---|
| | CZK 000 | CZK 000 | CZK 000 | CZK 000 |
| Finance lease liabilities | 3,020 | 6,597 | - | 9,617 |
| Bank loans | - | - | - | - |
| Bonds | 62,888 | 1,438,627 | - | 1,501,515 |
| Other loans for financing non-current assets | 3,742 | 13,722 | - | 17,464 |
| Loan from shareholders | 50,646 | - | - | 50,646 |
| Trade payables and other liabilities | 220,199 | - | - | 220,199 |
| Derivatives (interest rate swaps) | - | - | - | - |
| Total | 340,495 | 1,458,946 | - | 1,799,441 |

| Year ended 31 December 2018 | <1 year | 2-5 years | Over 5 years | Total |
|---|---|---|---|---|
| | CZK 000 | CZK 000 | CZK 000 | CZK 000 |
| Finance lease liabilities | - | - | - | - |
| Bank loans | - | - | - | - |
| Bonds | 61,727 | 1,488,520 | - | 1,550,247 |
| Other loans for financing non-current assets | 3,741 | 14,969 | 2,496 | 21,206 |
| Loan from shareholders | - | - | - | - |
| Trade payables and other liabilities | 237,694 | - | - | 237,694 |
| Derivatives (interest rate swaps) | 6,036 | 18,108 | - | 24,144 |
| Total | 309,198 | 1,521,597 | 2,496 | 1,833,291 |

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts:

| Year ended 31 December 2019 | <1 year | 2-5 years | Over 5 years | Total |
|---|---|---|---|---|
| | CZK 000 | CZK 000 | CZK 000 | CZK 000 |
| Inflows | 13,510 | 26,534 | - | 40,044 |
| Outflows | (12,073) | (24,145) | - | (36,218) |
| Net | 1,437 | 2,389 | - | 3,826 |
| Discounted at the applicable interbank rates | 1,414 | 2,278 | - | 3,692 |

| Year ended 31 December 2018 | <1 year | 2-5 years | Over 5 years | Total |
|---|---|---|---|---|
| | CZK 000 | CZK 000 | CZK 000 | CZK 000 |
| Inflows | 12,619 | 33,433 | - | 46,052 |
| Outflows | (12,073) | (36,218) | - | (48,291) |
| Net | 546 | (2,785) | - | (2,239) |
| Discounted at the applicable interbank rates | 538 | (2,635) | - | (2,097) |

Capital management

Capital includes equity attributable to the equity holders of the parent.

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the requirements of the financial covenants. The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

The Group's policy is to keep the gearing ratio around 75%. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash deposits, excluding discontinued operations, if any.

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Interest-bearing loans and borrowings, including bonds | 1,317,311 | 1,257,617 |
| Trade payables and other liabilities | 236,251 | 256,312 |
| Less: cash and short-term deposits | (31,427) | (122,411) |
| Net debt | 1,522,135 | 1,391,518 |
| Equity | 395,084 | 458,927 |
| Capital and net debt | 1,917,219 | 1,850,445 |
| Gearing ratio | 79% | 75% |

In 2019, the Group's net debt increased slightly by drawing a portion of a revolving loan of CZK 50,000 thousand to cover higher capital expenditures that the Group believed were necessary to ensure its future development.

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowing in the current period. In December 2017 the Group issued bonds, which were used to repay existing bank loans. No significant changes were made in the overall objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

### Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry. In order to avoid unnecessary concentrations of risk, the Group's policies and procedures include guidelines to focus on the maintenance of a diversified portfolio, despite the inherent limitations given the business the Company is involved in. Identified concentrations of credit risks are controlled and managed accordingly.

## 10. Inventories

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Fossil fuel and other materials | 87,461 | 86,905 |
| Goods | - | 14 |
| Work in progress | 179 | - |
| Advances provided for inventories | 1,000 | 1,994 |
| Total inventories at the lower of cost and net realizable value | 88,640 | 88,913 |

During 2019, CZK 345,536 thousand (2018: CZK 339,194 thousand) was recognized as an expense for inventories and recorded as Consumption of material and energy. Inventories are measured at costs reduced by valuation allowances to their net realizable value, if lower. The valuation allowance as at 31 December 2019 amounted to CZK 5,146 thousand (2018: CZK 4,673 thousand).

# 11. Trade receivables and other assets

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Short-term trade receivables | 141,523 | 154,361 |
| Short-term advances granted | 11,751 | 5,211 |
| Unbilled revenue | 8,563 | 644 |
| VAT receivable | - | - |
| Derivatives | 3,692 | - |
| Other receivables | 2,550 | 1,797 |
| Total Trade receivables and other assets | 168,079 | 162,013 |

Trade receivables are non-interest bearing and are generally on terms of 14-30 days.

As at 31 December 2019, trade receivables with an initial carrying value of CZK 1,328 thousand (2018: CZK 1,604 thousand) were impaired and fully provided for. See below for the movements in the allowance for impairment of receivables:

| | Individually impaired<br>CZK 000 | Total<br>CZK 000 |
|---|---|---|
| At 31 December 2018 | 1,604 | 1,604 |
| At 31 December 2019 | 1,328 | 1,328 |

As at 31 December, the ageing analysis of trade receivables is as follows:

| | Total<br>CZK 000 | Neither past due nor impaired<br>CZK 000 | Past due but not impaired:<br><30 days<br>CZK 000 | 30-60 days<br>CZK 000 | 60-120 days<br>CZK 000 | > 120 days<br>CZK 000 |
|---|---|---|---|---|---|---|
| 2019 | 141,523 | 139,350 | 1,841 | 332 | - | - |
| 2018 | 154,361 | 152,203 | 2,141 | 17 | - | - |

# 12. Cash and deposits

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Cash in hand | 28 | 39 |
| Cash at bank | 31,399 | 122,372 |
| Total Cash | 31,427 | 122,411 |

Cash at banks earns interest at floating rates based on daily bank deposit rates.

# 13. Issued capital and reserves

The basic capital of the Group consists of 100 registered shares in a certificate form fully subscribed and paid, with a nominal value of CZK 100 thousand

| | units | CZK 000 |
|---|---|---|
| At 31 December 2018 | 100 | 10,000 |
| At 31 December 2019 | 100 | 10,000 |

The Group recognized a separate reserve from profit that may be used to cover the future losses. The balance of the reserve as at 31 December 2019 amounted to CZK 2,000 thousand (2018: CZK 2,000 thousand).

# 14. Distributions made and proposed

The Group paid dividends of CZK 0 thousand and CZK 135,000 thousand in 2019 and 2018, respectively.

# 15. Provisions

| | Employment benefits | Emission rights | Total provisions |
|---|---|---|---|
| | CZK 000 | CZK 000 | CZK 000 |
| At 31 December 2017 | 3,708 | 62,452 | 66,160 |
| Arising during the year | 4,131 | 157,283 | 161,414 |
| Utilized | (440) | (62,452) | (62,892) |
| At 31 December 2018 | 7,399 | 157,283 | 164,682 |
| Arising during the year | 1,747 | 203,226 | 204,973 |
| Utilized | (770) | (157,283) | (158,053) |
| At 31 December 2019 | 8,376 | 203,226 | 211,602 |

Long-term employment benefits

The Group provides long-term employment benefits, where employees are entitled to benefits dependent on the number of years of employment, jubilee bonuses and bonuses paid upon retirement of an employee. The provision represents the obligation from the benefits calculated using the projected unit credit method. The costs of providing the long-term employment benefits are recorded in the profit or loss.

Emission rights

A provision is recognized for emissions produced; the significant increase recognized in 2019 can be attributed to the year-on-year hike of the prices of emission allowances. For details on the accounting policy adopted by the Group for measuring the emission rights provision please refer to Note 2.3.11.

# 16. Accruals and deferred income

| | 2019 | 2018 |
|---|---|---|
| | CZK 000 | CZK 000 |
| Accruals | 10,472 | 4,989 |
| Deferred income | 182 | 183 |
| Accruals and deferred income | 10,654 | 5,172 |

# 17. Trade payables and other liabilities

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Trade payables | 212,897 | 232,296 |
| Liabilities to employees | 10,765 | 13,121 |
| Other liabilities | | |
| Liabilities arising from social security and health insurance | 5,287 | 5,497 |
| Short-term advances received | 29 | 919 |
| VAT payable | 3,911 | 1,295 |
| Liabilities from derivative instruments | - | 2,097 |
| Other | 1,427 | 1,087 |
| Subtotal Other liabilities | 10,654 | 10,895 |
| Total trade payables and other liabilities | 236,251 | 256,312 |

Trade payables and other liabilities are non-interest bearing and are normally settled on 30-60 days basis.

# 18. Lease liabilities

Lease liabilities — Group as a lessee

The Group has entered into commercial leases for technological equipment, office premises and several motor vehicles.

Lease liability changes can be analyzed as follows:

| (CZK 000) | Total |
|---|---|
| As at 1 January 2019 | 16,586 |
| Interest expense | 722 |
| Installments | (7,691) |
| Lease modification changes (sales) | - |
| As at 31 December 2019 | 9,617 |

Total lease expenses were as follows:

| (CZK 000) | 2019 |
|---|---|
| Depreciation | 6,970 |
| Interest expense | 722 |
| Total lease expenses | 7,691 |

Lease-related cash flows were as follows:

| (CZK 000) | 2019 |
|---|---|
| Lease installments | 7,691 |
| Short-term leases with a lease term of less than one year | - |
| Low-value leases | - |
| Total lease-related cash flows | 7,691 |

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | 31 December 2019 CZK 000 | 1 January 2019 CZK 000 |
|---|---|---|
| Within one year | 3,020 | 7,691 |
| After one year but not more than five years | 6,597 | 8,895 |
| More than five years | - | - |
| | 9,617 | 16,586 |

In accordance with IFRS 16 Leases, the above assets have been recognized in the balance sheet since 2019 (see also Notes 2.3.9., 2.3.20. and 7).

Operating leases in 2018

The Group used buildings and structures, technological equipment, office premises, and motor vehicles under operating lease arrangements; operating lease expenses incurred in 2018 totaled CZK 7,790 thousand.

Future lease installments under lease agreements in effect as at 31 December 2018 totaled CZK 17,275 thousand, of which CZK 7,790 thousand was due in 2019 and CZK 9,485 thousand is due in subsequent years.

Rent in 2018

Rent expenses totaled CZK 7,790 thousand in 2018, comprising, in particular, the rent of buildings and structures of CZK 5,107 thousand; the rent of premises of CZK 2,066 thousand; and the rent of technologies and other leases of CZK 617 thousand.

## 19. Government grants

| Grants received during the year: | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Emission rights | 55,955 | 35,414 |
| Grants for purchase of property, plant and equipment | - | - |
| Grants received during the year related to income | 10,893 | 6,082 |

Grants are initially measured at fair value. Grants related to income and emission rights are reported under Other income in the Income statement. Grants related to purchase of property, plant and equipment decrease its cost.

There are no unfulfilled conditions or contingencies attached to these grants at 31 December 2019 and 31 December 2018.

## 20. Related party disclosures

The financial statements include the financial statements of the Group and the subsidiaries listed in the following table:

| | | | % equity interest | |
|---|---|---|---|---|
| Name | Principal activities | Country of incorporation | 2019 | 2018 |
| TO Servisní s.r.o. | Service organization to the Group | Czech Republic | 100% | 100% |

Holding company

The next senior and the ultimate holding company of Teplárna Otrokovice a.s. is LAMA ENERGY GROUP a.s., a privately owned joint-stock company based the Czech Republic, holding 100% interest in the Group.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

| | | Sales to related parties CZK 000 | Purchases from related parties CZK 000 | Amounts owed by related parties CZK 000 | Amounts owed to related parties CZK 000 |
|---|---|---|---|---|---|
| Other entities controlled by the parent company (members of LAMA ENERGY GROUP a.s.): | | | | | |
| LAMA energy a.s. | 2019 | 143,177 | 441,749 | 13,976 | 103,912 |
| | 2018 | 155,298 | 380,854 | 16,685 | 64,246 |
| MANLOMKA s.r.o. | 2019 | - | 1,164 | 245 | 135 |
| | 2018 | - | 1,834 | 243 | 118 |
| Teplárna Kyjov, a.s. | 2019 | 218 | 2 | - | - |
| | 2018 | 51 | 19,986 | - | 2,125 |
| Energo Český Krumlov s.r.o. | 2019 | 16 | - | - | - |
| | 2018 | 21 | 10 | - | - |
| DIGI CZ s.r.o. | 2019 | - | 596 | - | 49 |
| | 2018 | - | 537 | - | 46 |
| LAMA lighting technologies s. r. o. (formerly LAMA eco s.r.o.) | 2019 | - | 673 | - | 3 |
| | 2018 | - | 434 | - | - |
| Key management personnel: | | | | | |
| Members of statutory and supervisory bodies | 2019 | - | 2,487 | - | 653 |
| | 2018 | - | 2,487 | - | 653 |

Loans from related parties

| | | Interest expense CZK 000 | Principal owed to related parties CZK 000 | Accrued interest owed to related parties CZK 000 |
|---|---|---|---|---|
| LAMA ENERGY GROUP a.s. | 2019 | 386 | 50,646 | - |
| (Note 9.2) | 2018 | - | - | - |

Terms and conditions of transactions with related parties

The Group sells electricity and renders services to related parties in the ordinary course of business. The Group receives services, purchases electricity, and emission allowances from related parties in the ordinary course of business.

The sales to and purchases from related parties are made on the basis of contracts entered into by and between a Group company and a related party; for the list of the contracts, refer to the Report on Related Parties. Outstanding balances at the year-end are unsecured, interest free (except loans) and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Group has not recorded any impairment of receivables relating to amounts owed by related parties (2018: CZK 0 thousand). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Group

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Short-term employment benefits, including payroll | 22,841 | 21,644 |
| Long-term employment benefits | - | - |
| Total compensation paid to key management personnel | 22,841 | 21,644 |

The amounts disclosed in the table above represent the remuneration of the members of statutory and supervisory bodies and of key management personnel (i.e. of executives who receive contractual salaries), and excludes mandatory social and health insurance paid by the Group companies.

The members of statutory and supervisory bodies, directors and executive officers were granted no loans, guarantees, advances or other similar benefits in 2019 and 2018 and they do not hold any shares in the Group.

# 21. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not yet been endorsed by the EU. IFRS 17 is not applicable to the Group.

Amendments of IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Group has assessed the impact of the amendments and expects that the amendments, when applied, will not have a significant impact on the consolidated financial statements.

