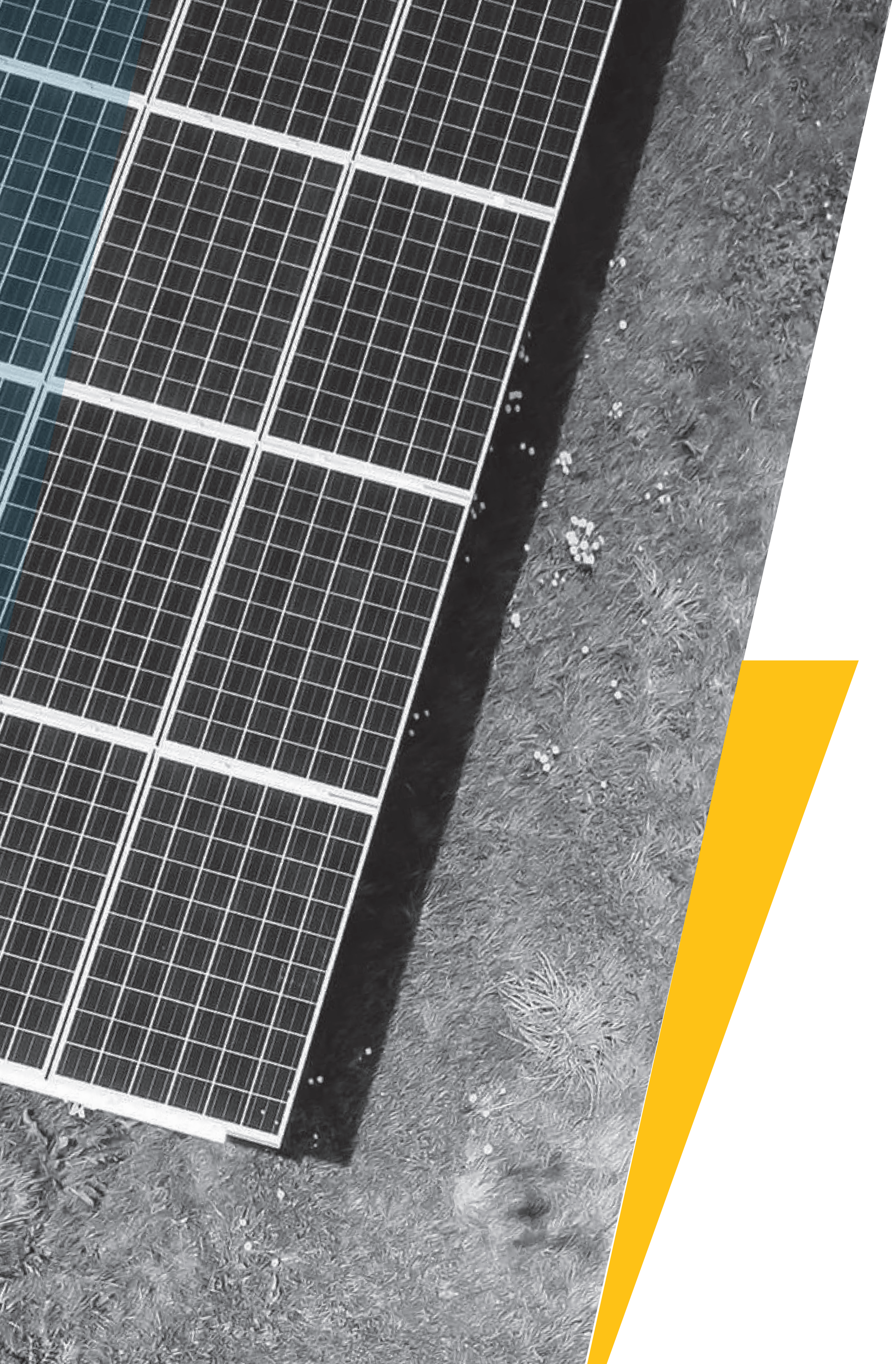
Electricity Authority of Cyprus

ANNUAL REPORT 2018



THE ELECTRICITY AUTHORITY OF CYPRUS

The Electricity Authority of Cyprus is an independent, Public Corporate corporation established under the Electricity Development Law Cap.171 of 1952 in order to exercise and perform functions relating to the generation, transmission, distribution and supply of electric energy in Cyprus.