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The Group has assessed the impact of the Conceptual Framework and expects that the Framework will not have a significant impact on the consolidated financial statements.

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. The amendments have not yet been endorsed by the EU. The Group has assessed the impact of the amendments and expects that the amendments, when applied, will not have a significant impact on the consolidated financial statements.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the definition of "material" and how it should be applied. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of "material" is consistent across all IFRS Standards. These amendments have not yet been endorsed by the EU. The Group has assessed the impact of the amendments and expects that the amendments, when applied, will not have a significant impact on the consolidated financial statements.

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Group has assessed the impact of the amendments and expects that the amendments, when applied, will not have a significant impact on the consolidated financial statements.

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The Group has assessed the impact of the amendments and expects that the amendments, when applied, will not have a significant impact on the consolidated financial statements.

# 22. Other information for disclosure

The fees due to Ernst & Young Audit, s.r.o., for statutory audits performed in 2019 and 2018 totaled CZK 700 thousand and CZK 675 thousand, respectively. Out-of-pocket expenses relating to the statutory audit performed in 2019 and 2018 totaled CZK 51 thousand and CZK 65 thousand, respectively.

The costs of non-audit services in 2019 and 2018 amounted to CZK 0 thousand and CZK 69 thousand, respectively. Non-audit services received related to legal advisory.

# 23. Events after the reporting period

Based on the decision of the sole shareholder of the Company, the following changes, recorded by the notarial deed NZ 137/2020 of 26 February 2020, were made to a public register on 8 March 2020: amendments of the Company's Articles of Association, removal of the Board of Directors and of the Supervisory Board, and appointment of the new Board of Directors and of the new Supervisory Board. Incumbent Directors Petr Jeník, Petrik Brom and Jan Stuchlík were reelected to the new Board of Directors; incumbent members Petr Lamich, Miroslav Kopřiva and Pavel Ondra were reelected to the new Supervisory Board. Removed members of the Supervisory Board included Jiří Veselý, Pavla Gromusová and Bedřich Landsfeld.

In late 2019, reports of COVID-19 started coming out of China. In the first months of 2020, the virus spread worldwide, causing extensive economic damage. Although the management of the Company did not see a significant decrease in sales at the time of the issue of these consolidated financial statements, the situation is constantly changing and, therefore, the future impact of this pandemic on the Group's activities cannot be predicted. The management of the Company will continue to monitor the potential impact and take all possible steps to mitigate any adverse effects on the Group companies and their employees. Any adverse effects and losses will be recognized in the books in 2020 and presented in the consolidated financial statements prepared for 2020.

The management of the Company considered the potential impact of COVID-19 on the Group's activities and business and concluded it did not have a significant impact on its ability to continue as a going concern. Accordingly, the consolidated financial statements for the year ended 31 December 2019 were prepared on the assumption that the Group would be able to continue as a going concern.

Otrokovice, 7 April 2020

Ing. Petr Jeník
Chairman of the Board of Directors

Ing. Jan Stuchlík
Member of the Board of Directors

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INDEPENDENT AUDITOR'S REPORT

To the Shareholder of Teplárna Otrokovice a.s.:

**Report on the Audit of the Financial Statements**

*Opinion*

We have audited the accompanying financial statements of Teplárna Otrokovice a.s. (hereinafter also the "Company") prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS EU"), which comprise the statement of financial position as at 31 December 2019, and the statement of profit and loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Company, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with IFRS EU.

*Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors, Regulation (EU) No. 537/2014 of the European Parliament and the Council, 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 clauses. 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.

*Key Audit Matters*

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

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of our report, including in relation to this matter. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying financial statements.

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Impairment of assets

The Company conducts annual impairment tests of assets' balances. The impairment test involves determining the recoverable amount of the cash-generating unit as a whole or individual assets as practicable, which corresponds to the value in use or selling price less cost to sell. Value in use is the present value of the future cash flows expected to be derived from a cash-generating unit.

These calculations of potential impairment amounts are a key audit matter as there is a significant uncertainty in relation to regulatory matters, which are, together with other significant assumptions included in the estimated future cash flows, main inputs to the calculations. Main assumptions that are subject to significant estimation uncertainty are projected future coal prices, prices of emission allowances, development of the regulatory environment and discount rates, volume of deliveries to key customers as well as the strategy of the Company and LAMA ENERGY GROUP. Future cash flows relate to events and actions that have not yet occurred and may not occur.

Our procedures included assessing the assumptions and methodologies used by the Company in their value in use model and assessment of the fair value less cost to sell. We involved valuation specialists in assessing the adequacy of the Company's model used for the calculation of weighted average cost of capital and we also evaluated mathematical accuracy, underlying data and assumptions used in the calculation. We evaluated main assumptions that are subject to significant estimates, such as future coal prices, prices of emission allowances, development of the regulatory environment and compared them to those observable on the market. We compared the coal prices as well as the prices of emission allowances to the contracts, which are actively traded on the market, and we assessed reasonableness of the Company's projections of these future prices for periods, for which the market data are not available. We also discussed the assumptions with the transaction specialists.

We analyzed the budgets and future cash flows. We compared the expected developments in budgeted cash flows to the expectations presented by the management while assessing the main assumptions of the model and discussing alternatives. We also assessed the adequacy of the model used for the impairment test calculation together with the mathematical accuracy of the calculations.

Finally, we also focused on whether the Company's disclosures in the financial statements in relation to the impairment of assets, as presented and disclosed in Note 7 Property, Plant and Equipment, are compliant with the IFRS EU.

*Responsibilities of the Company's Board of Directors and Audit Committee for the Financial Statements*

The Board of Directors is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS EU 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 Audit Committee 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 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 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 Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

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## Report on Other Legal and Regulatory Requirements

In compliance with Article 10(2) of Regulation (EU) No. 537/2014 of the European Parliament and the Council, we provide the following information in our independent auditor's report, which is required in addition to the requirements of International Standards on Auditing:

*Appointment of Auditor and Period of Engagement*

We were appointed as the auditors of the Company by the General Meeting of Shareholder on 14 October 2019 and our uninterrupted engagement has lasted for 7 years.

*Consistence with Additional Report to Audit Committee*

We confirm that our audit opinion on the financial statements expressed herein is consistent with the additional report to the Audit Committee of the Company, which we issued on 1 April 2020 in accordance with Article 11 of Regulation (EU) No. 537/2014 of the European Parliament and the Council.

*Provision of Non-audit Services*

We declare that no prohibited non-audit services referred to in Article 5(1) of Regulation (EU) No. 537/2014 of the European Parliament and the Council were provided by us to the Company. In addition, there are no other non-audit services which were provided by us to the Company and its controlled undertaking and which have not been disclosed in the financial statements.

*Statutory auditor responsible for the engagement*

Roman Hauptfleisch is the statutory auditor responsible for the audit of the financial statements of the Company as at 31 December 2019, based on which this independent auditor's report has been prepared.

Ernst & Young Audit, s.r.o.
License No. 401

Roman Hauptfleisch, Auditor
License No. 2009

7 April 2020
Prague, Czech Republic

# Teplárna Otrokovice a.s.

Financial Statements prepared in accordance with International Financial Reporting Standards as adopted by the European Union for the year ended 31 December 2019

# Statement of Profit and Loss

for the year ended 31 December 2019

| | Note | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|---|
| Revenue | 4 | 1,250,836 | 1,258,971 |
| Consumption of material and energy | | (747,958) | (718,732) |
| Services | | (129,240) | (131,755) |
| Personnel expenses | 5.5 | (111,095) | (108,389) |
| Depreciation and amortization | | (145,423) | (144,480) |
| Other operating income | 5.1 | 71,838 | 40,069 |
| Other operating expenses | 5.2 | (205,212) | (164,096) |
| Profit or loss on operating activities | | (16,254) | 31,588 |
| Interest expense, net | 5.3 | (62,659) | (50,318) |
| Other financial items, net | 5.4 | 3,142 | (6,418) |
| Financial profit/loss | | (59,517) | (56,736) |
| Pre-tax profit | | (75,771) | (25,148) |
| Income tax | 6 | 14,348 | 4,500 |
| Net profit for the year | | (61,423) | (20,648) |

# Statement of Other Comprehensive Income

for the year ended 31 December 2019

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Net profit for the year | (61,423) | (20,648) |
| Other comprehensive income (loss) for the year, net of tax | - | - |
| Total comprehensive income for the year, net of tax | (61,423) | (20,648) |

# Statement of Financial Position

as at 31 December 2019

| | Note | 2019 | 2018 |
|---|---|---|---|
| | | CZK 000 | CZK 000 |
| NON-CURRENT ASSETS | | | |
| Intangible assets | 8 | 91,791 | 83,436 |
| Tangible assets | 7 | 1,976,404 | 1,903,567 |
| Land | | 159,823 | 159,823 |
| Structures | | 901,676 | 899,867 |
| Movable assets and sets of movable assets | | 692,990 | 633,979 |
| Tangible fixed assets in progress | | 213,885 | 192,720 |
| Advances granted for tangible fixed assets | | 8,030 | 17,178 |
| Investments | 9.6 | 2,700 | 2,700 |
| Long-term receivables | | 28,451 | 28,317 |
| Total non-current assets | | 2,099,346 | 2,018,020 |
| CURRENT ASSETS | | | |
| Inventories | 10 | 89,841 | 89,781 |
| Trade receivables and other assets | 11 | 156,091 | 156,082 |
| Current income tax receivable | | 15,895 | 8,010 |
| Cash | 12 | 28,438 | 100,704 |
| Prepaid expenses and accrued income | | 939 | 796 |
| Total current assets | | 291,204 | 355,373 |
| TOTAL ASSETS | | 2,390,550 | 2,373,393 |
| EQUITY | | | |
| Basic capital | 13 | 10,000 | 10,000 |
| Reserves from profit | | 2,000 | 2,000 |
| Retained earnings of previous years | | 455,917 | 476,565 |
| Net profit for the year | | (61,423) | (20,648) |
| Total equity | | 406,494 | 467,917 |
| LIABILITIES | | | |
| Non-current liabilities | | | |
| Interest bearing loans from related parties | 9.2 | 431 | - |
| Interest bearing loans from credit institutions | 9.2 | 12,958 | 16,174 |
| Bonds | 9.2 | 1,240,829 | 1,238,287 |
| Other liabilities | 9.2 | 9,617 | - |
| Provisions | 15 | 8,376 | 6,706 |
| Deferred tax liability | 6 | 218,788 | 234,636 |
| Total non-current liabilities | | 1,490,999 | 1,495,803 |
| Current liabilities | | | |
| Provisions | 15 | 203,226 | 157,976 |
| Trade payables | 17 | 205,235 | 220,705 |
| Interest bearing loans from related parties | 9.2 | 50,215 | - |
| Interest bearing loans from credit institutions | 9.2 | 3,261 | 3,156 |
| Liabilities to employees | 17 | 9,892 | 12,170 |
| Current income tax liabilities | | - | - |
| Other liabilities | 17 | 10,578 | 10,503 |
| Accruals and deferred income | 16 | 10,650 | 5,163 |
| Total current liabilities | | 493,057 | 409,673 |
| Total liabilities | | 1,984,056 | 1,905,476 |
| TOTAL EQUITY AND LIABILITIES | | 2,390,550 | 2,373,393 |

# Statement of Changes in Equity

for the year ended 31 December 2019

| | Basic capital | Reserves from profit | Retained earnings of previous years | Net profit for the year | Total |
|---|---|---|---|---|---|
| | CZK 000 | CZK 000 | CZK 000 | CZK 000 | CZK 000 |
| As at 31 December 2017 | 10,000 | 2,000 | 543,282 | 68,283 | 623,565 |
| Profit allocation to retained earnings | - | - | 68,283 | (68,283) | - |
| Loss for the year | - | - | - | (20,648) | (20,648) |
| Other comprehensive income | - | - | - | - | - |
| Dividends | - | - | (135,000) | - | (135,000) |
| As at 31 December 2018 | 10,000 | 2,000 | 476,565 | (20,648) | 467,917 |
| Loss allocation to retained earnings | - | - | (20,648) | 20,648 | - |
| Loss for the year | - | - | - | (61,423) | (61,423) |
| Other comprehensive income | - | - | - | - | - |
| Dividends | - | - | - | - | - |
| As at 31 December 2019 | 10,000 | 2,000 | 455,917 | (61,423) | 406,494 |

# Statement of Cash-Flows

for the year ended 31 December 2019

| | 2019<br>*CZK 000* | 2018<br>*CZK 000* |
|---|---|---|
| ***Cash flows from operating activities*** | | |
| **Profit or loss on ordinary activities before taxation (+/-)** | (75,771) | (25,148) |
| Adjustments to reconcile profit or loss to net cash provided by or used in operating activities | 243,757 | 259,781 |
| *Depreciation and amortization of fixed assets and write-off of receivables* | 145,423 | 144,482 |
| *Change in allowances* | 197 | 1,435 |
| *Change in provisions* | 46,920 | 98,522 |
| *Foreign exchange differences* | - | - |
| *(Gain)/Loss on disposal of fixed assets* | 225 | (1,665) |
| *Interest expense and interest income* | 62,659 | 50,322 |
| *Other non-cash movements (e.g. revaluation at fair value to profit or loss)* | (11,667) | (33,315) |
| **Net cash from operating activities before taxation, changes in working capital and extraordinary items** | 167,986 | 234,633 |
| Change in non-cash components of working capital | 714 | 108,330 |
| *Change in inventory* | (533) | 8,242 |
| *Change in trade receivables* | 267 | (13,532) |
| *Change in other receivables and in prepaid expenses and unbilled revenue* | (143) | (554) |
| *Change in trade payables* | (15,470) | 126,183 |
| *Change in other payables, and in accruals and deferred income* | 16,593 | (12,009) |
| **Net cash from operating activities before taxation, interest paid and extraordinary items** | 168,700 | 342,963 |
| Interest paid | (60,957) | (48,508) |
| Income tax paid | (9,385) | (36,067) |
| **Net cash provided by (used in) operating activities** | 98,358 | 258,388 |
| ***Cash flows from investing activities*** | | |
| Purchase of fixed assets | (218,640) | (256,140) |
| Proceeds from sale of fixed assets | (225) | 1,665 |
| Loans granted | (134) | (27,294) |
| Interest received | 840 | 729 |
| Dividends received | - | - |
| **Net cash provided by (used in) investing activities** | (218,159) | (281,040) |
| ***Cash flows from financing activities*** | | |
| Change in long-term and short-term loans and borrowings | 47,535 | (3,271) |
| Proceeds from bond issue | - | - |
| Transaction costs on issue of bonds | - | - |
| Effect of changes in own capital on cash – dividends | - | (135,000) |
| **Net cash provided by (used in) financing activities** | 47,535 | (138,271) |
| **Net increase (decrease) in cash** | (72,266) | (160,923) |
| **Cash and cash equivalents at beginning of year** | 100,704 | 261,627 |
| **Cash and cash equivalents at end of year** | 28,438 | 100,704 |

# Contents

# 1. Corporate information

These separate financial statements of Teplárna Otrokovice a.s. ('the Company') for the year ended 31 December 2019 were authorized for issue in accordance with the resolution of the Board of Directors of 7 April 2020.

Teplárna Otrokovice a.s. is a joint-stock company incorporated and domiciled in the Czech Republic whose shares are not publicly traded. The Company is an issuer of bonds admitted to trading on a regulated market of Prague Stock Exchange. The registered office is located at Objízdná 1777, 765 02 Otrokovice. The Company is principally engaged in production and distribution of heat and generation and trading of electricity.

The Company's parent is LAMA ENERGY GROUP a.s., with its registered office at Na Florenci 2116/15, Nové Město, 110 00 Prague 1, holding 100% interest in the Company.

Information on related party relationships of the Company is provided in Note 20.

Members of statutory, supervisory and control bodies as at 31 December 2019 were as follows:

| Board of Directors | |
|---|---|
| Chair: | Petr Jeník |
| Vice-chair: | Patrik Brom |
| Member: | Jan Stuchlík |

| Supervisory Board | |
|---|---|
| Chair: | Petr Lamich |
| Vice-chair: | Miroslav Kopřiva |
| Member: | Jiří Veselý |
| Member: | Pavel Ondra |
| Member: | Pavla Gromusová |
| Member: | Bedřich Landsfeld |

| Audit committee | |
|---|---|
| Chair: | Václav Moll |
| Member: | Marek Janča |
| Member: | David Lamich |
| Member: | Pavel Průdek |

# 2. Significant accounting policies

## 2.1. Basis of preparation

The separate financial statements of the Company have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) as endorsed by the European Union (hereinafter 'IFRS as endorsed by EU' or 'IFRS').

As the Company became a public interest entity in 2017, IFRS is the Company's primary reporting framework and the Company has been preparing solely IFRS financial statements since 1 January 2017. For all periods up to and including the year ended 31 December 2016, the Company prepared its separate financial statements in accordance with local generally accepted accounting principles (Czech GAAP).

The Company also prepares consolidated financial statements in accordance with IFRS as endorsed by EU. The consolidated financial statements of Teplárna Otrokovice a.s. and its subsidiary for the year ended 31 December 2019 were authorized for issue in accordance with a resolution of the Board of Directors on 7 April 2020.

The financial statements have been prepared under the going concern assumption on a historical cost basis, except when IFRS requires other measurement basis as disclosed in the accounting policies below.

The financial statements are presented in Czech crowns (CZK), which is the Company's functional currency, and all values are rounded to the nearest thousand (CZK 000), except when otherwise indicated.

## 2.2. Summary of significant accounting policies

The following are the significant accounting policies applied by the Company in preparing its financial statements:

### 2.2.1. Current versus non-current classification

The Company presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

### 2.2.2. Fair value measurement

The Company measures financial instruments, such as derivatives, and non-financial assets such as investment properties, at fair value at each balance sheet date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed, are summarized in the following notes:

| | |
|---|---|
| Accounting policy disclosures | Note 2.2.2 |
| Disclosures for valuation methods, significant estimates and assumptions | Notes 3, 9 |
| Quantitative disclosures of fair value measurement hierarchy | Note 9 |
| Financial instruments (including those carried at amortized cost) | Note 9 |

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability

Or

- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible by the Company.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits from the asset's highest and best use or by selling it to another market participant that would utilize the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy. This is described, as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company's management determines the policies and procedures for both recurring fair value measurement, such as investment properties and unquoted available-for-sale financial assets, and for nonrecurring measurement, such as assets held for distribution in discontinued operations.

External valuers are involved for valuation of significant assets, such as properties and AFS financial assets, and significant liabilities, such as contingent consideration.

Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company's management decides, after discussions with the Company's external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Company's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The management, in conjunction with the Company's external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

On an interim basis, the management and the Company's external valuers present the valuation results to the Company's independent auditors. This includes a discussion of the major assumptions used in the valuations.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

### 2.2.3. Revenue recognition

The core principle of IFRS 15 – Revenue from Contracts with Customers is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Management has assessed that in relation to the products and services of the Company, revenue will be recognized for each performance obligations when control over the corresponding goods or services is transferred to customer.

Requirements to identify a contract with a customer

A contract with a customer meets its definition when all of the following criteria are met: the parties of the contract have approved the contract and are committed to perform their obligations; the Company can identify each party's rights regarding goods or services to be transferred; the Company can identify the payment terms for the goods or services to be transferred; the contract has commercial substance and it is probable that the Company will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer.

Identification of performance obligation

At contract inception the Company assesses the goods or services promised in the contract with a customer and identifies as a performance obligation each promise to transfer to the customer: goods or services (or a bundle of goods or services) that can be separated or groups of separate goods or services which are basically the same and for which the transfer to the customer is of the same nature.

Determination of transaction price

The Company considers the terms of the contract and its customary business practices to determine the transaction price. The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties (for example, some sales taxes). The consideration promised in the contract with a customer may include fixed amounts, variable amounts or both.

Allocating the transaction price to individual performance obligations

The Company allocates the transaction price to each performance obligation (or distinct good or service) at an amount that reflects the amount of consideration to which the Company expects to be entitled in exchange for transferring the promised goods or services to the customer.

Recognition of revenue when performance obligations are satisfied

The Company recognizes revenue when (or as) the Company satisfies performance obligations by transferring a promised good or service (i.e. an asset) to a customer (the customer obtains control of that asset). Revenue is recognized as amounts equal to the transaction price that has been allocated to a given performance obligation.

The Company transfers control of good or service over time and, therefore, satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- The customer simultaneously receives and consumes the benefits from performance as the Company performs;
- The asset is created or enhanced as a result of the performance, and the customer controls the asset as it is created or enhanced;
- As a result of the performance of the service, an alternative component for the Company is not created, and the Company has an enforceable right to payment for performance completed to date.

Specific revenue categories are treated by the Company as follows:

#### Revenue from sale of thermal energy and electricity

Revenue from the sale of thermal energy and electricity (hereinafter referred as 'the energies') is recognized upon their delivery. Total revenue from the sale of energies consists of billed amount of the energies supplied based on the reading of the measuring device as at the balance sheet date in the case of thermal and electrical energy or through unbilled revenue if the reading is not available as at the balance sheet date); the sales revenue is presented net of discounts and value added tax.

#### Sale of goods
Revenue from the sale of goods is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

#### Interest income
For all financial instruments measured at amortized cost and interest bearing financial assets classified as available-for-sale, interest income or expense is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the statement of profit or loss.

### 2.2.4. Foreign currencies
The Company's financial statements are presented in Czech crowns (CZK), which is also the Company's functional currency.

#### Transactions and balances
Transactions in foreign currencies are initially recorded by at the functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange ruling at the reporting date.

Differences arising on settlement or translation of monetary items are recognized in profit or loss with the exception of monetary items that are designated as part of the hedge of the Company's net investment of a foreign operation. These are recognized in OCI until the net investment is disposed of, at which time, the cumulative amount is classified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in OCI.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary measured at fair value is treated in line with the recognition of gain or loss on change in fair value in the item (i.e., the translation differences on items whose fair value gain or loss is recognized in OCI or profit or loss are also recognized in OCI or profit or loss, respectively).

### 2.2.5. Government grants
Government grants are recognized where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Company receives non-monetary grants, the asset and the grant are recorded gross at fair value and released to profit or loss over the expected useful life of the asset, based on the pattern of consumption of the benefits of the underlying asset by equal annual instalments. When loans or similar assistance are provided by governments or related institutions with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant.

For more details on accounting policy related to emission rights refer to Note 2.2.10.

### 2.2.6. Taxes

#### Current income tax
Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted at the reporting date.

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation, and it establishes provisions where appropriate.

#### Deferred tax
Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for: i) all deductible temporary differences and ii) the carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxation authority.

#### Value added tax

Revenues, expenses and assets are recognized net of the amount of value added tax, except:

- Where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case, the value added tax is recognized as part of the cost of acquisition of the asset or as part of the expense item, as applicable
- Receivables and payables are stated with the amount of value added tax included

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

### 2.2.7. Property, plant and equipment

Construction in progress, plant and equipment are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Company recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the profit or loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use, is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated based on the acquisition costs and the estimated useful life of the related asset. The useful economic lives are as follows:

| | Years |
|---|---|
| Construction | 30 – 45 |
| Machinery | 15 – 30 |
| Vehicles | 8 – 15 |
| Furniture and fixtures | 4 – 8 |

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

### 2.2.8. Leases

Until 31 December 2018, leases were classified as either finance or operating leases. Payments made under operating leases (less any lease incentives received from lessors) were charged to "services" on a straight-line basis over the lease term.

#### Application of IFRS 16 Leases as at 1 January 2019

IFRS 16 replaces IAS 17 Leases and related interpretations. The standard removes the current dual accounting model for lessees and instead requires companies to report most of their rental contracts on the balance sheet according to one model, eliminating the difference between operating and finance leases. Under IFRS 16, a contract is considered to be a lease if it gives the right to make decisions about the use of the asset during the period of use in exchange for consideration. For such contracts, the new model requires the lessee to recognize the used asset and the lease liability. The used asset is depreciated, and the related lease liability bears interest. This will be reflected in the majority of leases by the decrease of the leased lease costs over the term of the lease, even if the lessee pays constant lease instalments.

The Company used the modified retrospective method to apply IFRS 16 Leases, i.e. the comparatives were not restated and the cumulative effect of initially applying IFRS 16 Leases was recognized in equity as at 1 January 2019. The Company applied the following practical expedients to leases previously classified as operating leases:
- The Company elected to recognize leases for which the lease term ended within 12 months of the date of initial application as short-term leases under IFRS 16;
- The Company excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application.

As at 1 January 2019, the Company recognized a lease liability under contracts that were classified as "operating leases" under IAS 17. The liability was measured at the present value of the remaining lease payments that were discounted using the lessee's incremental borrowing rate as at 1 January 2019.

A right-of-use asset was measured at its carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at 1 January 2019. As at the date of initial application, the Company did not identify any onerous contracts requiring an adjustment of the right-of-use asset. In applying IFRS 16 Leases, the Company also assessed the economic nature of its lease contracts.

The effects on equity of the initial recognition of a right-of-use asset and a lease liability totaled CZK 0 thousand as at 1 January 2019.

Operating lease liabilities recognized in the financial statements for the year ended 31 December 2018 can be reconciled with the lease liability and the right-of-use asset as at 1 January 2019 as follows:

| (CZK 000) | 1 January 2019 |
|---|---|
| Operating lease liabilities recognized as at 31 December 2018 | 17,275 |
| Discounting effects | (843) |
| Practical expedient: short-term leases and low-value leases | 154 |
| Future lease payments for periods covered by an option to extend the lease | - |
| Lease liability under IFRS 16 as at 1 January 2019 | 16,586 |

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized in the statement of financial position at the date of initial application is 4.88%.

The right-of-use asset relates to the following asset categories:

| (CZK 000) | 1 January 2019 |
|---|---|
| Land | - |
| Buildings and structures | 12,408 |
| Office premises | 2,632 |
| Machinery and equipment | 1,546 |
| Other | - |
| Right-of-use asset under IFRS 16 | 16,586 |

Given the materiality, the Company recognized non-current assets arising from leases of CZK 16,586 thousand (see Note 7) in connection with the application of IFRS 16 Leases as at 1 January 2019, and a corresponding lease liability of the same amount (see Note 18).

### 2.2.9. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Borrowing costs incurred on or after the date of transition (1 January 2016) for all eligible qualifying assets are capitalized. The borrowing costs capitalized under Local GAAP on qualifying assets to the date of transition to IFRS are included in the carrying amount of assets at that date.

### 2.2.10. Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is recognized in the statement of profit or loss when it is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over their useful economic lives and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of profit or loss in the expense category consistent with the function of the intangible assets.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

The Company assessed all intangibles having finite useful lives and are amortized over period not exceeding five years.

#### Emission rights (emission allowances)

Emission rights held under national and international emission-rights systems for the settlement of obligations are reported as intangible assets. Because emission rights are not depleted as part of the production process, they are reported as intangible assets not subject to amortization. Emission rights are capitalized at cost at the time of acquisition or at fair value in case of emission rights provided for free.

A provision is recognized for emissions produced. The provision is measured at the carrying amount of the emission rights held or, in the case of a shortfall, at the current fair value of the emission rights needed. The expenses incurred for the recognition of the provision, if any, are reported under other operating expenses.

### 2.2.11. Financial instruments — initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

#### i) Financial assets

Initial recognition and measurement

The Company classifies financial assets into one of the following categories:

- Measured at amortized cost;

- Measured at fair value through other comprehensive income;

- Measured at fair value through profit or loss.

Debt financial assets are classified into the appropriate category based on the business model used for the management of financial assets and on the characteristics of contractual cash flows for a given financial asset.

Trade receivables, loans granted, other financial receivables and cash and cash equivalents are classified as assets measured at amortized cost.

Except for investments in subsidiaries, all financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, transaction costs that are attributable to the acquisition of the financial asset.

The table below presents the classification and measurement of the Company's financial assets:

| Financial instrument by type | Classification under IFRS 9 |
|---|---|
| Loans | Assets measured at amortized cost |
| Trade and other receivables | Assets measured at amortized cost |
| Cash and cash equivalents | Assets measured at amortized cost |

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date on which the Company commits to purchase or sell the asset

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as described below:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit and loss are carried in the statement of financial position at fair value with net changes in fair value presented as finance income (positive net changes in fair value) or finance costs (negative net changes in fair value) in the statement of profit or loss.

Derivatives embedded in host contracts are accounted for as separate derivatives if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held-for-trading or designated at fair value though profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognized in the statement of profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss.