The above definition is used in Cyprus for corporations which are independent and which were established in accordance with the relevant Law, in order to render services in the utility field. Such corporations are governed by Authorities, the members of which are appointed by the Council of Ministers.

In case of the Electricity Authority of Cyprus, the government, through the Minister of Energy, Commerce, Industry and Tourism, is empowered to give directives to the Authority on matters appertaining to the general interest of the Republic.

OUR VISION

To be the leading player in the Energy Sector, Services and other Activities.

OUR VALUES

- Integrity
- Respect to our clients
- Quality
- Human Capital
- Society and Environment

OUR MISSION

To provide Consumers, Customers and Network Users with the highest quality of safe and reliable services in the energy sector and in other activities at competitive prices, utilizing new technologies, respecting society, the environment and our people and contributing to the development of our country

CONTENTS

BOARD OF DIRECTORS

From 1.1.2018 until 31.12.2018

CHAIRMAN
Andreas Marangos

VICE CHAIRMAN
Michalis Hadjipantela

MEMBER
Agni Shialarou
Charalambos Artemis
Elena Tsolakis
Christina Zikkou
Yiannis Constantinides
Konstantinos Kosti
Michael Komodromos


Andreas Marangos
Chairman BoD


Michalis Hadjipantela
Vice Chairman BoD


Agni Shialarou
Member BoD


Elena Tsolakis
Member BoD


Charalambos Artemis
Member BoD


Christina Zikkou
Member BoD


Yiannis Constantinides
Member BoD


Konstantinos Kosti
Member BoD


Michael Komodromos
Member BoD


Panayiotis Olympios
General Manager

MANAGEMENT

General Manager
Panayiotis Olympios (from 2.4.2018)
BSc (Hons), MSc (Eng), MIET

Deputy General Manager
Adamos Kontos (until 1.4.2018)
BSc (Eng), Meng, PhD, MBA, MIEEE

Executive Networks Manager
Adamos Kontos
BSc (Eng), Meng, PhD, MBA, MIEEE

Anastasis Gregoriou (acting until 1.4.2018)
BSc (Eng), MBA, CEng, MIET

Executive Generation and Supply Manager
Alexis Michael
BSc (Eng), PhD, CEng, MIET

Executive Finance Manager
Maria Charalambous
BA Economic, MBA, FCA

Distribution Manager
Vacant Post

Anastasis Gregoriou (acting from 1.12.2018)
BSc (Eng), MBA, CEng, MIET

Distribution System Owner Manager
Adonis Yiasemides
Dipl Eng, MBA, MIET

Distribution System Operator Manager
Anastasis Gregoriou
BSc (Eng), MBA, CEng, MIET

Petros Mina (acting until 1.4.2018)
BSc Electrical Engineering, MBA, MIEE

Transmission Manager
Costas Gavrielides
BSc (Eng), MEng, MBA, CIPR Diploma, MIET, MCIPR

Generation Manager
George Skarparis
BSc (Eng), MBA, MBA (Oil, Gas & Energy Management), CEng, MIET, MIMechE

Supply Manager
Marios Skordellis
BSc (Eng), MSc, MBA, CEng, MIET

CHAIRMAN'S MESSAGE

Through a course of over 67 years, the EAC has an essential role both in the society and in the economy of our country.

The energy sector, which is one of the most vital and vigorously growing sectors internationally, faces a period of major changes with the expansion of the electricity market in Cyprus.

In this respect, the Organisation's preparation has been stepped up so that it is ready to respond to the new data and subsequent requirements. Carrying out the largest internal work in its history, deriving from a European Directive and the related decision of CERA, the EAC has been divided into four Basic Regulated Activities: Generation, Transmission, Distribution, Supply. Each Key Regulated Activity organises its sections independently, to respond effectively to the new market needs. Healthy competition creates opportunities for improving infrastructure, developing innovative services and better customer service. The EAC, with prudence and sound strategy, will seize the prospect of its development to continue to play a leading role in its field.