Assets measured at amortized cost

This category is the most relevant to the Company. Assets measured at amortized cost include loans and trade receivables. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate (EIR) method, less impairment, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the statement of profit or loss. The losses arising from impairment are recognized in the statement of profit or loss in finance costs for loans and in cost of sales or other operating expenses for receivables. This category generally applies to trade and other receivables. For more information on receivables, refer to Note 11.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired, or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through arrangement, and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and, to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of it, the asset is recognized to the extent of its continuing involvement in it. In that case, the Company also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

### ii) Impairment of financial assets

Disclosures relating to impairment of financial assets are summarized in the following notes:

- Accounting policy disclosures Note 2.3.12
- Disclosures for significant assumptions Note 3
- Financial assets Note 9
- Trade receivables Note 11

The impairment model for financial assets is based on the expected loss calculation. The most important items of financial assets in the Company's financial statements, which are subject to the new principles of calculating expected credit losses, are trade receivables.

The Company uses the simplified model for determining impairment allowances of trade receivables. In the model, the Company does not monitor changes in the credit risk level during the life of the instrument and estimates the expected credit loss in the horizon up to maturity of the instrument. For the purpose of estimating the expected credit loss, the Company uses a provision matrix estimated on the basis of historical levels of repayment and recoveries of receivables from customers. The Company includes prospective information in the parameters used in the expected loss estimation model, through the management adjustment of the basic insolvency probability parameters. To calculate the expected credit loss, the Company determines the probability parameter of receivables defaults estimated on the basis of the analysis of the number of unpaid invoices in the last five years, and the liabilities default rate estimated on the basis of the value of unpaid invoices in the last five years. The expected credit loss is calculated when the receivable is recognized in the statement of financial position and is updated at the end of every subsequent reporting period, depending on the number of days to maturity.

Investments in subsidiaries

Investments in subsidiaries are carried at cost. Impaired investments are provided for or written off.

### iii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, financial liabilities measured at amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value, in the case of financial liabilities measured at amortized cost, net of directly attributable transaction costs.

The Company's financial liabilities include trade and other payables, loans and borrowings, bonds, bank overdrafts, financial guarantee contracts, and derivative financial instruments.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held-for-trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held-for-trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Company that are not designated as hedging instruments in hedge relationships as defined by IFRS 9. Separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held-for-trading are recognized in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in IFRS 9 are satisfied. The Company has not designated any financial liabilities as at fair value through profit or loss.

Financial liabilities measured at amortized cost

This is the category most relevant to the Company. After initial recognition, financial liabilities measured at amortized cost are subsequently measured at amortized cost using the effective interest rate method. Gains and losses are recognized in the statement of profit or loss when the liabilities are derecognized as well as through the effective interest rate method (EIR) amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance costs in the statement of profit or loss.

This category generally applies to interest-bearing loans and borrowings and bonds.

Financial guarantee contracts

Financial guarantee contracts issued by the Company are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation at the reporting date and the amount recognized less cumulative amortization.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the statement of profit or loss.

#### iv) Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the statement of financial position only if there is a current enforceable legal right to offset the recognized amounts and an intent to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

### 2.2.12. Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Company uses derivative financial instruments such as forward currency contracts, interest rate swaps and forward commodity contracts to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

The fair value of commodity contracts that meet the definition of a derivative as defined by IFRS 9 are recognized in the statement of profit or loss as cost of sales. Commodity contracts that are entered into and continue to be held for the purpose of the receipt or delivery of a non-financial item in accordance with the Company's expected purchase, sale or usage requirements are held at cost.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognized in OCI and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment (except for foreign currency risk)
- Cash flow hedges when hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability or a highly probable forecast transaction or the foreign currency risk in an unrecognized firm commitment
- Hedges of a net investment in a foreign operation

At the inception of a hedge relationship, the Company formally designates and documents the hedge relationship to which the Company wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as described below:

Fair value hedges

The change in the fair value of an interest rate hedging derivative is recognized in the statement of profit or loss in finance costs. The change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in the statement of profit or loss in finance costs.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through the statement of profit or loss over the remaining term of the hedge using the EIR method. Effective interest rate amortization may begin as soon as an adjustment exists and no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

If the hedge item is derecognized, the unamortized fair value is recognized immediately in the statement of profit or loss.

When an unrecognized firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognized as an asset or liability with a corresponding gain or loss recognized in the statement of profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognized in OCI in the cash flow hedge reserve, while any ineffective portion is recognized immediately in the statement of profit or loss as other operating expenses.

Amounts recognized as OCI are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale occurs. When the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognized as other comprehensive income are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction or firm commitment is no longer expected to occur, the cumulative gain or loss previously recognized in equity is transferred to profit or loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss previously recognized in other comprehensive income remains separately in equity until the forecast transaction occurs or the foreign currency firm commitment affects profit or loss.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized as other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the statement of profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the statement of profit or loss.

### 2.2.13. Inventories

Inventories are valued at the lower of cost and net realizable value. The inventories are stated at actual costs being determined using the weighted average method. Costs of purchased inventory include acquisition-related costs (mainly freight, customs, etc.). Coal and biomass inventories are stated at actual costs being determined using the standard costing and price variances; price variances, including the related costs, are calculated on a monthly basis.

Initial cost of raw materials includes the transfer of gains and losses on qualifying cash flow hedges, recognized in other comprehensive income, if any.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

### 2.2.14. Impairment of non-financial assets

Disclosures relating to impairment of non-financial assets are summarized in the following notes:

- Accounting policy disclosures Note 2.2.14
- Disclosures for significant assumptions Note 3
- Property, plant and equipment Note 7
- Intangible assets Note 8

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. It is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

The Company bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Company's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations are recognized in the statement of profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to OCI. In this case, the impairment is also recognized in OCI up to the amount of any previous revaluation.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss unless the asset is carried at a revalued amount, in which case the reversal is treated as a revaluation increase.

The following criteria are also applied in assessing impairment of specific assets:

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

### 2.2.15. Cash and short-term deposits

Cash and short-term deposits in the statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Company's cash management.

### 2.2.16. Cash dividend and non-cash distribution to owners of equity

The Company recognizes a liability to make cash or non-cash distributions to owners of equity when the distribution is authorized and the distribution is no longer at the discretion of the Company. As per the business corporation law applicable in the Czech Republic, a distribution is authorized when it is approved by the shareholders. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity.

Upon settlement of the distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in profit or loss.

### 2.2.17. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the statement of profit or loss net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Greenhouse gas emissions (emission rights)

The Company receives free emission rights in the Czech Republic as a result of the European Emission Trading Schemes. The rights are received on an annual basis and in return the Company is required to remit rights equal to its actual emissions. A provision is recognized for emissions produced. The provision is measured at the carrying amount of the emission rights held or, in the case of a shortfall, at the current fair value of the emission rights needed. The expenses incurred for the recognition of the provision, if any, are reported under other operating expenses.

### 2.2.18. Pensions and other long-term employment benefits

The Company provides long-term employment benefits, where employees are entitled to benefits dependent on the number of years of employment, jubilee bonuses and bonuses paid upon retirement of an employee. There is no liability to the Company after the employee is retired or employment ceased.

The cost of providing the benefits is determined using the projected unit credit method and the long-term employment benefit costs are recognized in the profit and loss as a personnel expense.

### 2.2.19. New standards adopted in 2019

IFRS 16 Leases

The Company newly applied IFRS 16 Leases. For details, including the quantification of the related effects, please refer to Note 2.2.8

# 3. Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Judgements

In the process of applying the Company's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

Products

The management monitors the company's performance in two principal products:

- Thermal energy
- Electricity

Due to the nature of the production the costs (comprising namely fixed assets depreciation and raw materials consumption) used to produce the energies are shared and largely indistinguishable and any allocation of the costs related to the two main products would be arbitrary and unreliable. Due to this fact the management concluded that there are no separate reportable segments.

Deemed costs

The Company applied certain exemptions from IFRS. The exemption that has the most significant impact on the financial statements is the usage of deemed costs for property, plant and equipment based on fair values established in 2013.

Embedded derivatives in purchase contracts

The Company entered into long-term contracts to purchase of coal it uses in production. The Company analysed the contracts and concluded they are not in scope of IFRS 9 and has not separated the embedded derivatives as the embedded derivative is clearly and closely related to the host commodity contract.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Impairment of non-financial assets

An impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length for similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. The Company performs impairment tests at least annually or if indicators of impairment exists.

Long-term employment benefits

The cost of long-term employment benefits and the present value of the related obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate and attrition rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, an obligation from the long-term employment benefits is sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of corporate bonds in currencies consistent with the currencies of the benefit obligation with at least an 'AA' rating or above, as set by an internationally acknowledged rating agency, and extrapolated as needed along the yield curve to correspond with the expected term of the long-term employment benefits. The attrition rate is based on historical figures. Further details about long-term employment benefit obligations are provided in Note 15.

# 4. Revenue and segment information

As discussed in Note 3, due to the nature of the production the Company has no separate reportable segments i.e. the whole Company is one segment.

Revenue from external customers by product and services

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Sales of thermal energy | 575,709 | 566,656 |
| Sales of electricity and related services | 658,746 | 678,233 |
| Other | 16,381 | 14,082 |
| Total Revenue | 1,250,836 | 1,258,971 |

Geographical information about non-current assets and revenues

All Company's non-current assets are located in the Czech Republic. All revenues are from customers based in the Czech Republic.

Information about major customers

The revenue from each of the two largest customers amount to more than 10% individually. The revenue in the respective years from these customers were as follows:

| | 2019 | 2018 | 2019 | 2018 |
|---|---|---|---|---|
| | Revenue | Revenue | Share on total Company's revenue | |
| | CZK 000 | CZK 000 | % | % |
| Customer 1 | 771,767 | 738,075 | 62 % | 59 % |
| Customer 2 | 143,177 | 155,273 | 12 % | 12 % |

# 5. Other income and expenses

## 5.1. Other operating income

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Granted emission rights | 55,955 | 35,414 |
| Other income | 15,883 | 4,655 |
| Total Other operating income | 71,838 | 40,069 |

For more details on the Company's accounting policy on accounting for emission rights please refer to Note 2.2.10.

## 5.2. Other operating expenses

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Provision for emission allowances | 193,474 | 153,371 |
| Other expenses | 11,738 | 10,725 |
| Total Other operating expenses | 205,212 | 164,096 |

## 5.3. Interest expense

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Interest income | (840) | (732) |
| Interest expense | 63,499 | 51,050 |
| Interest expense, net | 62,659 | 50,318 |

## 5.4. Other financial items

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Foreign exchange gains (losses), net | (32) | (8) |
| Fair value gain (loss) on financial instruments at fair value through profit or loss, net | 3,246 | (6,433) |
| Bank and similar fees | (72) | (211) |
| Other | - | 234 |
| Total Other financial items, net | 3,142 | (6,418) |

## 5.5. Personnel expenses

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Wages and salaries including management remuneration | 80,235 | 76,992 |
| Social security costs | 26,271 | 25,715 |
| Other personnel expenses | 3,858 | 2,929 |
| Employment benefits | 731 | 2,753 |
| Total Personnel expenses | 111,095 | 108,389 |

Bonuses to members of statutory and supervisory bodies in CZK 000:

| Body | 2019 | 2018 |
|---|---|---|
| Board of Directors | 5,865 | 6,890 |
| Supervisory Board | 1,020 | 1,140 |
| Audit Committee | 480 | 476 |
| Total | 7,365 | 8,506 |

# 6. Income tax

The major components of income tax expense for the years ended 31 December 2019 and 31 December 2018 are:

Statement of profit or loss

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Current income tax: | | |
| Current income tax charge | 1,507 | 21,079 |
| Adjustments in respect of current income tax of previous year | (7) | 7 |
| Deferred tax: | | |
| Relating to origination and reversal of temporary differences | (15,848) | (25,586) |
| Income tax expense reported in the statement of profit or loss | (14,348) | (4,500) |

Statement of other comprehensive income

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Deferred tax related to items recognized in other comprehensive income during the year: | - | - |
| Income tax recognized in other comprehensive income | - | - |

A reconciliation between tax expense and the product of accounting profit multiplied by Czech domestic tax rate for the years ended 31 December 2019 and 31 December 2018 is as follows:

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Accounting profit before income tax | (75,771) | (25,148) |
| At Czech statutory income tax rate of 19% | (14,396) | (4,778) |
| Adjustments in respect to current income tax of previous years | (7) | 7 |
| Non-deductible expense, non-taxable income for tax purposes | 55 | 271 |
| Income tax expense reported in the statement of profit or loss | (14,348) | (4,500) |
| Effective tax rate | 18.9% | 17.9% |

Deferred tax

Deferred tax relates to the following:

| | Statement of Financial Position | | Statement of Profit or Loss | |
|---|---|---|---|---|
| | 2019<br>CZK 000 | 2018<br>CZK 000 | 2019<br>CZK 000 | 2018<br>CZK 000 |
| Difference in net book value of non-current assets for tax purposes | (260,862) | (266,298) | 5,436 | 7,476 |
| Provisions and valuation allowances | 39,591 | 32,653 | 6,938 | 16,927 |
| Leases | 1,827 | - | 1,827 | (1) |
| Amortization of loans using effective interest rate | (1,932) | (2,397) | 465 | 483 |
| Employment benefits | 2,588 | 1,406 | 1,182 | 701 |
| Deferred tax (expense)/income | | | 15,848 | 25,586 |
| Net deferred tax assets/(liabilities) | (218,788) | (234,636) | | |
| Reflected in the statement of financial position as follows: | | | | |
| Deferred tax assets | - | - | | |
| Deferred tax liabilities | (218,788) | (234,636) | | |
| Deferred tax liabilities net | (218,788) | (234,636) | | |

Reconciliation of deferred tax liabilities, net

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Opening balance as at 1 January | (234,636) | (260,222) |
| Tax income/(expense) during the period recognized in profit or loss | 15,848 | 25,586 |
| Tax income/(expense) during the period recognized in other comprehensive income | - | - |
| Closing balance as at 31 December | (218,788) | (234,636) |

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

# 7. Property, plant and equipment

| Cost | Land CZK 000 | Structures CZK 000 | Movable assets and sets of movable assets CZK 000 | Leased movable assets CZK 000 | Tangible fixed assets in progress CZK 000 | Advances granted for tangible fixed assets CZK 000 | Total CZK 000 |
|---|---|---|---|---|---|---|---|
| At 31 December 2017 | 159,823 | 1,193,750 | 1,067,515 | 1,638 | 35,643 | 16,537 | 2,474,906 |
| Additions | - | - | - | - | 271,249 | 641 | 271,890 |
| Transfers | - | 16,839 | 97,333 | - | (114,172) | - | - |
| Disposals | - | (110) | (21,775) | - | - | - | (21,885) |
| At 31 December 2018 | 159,823 | 1,210,479 | 1,143,073 | 1,638 | 192,720 | 17,178 | 2,724,911 |
| Additions* | - | - | - | 16,586 | 201,355 | - | 217,941 |
| Transfers | - | 50,952 | 138,322 | - | (180,126) | (9,148) | - |
| Disposals | - | - | (13,155) | (1,742) | (64) | - | (14,961) |
| At 31 December 2019 | 159,823 | 1,261,431 | 1,268,240 | 16,482 | 213,885 | 8,030 | 2,927,891 |
| | | | | | | | |
| Accumulated depreciation | | | | | | | |
| At 31 December 2017 | - | 249,839 | 447,922 | 1,601 | - | - | 699,362 |
| Depreciation charge for the year | - | 60,883 | 82,947 | 37 | - | - | 143,867 |
| Disposals | - | (110) | (21,775) | - | - | - | (21,885) |
| At 31 December 2018 | - | 310,612 | 509,094 | 1,638 | - | - | 821,344 |
| Depreciation charge for the year | - | 49,143 | 88,927 | 6,970 | - | - | 145,040 |
| Disposals | - | - | (13,155) | (1,742) | - | - | (14,897) |
| At 31 December 2019 | - | 359,755 | 584,866 | 6,866 | - | - | 951,487 |
| | | | | | | | |
| Net book value | | | | | | | |
| At 31 December 2018 | 159,823 | 899,867 | 633,979 | - | 192,720 | 17,178 | 1,903,567 |
| At 31 December 2019 | 159,823 | 901,676 | 683,374 | 9,617 | 213,885 | 8,030 | 1,976,404 |

Note*: Additions to 'Leased movable assets' reflect the effects of the application of IFRS 16 – Leases (see also the disclosures below and Note 18).

Capitalized borrowing costs

The amount of borrowing costs capitalized during the year ended 31 December 2019 was CZK 0 thousand (2018: CZK 0 thousand).

Leases

The net book value of plant and equipment held under leases at 31 December 2019 was CZK 9,617 thousand (2018: CZK 0 thousand).

Land and buildings

Land and buildings were subject to a first charge to secure the Company's bank loans. The Company refinanced and fully repaid its long-term bank loans by issuing bonds in December 2017 and the pledge was removed in January 2018.

Assets under construction and advances granted for tangible fixed assets

The balances of assets under construction as at 31 December 2019 and 2018 include, in particular, expenditures on enhancing efficiency and environmental compliance of existing boilers and on building infrastructure to connect customers.

Impairment

In 2019 and 2018 the Company performed impairment test of Property, Plant and Equipment. The impairment test involves determining the recoverable amount of an asset or a CGU. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. Value in use is the present value of the future cash flows expected to be derived from an asset or a cash-generating unit. Value in use is determined on the basis of an enterprise valuation model and is assessed from a Company internal perspective.

Values in use are determined based on the medium-term budget for a period of 5 years and on the anticipated development of the expected cash flows in the long-term, which is valid when the impairment test is performed. These budgets are based on the past experience, as well as on the anticipated future market trends and on the macroeconomic development.

The development of commodity prices, namely coal prices, the development of emission right prices and the anticipated demand from key customers are the key assumptions used for the valuation model.

The calculations of value in use are most sensitive to the following assumptions:

Prices of key inputs – Overall profitability is affected especially by the coal prices and prices of emission rights. Forecast figures are used if data is available, otherwise past actual raw material price movements have been used as an indicator of future price movements.

Discount rate – Discount rate reflects the management’s estimate of the risk specific to the business. The basis used to determine the value assigned is weighted average cost of capital (WACC) of the business.

Estimated growth rate – The basis used to determine the value assigned to estimated growth rate is the anticipated future development of the market and interest rates, changes in strategy of the Company and LAMA Group, and the forecast of the regulatory environment, where the Company conduct the business.

As a results of impairment tests performed, no impairment has been recognized in 2019 and 2018 financial statements.

# 8. Intangible assets

| | Software CZK 000 | Other intangible assets CZK 000 | Intangible assets in progress and advances granted CZK 000 | Total CZK 000 |
|---|---|---|---|---|
| Cost | | | | |
| At 31 December 2017 | 8,798 | 48,188 | 15,000 | 71,986 |
| Additions | - | - | 78,202 | 78,202 |
| Transfers | 388 | 92,814 | (93,202) | - |
| Disposals | (298) | (58,540) | - | (58,838) |
| At 31 December 2018 | 8,888 | 82,462 | - | 91,350 |
| Additions | - | - | 156,269 | 156,269 |
| Transfers | 239 | 155,950 | (156,189) | - |
| Disposals | (201) | (147,531) | - | (147,732) |
| At 31 December 2019 | 8,926 | 90,881 | 80 | 99,887 |
| | | | | |
| Accumulated amortization | | | | |
| At 31 December 2017 | 7,588 | 11 | - | 7,599 |
| Amortization charge for the year | 613 | - | - | 613 |
| Disposals | (298) | - | - | (298) |
| At 31 December 2018 | 7,903 | 11 | - | 7,914 |
| Amortization charge for the year | 383 | - | - | 383 |
| Disposals | (201) | - | - | (201) |
| At 31 December 2019 | 8,085 | 11 | - | 8,096 |
| | | | | |
| Net book value | | | | |
| At 31 December 2018 | 985 | 82,451 | - | 83,436 |
| At 31 December 2019 | 841 | 90,870 | 80 | 91,791 |

Other intangible assets

Included in the other intangible assets are emission rights. The balances measured at cost were as follows:

| | Purchased emission rights CZK 000 |
|---|---|
| At 31 December 2017 | 48,177 |
| At 31 December 2018 | 82,451 |
| At 31 December 2019 | 90,870 |

For details on the accounting policy adopted by the Company for measuring the emission rights please refer to Note 2.2.10.

# 9. Financial assets and financial liabilities

## 9.1. Financial assets

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Derivatives not designated as hedging instruments: | | |
| Interest rate swaps | 3,692 | - |
| Total financial instruments at fair value | - | - |
| Financial assets at amortized cost: | | |
| Trade receivables and other assets | 180,850 | 184,399 |
| Total financial assets | 184,542 | 184,399 |
| Of which: | | |
| Total current | 156,091 | 156,082 |
| Total non-current | 28,451 | 28,317 |

Derivatives not designated as hedging instruments reflect the positive change in fair value of interest rate swap contracts that are not formally designated as hedge relationships, but are nevertheless intended to reduce the level of interest rate risk of floating interest-bearing loans and bonds.

## 9.2. Financial liabilities

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Derivatives not designated as hedging instruments: | | |
| Interest rate swaps | - | 2,097 |
| Total financial liabilities at fair value | - | 2,097 |
| Other financial liabilities at amortized cost, other than interest-bearing loans, borrowings and bonds: | | |
| Trade and other payables | 212,531 | 224,000 |
| Total other financial liabilities | 212,531 | 226,097 |
| Of which: | | |
| Total current | 209,531 | 222,097 |
| Total non-current | 3,000 | 4,000 |

Derivatives not designated as hedging instruments reflect the positive change in fair value of interest rate swap contracts that are not formally designated in hedge relationships, but are nevertheless intended to reduce the level of interest rate risk of floating interest-bearing loans and bonds.

### Interest-bearing loans and borrowings, including bonds

| | Interest rate | Maturity | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|---|---|
| Current interest-bearing loans and borrowings | | | | |
| Lease liabilities | 4.8% | 2020 | 3,020 | - |
| Bank loan | - | - | - | - |
| Other loans for financing non-current assets (short-term portion) | 3.1%-3.6% | 2024 | 3,261 | 3,156 |
| Loan from shareholders | 3.0%-3.2% | 2020 | 50,215 | - |
| Total current interest-bearing loans and borrowings | | | 56,496 | 3,156 |
| Non-current interest-bearing loans and borrowings | | | | |
| Lease liabilities | 4.8% | 2024 | 6,597 | - |
| Bonds | PRIBOR + 2.8% | 2023 | 1,240,829 | 1,238,287 |
| Other loans for financing non-current assets | 3.1%-3.6% | 2024 | 12,958 | 16,174 |
| Loan from shareholders | 3.0% | 2022 | 431 | - |
| Total non-current interest-bearing loans and borrowings | | | 1,260,815 | 1,254,461 |
| Total interest-bearing loans and borrowings | | | 1,317,311 | 1,257,617 |

On 15 December 2018, the Company entered into a revolving loan agreement up to the limit of CZK 200,000 thousand with the parent company LAMA ENERGY GROUP a. s. The agreement has the following covenants: The Company, as a borrower, is entitled to a partial and repeated drawdown up to the above limit, provided the restrictions stipulated by Art. 4.2. of the issuing conditions of bonds maintained under ISIN CZ0003517732 and title "TEPL. OTR. VAR/23 Bonds" are met. The interest rate is set at 3.20% p. a. The loan will mature on 15 December 2020. Interest on the outstanding amount will be calculated annually at the end of each calendar year and will be due on 15 January of the subsequent year. The revolving

loan has been granted for the period of two years from the date the agreement is entered into. In 2019, the Company drew a loan of CZK 50,000 thousand; no loan was drawn in 2018. On 2 September 2019, an amendment was signed to the above loan contract, stipulating the subordination of the receivable arising from the contract.

Pursuant to the agreement entered on 12 September 2019, the Company took over a portion of the debt of LAMA lighting technologies s.r.o. owed to LAMA ENERGY GROUP a.s.; the portion of CZK 700 thousand is due by 31 December 2022, is payable in equal quarterly installments and bears interest at the rate of 3.0% p.a. By taking over the debt, the Company settled its liability to LAMA lighting technologies s.r.o. incurred under the purchase agreement of 28 August 2019 for the purchase of two passenger cars. The first installment was paid as at 31 December 2019; the balance of the debt at the balance sheet date was CZK 646 thousand.

Reconciliation of liabilities from financing activities

| | Bank loans and bonds | Other long-term liabilities | Loan from shareholders | Lease liabilities | Total liabilities from financing activities |
|---|---|---|---|---|---|
| | CZK 000 | CZK 000 | CZK 000 | CZK 000 | CZK 000 |
| Amount presented on balance sheet as at 1 January 2019 | 1,238,287 | 19,330 | - | - | 1,257,617 |
| Net cash flows | - | (3,111) | 50,646 | - | 47,535 |
| Foreign exchange movement | - | - | - | - | - |
| Changes in fair values | - | - | - | - | - |
| Other | 2,542 | - | - | 9,617 | 12,159 |
| Amount presented on balance sheet as at 31 December 2019 | 1,240,829 | 16,219 | 50,646 | 9,617 | 1,317,311 |

Bonds

On 21 December 2017 the Company issued bonds TEPL. OTR. VAR/23 (ISIN CZ0003517732) that were accepted for trading on Prague Stock Exchange. Nominal amount of one bond is CZK 3,000 thousand. The bonds were subscribed in total nominal amount of CZK 1,251,000 thousand. The bonds VAR/23 bear interest of 6M PRIBOR + 2.8%, which is payable semi-annually on 21 June and 21 December each year. The ultimate maturity of the bonds is 21 December 2023. The bonds could be repaid up to one year before its ultimate maturity, subject to meeting certain conditions. The proceeds from the bonds were predominantly used to repay bank loans and borrowings.

## 9.3. Hedging activities and derivatives

Derivatives not designated as hedging instruments

The Company uses interest rate swaps to manage interest rate risk. These contracts are not designated as cash flow, fair value or net investment hedges and are entered into for periods broadly consistent with the maturity of the underlying interest-bearing borrowings.

The Company has not designated any other derivative as a hedging instrument.

## 9.4. Fair values

Set out below is a comparison by class of the carrying amounts and fair values of the Company's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

| | Carrying amount | | Fair value | |
|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 |
| Financial assets | CZK 000 | CZK 000 | CZK 000 | CZK 000 |
| Interest rate swaps | 3,692 | - | 3,692 | - |
| Loans and receivables | 606 | 472 | 536 | 418 |
| Total financial assets | 4,298 | 472 | 4,228 | 418 |
| | | | | |
| Financial liabilities | | | | |
| Lease liabilities | 9,617 | - | 9,821 | - |
| Bank loan | - | - | - | - |
| Bonds | 1,240,829 | 1,238,287 | 1,251,000 | 1,251,000 |
| Other loans for financing non-current assets | 16,219 | 19,330 | 15,671 | 18,568 |
| Loan from shareholders | 50,646 | - | 50,646 | - |
| Interest rate swaps | - | 2,097 | - | 2,097 |
| Total financial liabilities | 1,317,311 | 1,259,714 | 1,327,138 | 1,271,665 |

The management assessed that cash and short-term deposits, trade receivables, trade payables and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate receivables/borrowings are evaluated by the Company based on parameters such as interest rates, specific country risk factors, individual creditworthiness of the customer and the risk characteristics of the financed item.
- The fair values of the quoted notes and bonds are based on price quotations at the reporting date. The fair value of unquoted instruments, loans from banks and other financial liabilities, lease liabilities, as well as other non-current financial liabilities is estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities. In addition to being sensitive to a reasonably possible change in the forecast cash flows or the discount rate, the fair value of the equity instruments is also sensitive to a reasonably possible change in the growth rates. The valuation requires management to use unobservable inputs in the model, of which the significant unobservable inputs are disclosed in the tables below. Management regularly assesses a range of reasonably possible alternatives for those significant unobservable inputs and determines their impact on the total fair value.
- The Company enters into derivative financial instruments principally with financial institutions with investment grade credit ratings. Interest rate swaps are valued using valuation techniques, which employ the use of market observable inputs. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, yield curves of the respective currencies and interest rate curves. As at 31 December 2019 and 31 December 2018 the marked-to market values of derivative asset positions are net of a credit valuation adjustment attributable to derivative counterparty default risk. The changes in counterparty credit risk had no material effect on the financial instruments recognized at fair value.
- The fair values of the Company's interest-bearing borrowings and loans are determined by using DCF method using discount rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 31 December 2019 and 31 December 2018 was assessed to be insignificant.