In this context, the Organisation's development programme is of particular importance. EAC Generation completes the installation of Anti-Pollution Systems at the Generation Units, while making the necessary modifications for the generation of electricity using Natural Gas. The installation of a new Combined Cycle Plant at Vasilikos is also planned.

At the same time, the EAC contributes effectively to DEFA's (Natural Gas Public Company) efforts to develop its Natural Gas (NG) infrastructure with a 30% stake in ETYFA for the installation of the necessary NG deregulation facilities. This serves the purpose of disengaging electricity generation from liquid fuels and, simultaneously, reducing CO_2 emissions significantly, helping to protect the environment.

With regard to the Transmission Network and Distribution System, the schedule for their upgrade is ongoing. This includes, inter alia:

- Underground work for the Distribution Network and modern street lighting installation in Municipal and communal squares
- Installation of SCADA / DMS Distribution Network Management System and Establishment of a National Distribution Control Center.
- Installation of 400,000 smart meters, replacing existing ones. This grant project, which will be completed in 8 years, is the forerunner of transforming the distribution network into a smart grid.
- Automation of the Distribution Network that will contribute to control the distribution system remotely and to the faster troubleshooting of system failures.

With the need to expand "green" energy generation, the EAC spends a considerable amount of effort around Renewable Energy Sources (RES). RES projects concern Cyprus at a national level and are vital to achieving the national 2020 electricity generation targets, which provide for 16% of electricity to be generated from renewable sources. The development and exploitation of RES projects can contribute to the stabilization of electricity prices, something that is of direct interest to domestic and business consumers.

In addition to generating, transmitting, distributing and supplying electricity, the EAC possesses a high level of know-how in the desalination field. After all, there have been such units for cooling purposes in all Power Stations since 1953. It is noted that the EAC has been operating the largest Desalination Plant in Vasilikos since 2014, producing 60,000 cubic meters of water per day.

The Ministry of Agriculture and Natural Resources called on the Water Department to study, along with the EAC, the possibility of increasing water production at the existing desalination plant. At the same time, the creation of a new desalination plant for water supply in Vasilikos and the construction of new desalination plants in Moni and Dhekelia for irrigation purposes are under study.

Given the international trend for environmentally friendly drive energy, the EAC contributes to the effort to boost electromobility in our country. The e-charge service includes the control and operation of 19 charging points and the installation of another 18. In essence, these points will cover the needs of electric vehicles throughout Cyprus.

The EAC, as a Public Law Organisation belonging to all Cypriot citizens, takes every necessary step to act under its governing Law, strictly following the good governance rules. Our goal is to continuously improve our customer services and assistance.
At the same time, it is very important to be a financially active enterprise with the power to finance its development programme and to modernise its infrastructure and facilities, while ensuring environmental protection.

Recognising the importance of sustainable energy development, the EAC monitors the cutting-edge technologies and actively participates in various European research and innovation programmes.
In the field of energy, constant changes are forcing the EAC to continuously adapt to new data and to adopt technologies that evolve its infrastructure and further enhance its already high reliability. The benefit of this goes beyond narrow business boundaries and belongs to Cyprus itself and its citizens.

The Board of Directors has a great responsibility to face up to the challenges and contribute substantially to the development of the EAC and reinsert itself in the new energy map of Cyprus. EAC's high-level human resources, with their specialised know-how and innovation skills, are the Organisation's greatest "positive energy tank" on the road that lies ahead.

I wish to express my gratitude to the President of the Republic of Cyprus, Mr. Nicos Anastasiades for the honour he has bestowed upon me and for the trust he has shown me. I would also like to thank the Minister of Energy, Commerce, Industry and Tourism, Mr. Yiorgos Lakkotrypis for his cooperation and I also give thanks to all the officials of his Ministry.

I express my appreciation to the Government, the House of Representatives, the Auditor General of the Republic, the Cyprus Energy Regulatory Authority, the Cyprus Transmission System Operator, to all the government agencies and local governance authorities with which EAC has collaborated, as well as the representatives of the Media for their promotion of the work of EAC.

Finally, I particularly wish to thank all my colleagues on the Board of Directors, the General Manager of EAC, Mr. Panayiotis Olympios and the members of the Organisation's Management, Union leaders and all the personnel for their productive and creative cooperation. We are united under the banner of the EAC's developmental policy, in servitude of the country's energy future.