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

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

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The following table provides the fair value measurement hierarchy and quantitative disclosures of the Company's financial assets and liabilities 31 December 2019:

| | Date of valuation | Total CZK 000 | Level 1 CZK 000 | Level 2 CZK 000 | Level 3 CZK 000 |
|---|---|---|---|---|---|
| Financial assets measured at fair value: | | | | | |
| Interest rate swaps | 31 December 2019 | 3,692 | - | 3,692 | - |
| Financial assets for which fair values are disclosed: | | | | | |
| Loans and receivables | 31 December 2019 | 536 | - | - | 536 |
| Financial liabilities measured at fair value: | | | | | |
| Interest rate swaps | 31 December 2019 | - | - | - | - |
| Financial liabilities for which fair values are disclosed: | | | | | |
| Finance lease liabilities | 31 December 2019 | 9,821 | - | 9,821 | - |
| Bonds | 31 December 2019 | 1,251,000 | - | 1,251,000 | - |
| Other loans for financing non-current assets | 31 December 2019 | 15,671 | - | 15,671 | - |
| Loan from shareholders | 31 December 2019 | 50,646 | - | 50,646 | - |

The following table provides the fair value measurement hierarchy and quantitative disclosures of the Company's financial assets and liabilities 31 December 2018:

| | Date of valuation | Total CZK 000 | Level 1 CZK 000 | Level 2 CZK 000 | Level 3 CZK 000 |
|---|---|---|---|---|---|
| Financial assets measured at fair value: | | | | | |
| Interest rate swaps | 31 December 2018 | - | - | - | - |
| Financial assets for which fair values are disclosed: | | | | | |
| Loans and receivables | 31 December 2018 | 418 | - | - | 418 |
| Financial liabilities measured at fair value: | | | | | |
| Interest rate swaps | 31 December 2018 | 2,097 | - | 2,097 | - |
| Financial liabilities for which fair values are disclosed: | | | | | |
| Finance lease liabilities | 31 December 2018 | - | - | - | - |
| Bonds | 31 December 2018 | 1,251,000 | - | 1,251,000 | - |
| Other loans for financing non-current assets | 31 December 2018 | 18,568 | - | 18,568 | - |

There were no transfers between the levels during 2019 and 2018.

## 9.5. Financial instruments risk management objectives and policies

The Company's principal financial liabilities, other than derivatives, comprise loans and borrowings, including bonds, trade and other payables, and financial guarantee contracts. The main purpose of these financial liabilities is to finance the Company's operations and to provide guarantees to support its operations. The Company's principal financial assets include loan and other receivables, trade and other receivables, and cash and short-term deposits that arrive directly from its operations. The Company also enters into derivative transactions.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks. The Company's senior management is supported by senior management team of the ultimate parent that advises on financial risks and the appropriate financial risk governance framework for the Company. The involvement of the ultimate parent's senior management provides additional assurance to the Company's senior management that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company's policies and Company's risk appetite. All derivative activities for risk management purposes are carried out by specialist teams that have the appropriate skills, experience and supervision. It is the Company's policy that no trading in derivatives for speculative purposes may be undertaken. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarized below.

### Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market prices comprise three types of risk: interest rate risk, currency risk and other price risk such as equity price risk and commodity price risk. Financial instruments affected by market risk include: loans and borrowings, including bonds, deposits and derivative financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 December in 2019 and 31 December 2018.

The sensitivity analyses have been prepared on the basis that the amount of net debt, the ratio of fixed-to floating interest rates of the debt and derivatives and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31 December 2019 and 31 December 2018.

The analyses exclude the impact of movements in market variables on the carrying value of employment long-term benefit obligations and provisions.

The following assumptions have been made in calculating the sensitivity analyses:

- The sensitivity of the relevant statement of profit or loss item is the effect of the assumed changes in respective market risks. This is based on the financial assets and financial liabilities held at 31 December 2019 and 31 December 2018 including the effect of hedge accounting.

### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's long-term debt obligations with floating interest rates.

The Company manages its interest rate risk by having a portfolio of fixed and variable rate loans. The Company enters into interest rate swaps, in which it agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2019, after taking into account the effect of interest rate swaps, approximately 51% of the Company's borrowings are at a fixed rate of interest (2018: 44%).

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in interest rates on loans and borrowings, including bonds, after the impact of interest rate swaps. With all other variables held constant, the Company's profit before tax is affected through the impact on floating rate borrowings, as follows:

| | Increase/ decrease in basis points | Effect on profit before tax CZK 000 |
|---|---|---|
| 2019 | 50 | (3,204) |
| | (25) | 1,602 |
| 2018 | 50 | (3,503) |
| | (25) | 1,752 |

All loans and bonds are denominated in CZK.

### Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates is nominal as vast majority of activities are denominated in Company's functional currency CZK. The Company's management uses economic hedging – concluding purchase contracts in the same currency as the sales contracts – i.e. CZK. The Company is exposed indirectly to fluctuations in foreign currencies as the CZK price of purchased fuel and emission allowances is broadly responsive to development on prices on international markets, denominated in USD and EUR.

Foreign currency sensitivity

With all other variables held constant, the Company's profit before tax is not sensitive to reasonably possible changes in foreign exchange rates as the Company's exposure to foreign currency changes is not material as at 31 December 2019 and 31 December 2018.

### Commodity price risk and emission right risk

The Company is affected by the volatility of certain commodities and emission rights. Its operating activities involve predominantly the ongoing purchase of coal used in production, purchase and sale of electricity and purchases of emission rights. The Company manages the commodity price risk by deploying economic hedging, where the purchase prices of commodities are set for a period of time that is responsive to the duration of sales contracts and also the changes of commodity prices are to certain extent passed to the customers, which reduces the Company's profit sensitivity to changes in commodity prices. The risk of changes in the price of emission rights is managed by purchasing emission rights for electricity generation when selling the energy; emission rights for heat production are managed by monitoring the price on the stock exchange and buying by instalments when the price goes down. The price of emission rights is partly borne by end customers.

Commodity price sensitivity

As the Company has no financial assets and liabilities linked to commodity prices, with all other variables held constant, the Company's profit before tax is not sensitive to reasonably possible changes in their prices.

### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions, loans and other financial instruments.

Trade receivables

Customer credit risk is managed by the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer requesting product or services above a defined threshold is assessed based on a credit rating analysis and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables and exposure to credit risk are regularly monitored and the Company limits credit risk by credibility analysis and monitoring of repayment morale of existing customers. At 31 December 2019, the Company had 8 customers (2018: 9 customers) that owed the Company more than CZK 1 million each and accounted for approximately 87% (2018: 89%) of all outstanding receivables.

The requirement for an impairment is analyzed at each reporting date on an individual basis for major clients. Additionally, a large number of minor receivables are grouped into homogenous groups and assessed for impairment collectively.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 9.1. The Company does not hold collateral as security. The Company evaluates the concentration of risk with respect to trade receivables as adequate given the nature of business it operates as its principal customers are located in one geographical area.

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions is managed in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Company's maximum exposure to credit risk for the components of the statement of financial position is the carrying amounts as illustrated in 9.1. except for derivative financial instruments. The Company's maximum exposure for financial derivative instruments are noted in the liquidity table below, respectively.

### Liquidity risk

The Company monitors its risk to a shortage of funds using a liquidity planning tools.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of long-term bank loans or bonds, finance leases and hire purchase contracts. The Company assessed the concentration of risk with respect to refinancing its debt and concluded it to be low. Access to sources of funding is sufficiently available and debt maturing within 12 months can be rolled over with existing lenders.

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

| Year ended 31 December 2019 | <1 year | 2-5 years | Over 5 years | Total |
|---|---|---|---|---|
| | CZK 000 | CZK 000 | CZK 000 | CZK 000 |
| Finance lease liabilities | 3,020 | 6,597 | - | 9,617 |
| Bank loans | - | - | - | - |
| Bonds | 62,888 | 1,438,627 | - | 1,501,515 |
| Other loans for financing non-current assets | 3,742 | 13,722 | - | 17,464 |
| Loan from shareholders | 50,646 | - | - | 50,646 |
| Trade payables and other liabilities | 211,025 | - | - | 211,025 |
| Derivatives (interest rate swaps) | - | - | - | - |
| Total | 331,321 | 1,458,946 | - | 1,790,267 |

| Year ended 31 December 2018 | <1 year CZK 000 | 2-5 years CZK 000 | Over 5 years CZK 000 | Total CZK 000 |
|---|---|---|---|---|
| Finance lease liabilities | - | - | - | - |
| Bank loans | - | - | - | - |
| Bonds | 61,727 | 1,488,520 | - | 1,550,247 |
| Other loans for financing non-current assets | 3,741 | 14,969 | 2,496 | 21,206 |
| Trade payables and other liabilities | 241,281 | - | - | 241,281 |
| Derivatives (interest rate swaps) | 6,036 | 18,108 | - | 24,144 |
| Total | 312,785 | 1,521,597 | 2,496 | 1,836,878 |

The disclosed financial derivative instruments in the above table are the gross undiscounted cash flows. However, those amounts may be settled gross or net. The following table shows the corresponding reconciliation of those amounts to their carrying amounts:

| Year ended 31 December 2019 | <1 year CZK 000 | 2-5 years CZK 000 | Over 5 years CZK 000 | Total CZK 000 |
|---|---|---|---|---|
| Inflows | 13,510 | 26,534 | - | 40,044 |
| Outflows | (12,073) | (24,145) | - | (36,218) |
| Net | 1,437 | 2,389 | - | 3,826 |
| Discounted at the applicable interbank rates | 1,414 | 2,278 | - | 3,692 |

| Year ended 31 December 2018 | <1 year CZK 000 | 2-5 years CZK 000 | Over 5 years CZK 000 | Total CZK 000 |
|---|---|---|---|---|
| Inflows | 12,619 | 33,433 | - | 46,052 |
| Outflows | (12,073) | (36,218) | - | (48,291) |
| Net | 546 | (2,785) | - | (2,239) |
| Discounted at the applicable interbank rates | 538 | (2,635) | - | (2,097) |

Capital management

Capital includes equity attributable to the equity holders of the parent.

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value.

The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the requirements of the financial covenants. The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt.

The Company's policy is to keep the gearing ratio around 75%. The Company includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash deposits, excluding discontinued operations, if any.

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Interest-bearing loans and borrowings, including bonds | 1,317,311 | 1,257,617 |
| Trade payables and other liabilities | 225,705 | 243,378 |
| Less: cash and short-term deposits | (28,438) | (100,704) |
| Net debt | 1,514,578 | 1,400,291 |
| Equity | 406,494 | 467,917 |
| Capital and net debt | 1,921,072 | 1,868,208 |
| Gearing ratio | 79% | 75% |

In 2019, the Company's net debt increased slightly by drawing a portion of a revolving loan of CZK 50,000 thousand to cover higher capital expenditures that the Company believed were necessary to ensure its future development.

No significant changes were made in the overall objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018, respectively.

#### Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry. In order to avoid unnecessary concentrations of risk, the Company's policies and procedures include guidelines to focus on the maintenance of a diversified portfolio, despite the inherent limitations given the business the company is involved in. Identified concentrations of credit risks are controlled and managed accordingly.

### 9.6. Investments

The Company had equity interest in the following subsidiary:

| Name | Principal activities | Country of incorporation | 31 December 2019 | 31 December 2018 |
|---|---|---|---|---|
| TO Servisní s.r.o. | Service organization to the Company | Czech Republic | 100% | 100% |

The Company's investment in the subsidiary carried at cost is as follows:

| Financial Investments | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Investments in subsidiaries | 2,700 | 2,700 |

The investments in subsidiaries were not impaired as at 31 December 2019 and 2018, respectively.

## 10. Inventories

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Fossil fuel and other materials | 88,841 | 87,773 |
| Goods | - | 14 |
| Advances provided for inventories | 1,000 | 1,994 |
| Total inventories at the lower of cost and net realizable value | 89,841 | 89,781 |

During 2019, CZK 355,450 thousand (2018: CZK 350,661 thousand) was recognized as an expense for inventories and recorded as Consumption of material and energy. Inventories are measured at costs reduced by valuation allowances to their net realizable value, if lower. The valuation allowance as at 31 December 2019 amounted to CZK 5,146 thousand (2018: CZK 4,673 thousand).

# 11. Trade receivables and other assets

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Short-term trade receivables | 142,528 | 153,778 |
| Short-term advances granted | 849 | 815 |
| Unbilled revenue | 8,563 | 644 |
| VAT receivable | - | - |
| Derivatives | 3,692 | - |
| Other receivables | 459 | 845 |
| Total Trade receivables and other assets | 156,091 | 156,082 |

Trade receivables are non-interest bearing and are generally on terms of 14-30 days.

As at 31 December 2019, trade receivables with an initial carrying value of CZK 1,328 thousand (2018: CZK 1,604 thousand) were impaired and fully provided for. See below for the movements in the allowance for impairment of receivables:

| | Individually impaired<br>CZK 000 | Total<br>CZK 000 |
|---|---|---|
| At 31 December 2018 | 1,604 | 1,604 |
| At 31 December 2019 | 1,328 | 1,328 |

As at 31 December 2019 and 2018, the ageing analysis of trade receivables was as follows:

| | Total<br>CZK 000 | Neither past due nor impaired<br>CZK 000 | Past due but not impaired: <30 days<br>CZK 000 | 30-60 days<br>CZK 000 | 60-120 days<br>CZK 000 | > 120 days<br>CZK 000 |
|---|---|---|---|---|---|---|
| 31 December 2019 | 142,528 | 140,355 | 1,841 | 332 | - | - |
| 31 December 2018 | 153,778 | 151,620 | 2,141 | 17 | - | - |

# 12. Cash and deposits

| | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Cash in hand | 28 | 39 |
| Cash at bank | 28,410 | 100,665 |
| Total Cash | 28,438 | 100,704 |

Cash at banks earns interest at floating rates based on daily bank deposit rates.

# 13. Issued capital and reserves

The basic capital of the Company consists of 100 registered shares in a certificate form fully subscribed and paid, with a nominal value of CZK 100 thousand

| | units | CZK 000 |
|---|---|---|
| At 31 December 2018 | 100 | 10,000 |
| At 31 December 2019 | 100 | 10,000 |

The Company created a separate reserve from profit that may be used to cover the future losses. The balance of the reserve as at 31 December 2019 amounted to CZK 2,000 thousand (2018: CZK 2,000 thousand).

# 14. Distributions made and proposed

The Company paid dividends of CZK 0 thousand and CZK 135,000 thousand in 2019 and 2018, respectively.

# 15. Provisions

| | Employment benefits | Emission rights | Total provisions |
|---|---|---|---|
| | CZK 000 | CZK 000 | CZK 000 |
| At 31 December 2017 | 3,708 | 62,452 | 66,160 |
| Arising during the year | 4,131 | 157,283 | 161,414 |
| Utilized | (440) | (62,452) | (62,892) |
| At 31 December 2018 | 7,399 | 157,283 | 164,682 |
| Arising during the year | 1,747 | 203,226 | 204,973 |
| Utilized | (770) | (157,283) | (158,053) |
| At 31 December 2019 | 8,376 | 203,226 | 211,602 |

Long-term employment benefits

The Company provides long-term employment benefits, where employees are entitled to benefits dependent on the number of years of employment, jubilee bonuses and bonuses paid upon retirement of an employee. The provision represents the obligation from the benefits calculated using the projected unit credit method. The costs of providing the long-term employment benefits are recorded in the profit or loss.

Emission rights

A provision is recognized for emissions produced; the significant increase recognized in 2019 can be attributed to the year-on-year price hike. For details on the accounting policy adopted by the Company for measuring the emission rights provision please refer to Note 2.2.10.

# 16. Accruals and deferred income

| | 2019 | 2018 |
|---|---|---|
| | CZK 000 | CZK 000 |
| Accruals | 10,468 | 4,980 |
| Deferred income | 182 | 183 |
| Accruals and deferred income | 10,650 | 5,163 |

# 17. Trade payables and other liabilities

| | 2019 | 2018 |
|---|---|---|
| | CZK 000 | CZK 000 |
| Trade payables | 205,235 | 220,705 |
| Liabilities to employees | 9,892 | 12,170 |
| Other current liabilities | | |
| Liabilities arising from social security and health insurance | 4,788 | 5,111 |
| Short-term advances received | 29 | 918 |
| VAT payable | 3,911 | 1,295 |
| Liabilities from derivative instruments | - | 2,097 |
| Other | 1,850 | 1,082 |
| Subtotal Other liabilities | 10,578 | 10,503 |
| Total trade payables and other liabilities | 225,705 | 243,378 |

Trade payables and other liabilities are non-interest bearing and are normally settled on 30-60 days basis.

# 18. Lease liabilities

Lease liabilities — Company as a lessee

The Company has entered into commercial leases for technological equipment, office premises and several motor vehicles. Lease liability changes can be analyzed as follows:

| (CZK 000) | Total |
|---|---|
| As at 1 January 2019 | 16,586 |
| Interest expense | 722 |
| Installments | (7,691) |
| Lease modification changes (sales) | - |
| As at 31 December 2019 | 9,617 |

Total lease expenses were as follows:

| (CZK 000) | 2019 |
|---|---|
| Depreciation | 6,970 |
| Interest expense | 722 |
| Total lease expenses | 7,691 |

Lease-related cash flows were as follows:

| (CZK 000) | 2019 |
|---|---|
| Lease installments | 7,691 |
| Short-term leases with a lease term of less than one year | - |
| Low-value leases | - |
| Total lease-related cash flows | 7,691 |

Future minimum rentals payable under non-cancellable operating leases are as follows:

| | 31 December 2019 CZK 000 | 1 January 2019 CZK 000 |
|---|---|---|
| Within one year | 3,020 | 7,691 |
| After one year but not more than five years | 6,597 | 8,895 |
| More than five years | - | - |
| | 9,617 | 16,586 |

In accordance with IFRS 16 Leases, the above assets have been recognized in the balance sheet since 2019 (see also Notes 2.2.8., 2.2.19. and 7).

Operating leases in 2018

The Company used buildings and structures, technological equipment, office premises, and motor vehicles under operating lease arrangements; operating lease expenses incurred in 2018 totaled CZK 7,790 thousand.

Future lease installments under lease agreements in effect as at 31 December 2018 totaled CZK 17,275 thousand, of which CZK 7,790 thousand was due in 2019 and CZK 9,485 thousand is due in subsequent years.

Rent in 2018

Rent expenses totaled CZK 7,790 thousand in 2018, comprising, in particular, the rent of buildings and structures of CZK 5,107 thousand; the rent of premises of CZK 2,066 thousand; and the rent of technologies and other leases of CZK 617 thousand.

# 19. Government grants

| Grants received during the year: | 2019<br>CZK 000 | 2018<br>CZK 000 |
|---|---|---|
| Emission rights | 55,955 | 35,414 |
| Grants for purchase of property, plant and equipment | - | - |
| Grants received during the year related to income | 10,893 | 6,082 |

Grants are initially measured at fair value. Grants related to income and emission rights are reported under Other income in the Income statement. Grants related to purchase of property, plant and equipment decrease its cost.

There are no unfulfilled conditions or contingencies attached to these grants at 31 December 2019 and 31 December 2018.

# 20. Related party disclosures

The holding company

The next senior and the ultimate holding company of Teplárna Otrokovice a.s. is LAMA ENERGY GROUP a.s., a privately owned joint-stock company based the Czech Republic, holding 100% interest in the Company.

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year:

| | | Sales to related parties CZK 000 | Purchases from related parties CZK 000 | Amounts owed by related parties CZK 000 | Amounts owed to related parties CZK 000 |
|---|---|---|---|---|---|
| Subsidiaries | | | | | |
| TO Servisní s.r.o. | 2019 | 1,952 | 441,420 | 36,373 | 68,911 |
| | 2018 | 1,619 | 440,352 | 45,606 | 86,320 |
| Entities controlled by the parent company (members of LAMA ENERGY GROUP a.s.): | | | | | |
| LAMA energy a.s. | 2019 | 143,177 | 441,641 | 13,976 | 103,901 |
| | 2018 | 155,298 | 380,746 | 16,685 | 64,235 |
| MANLOMKA s.r.o. | 2019 | - | 1,164 | 245 | 135 |
| | 2018 | - | 1,834 | 243 | 118 |
| Teplárna Kyjov, a.s. | 2019 | 27 | 2 | - | - |
| | 2018 | 51 | 19,986 | - | 2,125 |
| Energo Český Krumlov s.r.o. | 2019 | 16 | - | - | - |
| | 2018 | 21 | 10 | - | - |
| DIGI CZ s.r.o. | 2019 | - | 556 | - | 46 |
| | 2018 | - | 505 | - | 43 |
| LAMA lighting technologies s.r.o. (formerly LAMA eco s.r.o.) | 2019 | - | 673 | - | 3 |
| | 2018 | - | 11 | - | - |

| | | | | | |
|---|---|---|---|---|---|
| Key management personnel of the Company: | | | | | |
| Members of statutory and supervisory bodies | 2019 | - | 487 | - | 49 |
| | 2018 | - | 487 | - | 49 |

Loans from related parties

| | | Interest expense CZK 000 | Principal owed to related parties CZK 000 | Accrued interest owed to related parties CZK 000 |
|---|---|---|---|---|
| LAMA ENERGY GROUP a.s. | 2019 | 385 | 50,646 | - |
| (Note 9.2) | 2018 | - | - | - |

Terms and conditions of transactions with related parties

The Company sells electricity and renders services to related parties in the ordinary course of business. The company receives services, purchases electricity, and emission allowances from related parties in the ordinary course of business.

The sales to and purchases from related parties are made on the basis of contracts entered into by and between the Company and a related party; for the list of the contracts, refer to the Report on Relations. Outstanding balances at the year-end are unsecured, interest free (except loans) and settled in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2019, the Company did not recognize any impairment of receivables relating to amounts owed by related parties (2018: CZK 0 thousand). This assessment is undertaken each financial year by examining the financial position of the related party and the market in which the related party operates.

Compensation of key management personnel of the Company

| | 2019 CZK 000 | 2018 CZK 000 |
|---|---|---|
| Short-term employment benefits, including payroll | 22,062 | 20,924 |
| Long-term employment benefits | - | - |
| Total compensation paid to key management personnel | 22,062 | 20,924 |

The amounts disclosed in the table above represent the remuneration of the members of statutory and supervisory bodies and of key management personnel (i.e. of executives who receive contractual salaries), and excludes mandatory social and health insurance paid by the Company.

The members of statutory and supervisory bodies, directors and executive officers were granted no loans, guarantees, advances or other similar benefits in 2019 and 2018 and they do not hold any shares of the Company.

# 21. Standards issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Company's financial statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

IFRS 17 Insurance Contracts

The standard is effective for annual periods beginning on or after 1 January 2021 with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not been yet endorsed by the EU. IFRS 17 will not be applicable to the Company.

Amendments of IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015 the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The Company has assessed the impact of the amendments and expects that the amendments, when applied, will not have a significant impact on its financial statements.

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS Standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The Company has assessed the impact of the Conceptual Framework and expects that the Framework will not have a significant impact on its financial statements.

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. The amendments have not yet been endorsed by the EU. The Company has assessed the impact of the amendments and expects that the amendments, when applied, will not have a significant impact on its financial statements.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 with earlier application permitted. The amendments clarify the definition of "material" and how it should be applied. The new definition states that, "Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity". In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of "material" is consistent across all IFRS Standards. These amendments have not yet been endorsed by the EU. The Company has assessed the impact of the amendments and expects that the amendments, when applied, will not have a significant impact on its financial statements.

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The amendments published, deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provided temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The Company has assessed the impact of the amendments and expects that the amendments, when applied, will not have a significant impact on its financial statements.

*IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)*

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 with earlier application permitted. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These Amendments have not yet been endorsed by the EU. The Company has assessed the impact of the amendments and expects that the amendments, when applied, will not have a significant impact on its financial statements.

## 22. Other information for disclosure

The fees due to Ernst & Young Audit, s.r.o., for statutory audits performed in 2019 and 2018 totaled CZK 700 thousand and CZK 675 thousand, respectively. Out-of-pocket expenses relating to the statutory audit performed in 2019 and 2018 totaled CZK 51 thousand and CZK 65 thousand, respectively.

The costs of non-audit services in 2019 and 2018 amounted to CZK 0 thousand and CZK 69 thousand, respectively. Non-audit services received related to legal advisory.

## 23. Events after the reporting period

Based on the decision of the sole shareholder of the Company, the following changes, recorded by the notarial deed NZ 137/2020 of 26 February 2020, were made to a public register on 8 March 2020: amendments of the Company's Articles of Association, removal of the Board of Directors and of the Supervisory Board, and appointment of the new Board of Directors and of the new Supervisory Board. Incumbent Directors Petr Jeník, Petrik Brom and Jan Stuchlík were reelected to the new Board of Directors; incumbent members Petr Lamich, Miroslav Kopřiva and Pavel Ondra were reelected to the new Supervisory Board. Removed members of the Supervisory Board included Jiří Veselý, Pavla Gromusová and Bedřich Landsfeld.

In late 2019, reports of COVID-19 started coming out of China. In the first months of 2020, the virus spread worldwide, causing extensive economic damage. Although the management of the Company did not see a significant decrease in sales at the time of the issue of these financial statements, the situation is constantly changing and, therefore, the future impact of this pandemic on the Company's activities cannot be predicted. The management of the Company will continue to monitor the potential impact and take all possible steps to mitigate any adverse effects on the Company and its employees. Any adverse effects and losses will be recognized in the books in 2020 and presented in the financial statements prepared for 2020.

The management of the Company considered the potential impact of COVID-19 on the Company's activities and business and concluded it did not have a significant impact on its ability to continue as a going concern. Accordingly, the financial statements for the year ended 31 December 2019 were prepared on the assumption that the Company would be able to continue as a going concern.

Otrokovice, 7 April 2020

Ing. Petr Jeník
Chairman of the Board of Directors

Ing. Jan Stuchlík
Member of the Board of Directors

# REPORT ON RELATED PARTIES

prepared pursuant to Section 82 of Act No. 90/2012 Coll., on Business Corporations and Cooperatives (the “Business Corporations Act”)

for the reporting period from 1 January 2019 to 31 December 2019

Teplárna Otrokovice a.s.

Pursuant to the provisions of Section 82 of the Business Corporations Act, the Board of Directors of Teplárna Otrokovice a.s. (hereinafter the "Company") prepared this Report on Related Parties of Teplárna Otrokovice a.s., with its registered office at Objízdná 1777, Otrokovice, postal code 765 02, for the reporting period, i.e. from 1 January 2019 to 31 December 2019 (hereinafter the "Report").

**a) Structure of relations between parties pursuant to Section 82 (1) of the Business Corporations Act:**

- **Controlled Person**
  Teplárna Otrokovice a.s., with its registered office at Objízdná 1777, Otrokovice, postal code 765 02, business registration number 292 90 171, entered in the Commercial Register maintained by the Regional Court in Brno, Section B, File 6437.

- **Controlling Person**
  From 1 January 2019 to 31 December 2019 – LAMA ENERGY GROUP a.s.

- **Other related parties pursuant to Section 82 (1) of the Business Corporations Act**
  From 1 January 2019 to 31 December 2019:

  LAMA energy a.s.
  DIGI CZ s.r.o.
  TO Servisní s.r.o.
  Ing. Jeník Petr
  Teplárna Kyjov, a.s.
  MANLOMKA s.r.o.
  LAMA lighting technologies s.r.o. (formerly LAMA eco s.r.o.)

**b) Role of the Controlled Person in the Group**

From 1 January 2019 to 31 December 2019, Teplárna Otrokovice a.s. was a subsidiary of LAMA ENERGY GROUP a.s., which held a 100% equity interest as at 31 December 2019.

LAMA ENERGY GROUP a.s. is controlled by natural person Petr Lamich, born 21 November 1962, resident at Gudrichova 762, 747 41 Hradec nad Moravicí.

Teplárna Otrokovice a.s. is a production company dealing in production and distribution of heat and generation and sale of electricity.

**c) Method and means of control executed through**

- General Meeting
- Board of Directors
- Supervisory Board
- Financial and investment plans
- Control resulting from the shareholder's exclusive position in the Company

**d) An overview of actions carried out in the reporting period at the request or in the interest of the controlling person or persons controlled by the same controlling person if such actions concerned assets, the volume of which exceeded 10% of the controlled person's equity determined according to the last financial statements**.

In the reporting period, the controlled person in relation to the controlling person or any person controlled thereof adopted no measures for the benefit of the controlling person or persons controlled by the same controlling person outside the scope of ordinary measures adopted under the provisions of generally binding regulations (e.g. measures adopted for shareholders of the controlled person).

Performance and counter-performance arising from the foregoing contracts was effected on an arm's-length basis and under generally binding regulations.

The amounts of performance are included in the Company's financial statements in Chapter 21 Information about related parties.

### e) Contracts entered into by and between the controlled person and the controlling person or between controlled persons

| Supplier | Contract/Agreement | Contract number | Performance | Contract date |
|---|---|---|---|---|
| LAMA energy a.s. buyer | Advertising agreement | | Provision of advertising for the Company | 30/08/2013 |
| LAMA energy a.s. trader | Contract for bundled electricity supply services | 2130000194 | Electricity supply to the exchanger station | 12/11/2013 |
| | Amendment No. 1 | | Adjustment of advance payments | 20/05/2014 |
| | Amendment No. 2 | | Adjustment of advance payments | 13/10/2014 |
| | Amendment No. 3 | | Addition of new power meter reading point | 18/05/2016 |
| | Amendment No. 4 | | Addition of new power meter reading point | 24/08/2016 |
| | Amendment No. 5 | | Removal of meter reading points | 27/10/2016 |
| | Amendment No. 6 | | Addition of new power meter reading point | 08/12/2016 |
| | Amendment No. 7 | | Addition of new power meter reading point | 30/12/2016 |
| | Amendment No. 8 | | Addition of new power meter reading point | 01/06/2017 |
| | Amendment No. 9 | | Addition of new power meter reading point | 18/07/2017 |
| | Amendment No. 10 | | Disassembly of two power meter reading points | 25/04/2018 |
| | Amendment No. 11 | | Change to Amendment No. 1 – addition of new power meter reading point | 18/02/2019 |
| | Amendment No. 12 | | Change to Amendment No. 1 – addition of new power meter reading point | 07/05/2019 |
| | Amendment No. 13 | | Change in electricity pricelist | 11/12/2019 |
| LAMA energy a.s. supplier | Contract for electricity supply (incl. Amendments No. 1- 6) | S11300008 | Supply of electricity to TOT | 11/12/2013 |
| | Amendment No. 1 | | Change in pricing terms | 18/12/2015 |
| | Amendment No. 2 | | Transferred tax liability | 18/01/2016 |
| | Amendment No. 3 | | Price adjustment and contract extension | 23/05/2017 |
| LAMA energy a.s. supplier | Contract for electricity supply | S11900002 | Supply of electricity to TOT | 30/09/2019 |
| LAMA energy a.s. buyer/supplier | Purchase contract for electricity supply, assuming the obligation to supply electricity to the power system (incl. Amendments No. 1- 6) | S11300009 | | 11/12/2013 |
| | Amendment No. 1 | | Change in pricing terms | 18/12/2015 |

| | | | | |
|---|---|---|---|---|
| | Amendment No. 2 | | Transferred tax liability | 18/01/2016 |
| | Amendment No. 3 | | Change in payment terms | 25/01/2016 |
| | Amendment No. 4 | | Contract extension | 01/11/2016 |
| | Amendment No. 5 | | Contract extension | 03/10/2017 |
| | Amendment No. 6 | | Change in payment terms | 15/11/2018 |
| | Amendment No. 7 | | Contract extension | 27/08/2019 |
| LAMA energy a.s. trader | Contract for bundled gas supply services | 1030000848 | Gas supply to the boiler room | 04/12.2014 |
| | Amendment No. 1 | | Change to Amendment No. 3 | 30/04/2015 |
| | Amendment No. 2 | | Change to Amendment No. 3 | 23/09/2015 |
| | Amendment No. 3 | | Contract extension | 25/11/2015 |
| | Amendment No. 4 | | Change to Amendment No. 3 | 27/04/2016 |
| | Amendment No. 5 | | Contract extension | 29/11/2016 |
| | Amendment No. 6 | | Change to Amendment No. 3 | 28/04/2017 |
| | Amendment No. 7 | | Contract extension | 30/10/2017 |
| | Amendment No. 8 | | Change to Amendment No. 3 | 25/04/2018 |
| | Amendment No. 9 | | Contract extension | 24/10/2018 |
| | Amendment No. 10 | | Change to Amendment No. 3 | 06/05/2019 |
| | Amendment No. 11 | | Change to Amendment No. 3 | 15/08/2019 |
| | Amendment No. 12 | | Contract extension, Change to Amendment No. 1,3 | 19/12/2019 |
| LAMA energy a.s. trader | Contract for bundled electricity supply services | 2130000207/2015 | Electricity supply to the compressor room | 04/12/2014 |
| | Amendment No. 1 | | Price adjustment, contract extension | 18/12/2015 |
| | Amendment No. 2 | | Price adjustment, contract extension | 23/11/2016 |
| | Amendment No. 3 | | Price adjustment, contract extension | 14/12/2017 |
| | Amendment No. 4 | | Price adjustment, contract extension | 05/12/2018 |
| | Amendment No. 5 | | Price adjustment, contract extension | 07/06/2019 |
| LAMA energy a.s. lessor | Lease agreement | | Lease of office space | 02/01/2015 |
| LAMA energy a.s. trader | Contract for bundled electricity supply services | 2130000558 | Electricity supply | 18/12/2015 |
| | Amendment No. 1 | | Change in electricity pricelist | 11/12/2019 |
| LAMA energy a.s. trader | Contract for bundled electricity supply services | 2130000632 | Electricity supply | 27/10.2016 |
| | Amendment No. 1 | | Change in electricity pricelist | 11/12.2019 |
| LAMA energy a.s. trader | Contract for bundled gas supply services | 103501260 | Gas supply | 18/07/2017 |
| | Amendment No. 1 | | Change in validity and effectiveness of contract | 21/08/2017 |
| | Amendment No. 2 | | Change in validity and effectiveness of contract | 10/05/2018 |
| | Amendment No. 3 | | Contract extension, change to Amendment No. 1 | 10/06/2019 |

| | | | | |
|---|---|---|---|---|
| LAMA energy a.s. trader | Contract for bundled gas supply services | 1030001212 | Gas supply for CNG station | 13/11/2018 |
| | Amendment No. 1 | | Change to Amendment No. 1,3 | 19/12/2019 |
| LAMA energy a.s. lessee | Car lease agreement | | Lease of passenger car | 31/01/2019 |
| LAMA energy a.s. seller | Contract for a one-time allowance transaction | | Sale of allowances | 10/04/2019 |
| LAMA energy a.s. seller | Contract for a one-time allowance transaction | | Sale of allowances | 01/12/2019 |
| LAMA energy a.s. buyer | Purchase contract | | Sale of passenger car | 21/06/2019 |
| LAMA ENERGY GROUP a.s. creditor | Revolving loan agreement | | Provision of revolving loan | 15/12/2018 |
| LAMA ENERGY GROUP a.s. LAMA lighting technologies s.r.o. (formerly LAMA eco s.r.o.) | Agreement on takeover of part of debt | | Takeover of part of debt | 12/09/2019 |
| LAMA ENERGY GROUP a.s. acquirer | Interest transfer agreement | | Interest transfer | |
| DIGI CZ s.r.o. provider | Contract for provision of electronic communication services | | Electronic communication | 05/08/2014 |
| LAMA lighting technologies s.r.o. (formerly LAMA eco s.r.o) seller | Purchase contract | | Purchase of passenger cars | 28/08/2019 |
| TO Servisní s.r.o. supplier | Purchase contract | OS14007 | Brown coal supply | 30/05/2014 |
| | Amendment No. 1 | | Change in volume | 13/10/2014 |
| | Amendment No. 2 | | Change in contracting terms | 22/12/2014 |
| | Amendment No. 3 | | Change in contracting terms | 30/12/2015 |
| | Amendment No. 4 | | Change in payment terms | 05/01/2017 |
| | Amendment No. 5 | | Change in payment terms | 15/01/2018 |
| | Amendment No. 6 | | Change in payment terms | 10/01/2019 |
| TO Servisní s.r.o. buyer | Service Agreement | OS14006 | Provision of accounting services | 30/03/2014 |
| | Amendment No. 1 | | Work extension (OHS, PaM) | 30/09/2014 |
| TO Servisní s.r.o. supplier | Purchase contract | OS14011 | Black coal supply | 01/08/2014 |
| | Amendment No. 1 | | Change in contracting terms | 22/12/2014 |
| | Amendment No. 2 | | Change in contracting terms | 30/12/2015 |
| | Amendment No. 3 | | Change in contracting terms | 05/01/2017 |
| | Amendment No. 4 | | Change in contracting terms | 17/08/2017 |
| | Agreement on Purchase contract termination | | Termination of supply | 30/12/2019 |

| | | | | |
|---|---|---|---|---|
| To Servisní s.r.o. provider | Framework service agreement | OS14019 | Provision of investment services | 30/09/2014 |
| TO Servisní s.r.o. lessee | Lease agreement | OS16002 | Lease of office space | 31/03/2016 |
| TO Servisní s.r.o. lessee | Passenger car lease agreement | OS16004 | Passenger car lease | 13/07/2016 |
| | Amendment No. 1 | | Change in payment terms | 22/11/2019 |
| TO Servisní s.r.o. supplier | Contract for work | OS17006 | Greening of boilers K3, K4 | 10/07/2017 |
| | Amendment No. 1 | | Change in payment terms | 10/08/2018 |
| | Amendment No. 2 | | Extension of work | 21/11/2018 |
| TO Servisní s.r.o. supplier | Contract for work | OS17010 | Refurbishment of flue gas desulphurization | 21/10/2017 |
| | Amendment No. 1 | | Change in payment terms, HMG | 13/09/2018 |
| TO Servisní s.r.o. lessee | Passenger car lease agreement | OS17011 | Passenger car lease | 31/08/2017 |
| | Amendment No. 1 | | Change in payment terms | 22/11/2019 |
| TO Servisní s.r.o. future buyer | Future purchase agreement | OS17012 | Electricity supply for backup source with gas engines | 15/08/2017 |
| TO Servisní s.r.o. future buyer | Future purchase agreement | OS17013 | Heat supply for backup source | 15/08/2017 |
| TO Servisní s.r.o. future lessee | Lease agreement | OS17014 | Lease of land for backup source | 01/09/2017 |
| | Amendment No. 1 | | Change in lease start date | 10/10/2019 |
| TO Servisní s.r.o. future buyer | Future purchase agreement | OS17015 | Water supply for backup source | 30/08/2017 |
| TO Servisní s.r.o. future buyer | Future contract for wastewater discharge | OS17016 | Wastewater discharge from backup source | 30/08/2017 |
| TO Servisní s.r.o. supplier | Framework purchase agreement | OS18001 | Thermal coal supply | 01/02/2018 |
| | Amendment No. 1 | | Contract extension | 30/12/2019 |
| TO Servisní s.r.o. debtor | Loan agreement | OS18005 | Cash loan | 15/02/2018 |
| TO Servisní s.r.o. supplier | Purchase contract | OS18006 | Brown coal supply (SU) | 01/03/2018 |
| | Amendment No. 1 | | Pricing terms | 10/01/2019 |
| TO Servisní s.r.o. builder | Contract establishing the right to build | OS18007 | Consent to the backup source construction site | 14/03/2018 |
| TO Servisní s.r.o. controller | Contract for personal data processing | OS18012 | Personal data processing | 24/05/2018 |
| TO Servisní s.r.o. supplier | Contract for work | OS18014 | Construction of boiler K8 | 29/06/2018 |
| | Amendment No. 1 | | More/less work | 03/06/2019 |
| | Amendment No. 2 | | More/less work | 27/11/2019 |

| | | | | |
|---|---|---|---|---|
| TO Servisní s.r.o.<br>lessee | Vehicle lease agreement | OS19002 | Lease of vehicle | 15/05/2019 |
| | Amendment No. 1 | | Change in pricing terms | 22/11/2019 |
| Ing. Petr Jeník<br>lessor | Contract for lease of movables | | Lease of telephone, ultra-book | 27/02/2013 |
| Ing. Petr Jeník<br>lessor | Vehicle lease agreement | | Lease of vehicle | 12/12/2016 |
| MANLOMKA s.r.o.<br>provider | Contract for fuel supply | | Fuel supply | 01/09/2015 |
| Teplárna Kyjov, a.s.<br>buyer | Service Agreement | | Chemical analysis of samples | 09/06/2016 |
| | Amendment No. 1 | | Price adjustment, contract extension | 28/12/2017 |
| | Amendment No. 2 | | Price adjustment, change in contact persons | 01/07/2019 |

**f) Assessment of detriment, if any, to the controlled person and its compensation pursuant to Sections 71 and 72 of the Corporations Act**

The controlled person suffered no detriment arising from the foregoing contracts, other legal actions, other measures, performance provided, and counter-performance received.

Within the group, confidential information is deemed information and facts that are part of trade secret of the controlling and controlled persons and other parties defined under Section 82 (1) of the Business Corporations Act, as well as information described as confidential by any party defined under Section 82 (1) of the Business Corporations Act. In addition, all business-related information that could by itself or in connection with other information or facts result in detriment to any party defined under Section 82 (1) of the Business Corporations Act is deemed confidential.

To avoid any detriment to the controlled person, with regard to the provisions of Section 2985 of Act No. 89/2012 Coll., the Civil Code, as amended, this Report does not contain confidential information.

**g) In the Report on Related Parties the statutory body shall assess the advantages and disadvantages arising from relations between parties pursuant to Paragraph 1 and shall state whether advantages or disadvantages prevail and what are the related risks for the controlled person. The statutory body shall also state whether, in what manner and in what period any detriment has been or will be compensated pursuant to Section 71 or 72.**

Advantages arising from relations between the parties under Paragraph 1 (integration into a group):
- Benefits of a background of a stable Czech company;
- Synergistic effects;
- Central management;
- Group-wide financial stability;
- Facilitated mutual communication;
- Links to new business partners

Disadvantages:
- No disadvantages or risks arise from relations between the parties.

Overall group effects on the existence and operations of the controlled person Teplárna Otrokovice a.s.:
- Integration in the Group brings rather advantages

As the controlled person suffered no detriment arising from the aforementioned contracts, other legal actions, other measures, performance provided, and counter-performance received between the parties pursuant to Paragraph 1, this Report contains no information on the method or timeframe of compensation.

## h) Conclusion

This Report was prepared by the Board of Directors of the controlled person, Teplárna Otrokovice a.s., on 31 March 2020.

In Otrokovice, on 31 March 2020

On behalf of the Board of Directors of the controlled person Teplárna Otrokovice a.s.:

Ing. Petr Jeník
Chairman of the Board of Directors

Ing. Jan Stuchlík
Member of the Board of Directors