Andreas Marangos
Chairman of the Board of Directors

GENERAL MANAGER'S MESSAGE

The EAC operates as a Vertically Integrated Public Law Corporation, fully regulated by the Competent Authority.

In 2018, as part of its mission, it continued the uninterrupted Generation, Transmission, Distribution and Supply of Electricity in Cyprus as well as its involvement with other activities under the Law. Having respect, responsibility and credibility as its core purpose, it has responded effectively to the energy needs of the Cypriot society, contributing to the development of our country.

The staff of the Organisation, with a high level of professionalism and specialised know-how, has dedicatedly served the objectives set. Particular emphasis was placed on the completion of the EAC Operational and Accounting Separation, the continuous improvement of the Quality Management System in all areas of activity, as well as the the provision of assistance to EAC Customers and Users and the provision of new services. I congratulate our Staff for their continued commitment to quality. Together, we will take the next steps that will enable us to meet the challenges ahead.

Challenges include, inter alia, the broadening of the Electricity Market, the arrival of natural gas and the completion of the necessary adjustments to the EAC's generation facilities to operate using Natural Gas, the completion of the installation of anti-pollution systems in the Generation Units according to the EU's reduced emission limits, the installation of Unit no. 6 at Vassilikos Power Station as well as development and maintenance projects in the fields of Transmission and Distribution.
In addition, the EAC is proceeding with the installation of new Photovoltaic Parks, as part of its strategic plan for the production of electricity from Renewable Energy Sources. All of this sets up major changes that require quality of results and speedy implementation. The future course of our Organisation depends on all of the aforesaid.

In the context of the EAC's evolution and modernisation, a number of projects have been planned and / or implemented in 2018, the most important of which are:

- The installation of the Distribution Network Management System (SCADA / DMS) and the establishment of the National Distribution Control Center. The aim is, inter alia, to monitor and control the Distribution Network from a central point in real time around the clock, to make the it more efficient and to integrate RES into the distribution system.

- The completion of the new 132KB Vasilikos - Moni interconnection and the corresponding establishment of the Moni GIS Substation.

- The replacement of energy-wasting street lamps with new LED technology lamps contributing positively to energy saving. The whole project is done in cooperation with Municipalities and Community Authorities.

Of particular importance is the area of Non-Regulated Activities. The Vasilikos desalination unit continued its operation in 2018, contributing to the great effort to alleviate the water problem of our country.
As part of implementing the EAC strategy, all of us are striving to reduce our dependence on oil and increase our use of RES. We therefore encourage and promote projects in relation with Photovoltaic systems, such as the 3MW TSV Photovoltaic Park installed in Tseri in 2014 and the ambitious project at Akrotiri Limassol where a Photovoltaic Park of total solar power of 12MW will be built. Furthermore, the consortium with the Holy Archbishopric of Cyprus foresees the development of Photovoltaic Parks in the area of Achera. In the same spirit, it has been decided the utilisation of the Central Offices and the adjacent Parking Area, for the operation of a 450 kW PV system, as well as the installation of Photovoltaic Systems in EAC buildings where possible.

The EAC's inextricable relationship with the Cypriot society requires the Organisation's steady and meaningful action and contribution within the framework of its Corporate Social Responsibility programme. In 2018, the EAC has surreptitiously supported the work of a large number of Associations and Organisations that offer relief to human suffering, as well as many others active in the fields of Health, Environment, Culture, Education and Sport.

In conclusion, on behalf of the EAC Management and staff, I would like to express my graditude to the Chairman of the Board of Directors Mr. Andreas Marangos, the Vice-Chairman Mr. Michalis Hadjipandela and the other members of the Board. Through the hard work and close, productive collaboration during the year, the Organisation has solidified its position at the cutting edge of developments, taking firm steps towards the future. Nowadays, in order for human societies to function, energy is equivalent to life. For this reason, the EAC's role in Cyprus is, first and foremost, of vital importance and of the highest responsibility. For the people working at the Organisation, respecting consumers, society and the environment encompasses their mission.

Panayiotis Olympios
General Manager

PUBLIC GOVERNANCE

The Electricity Authority of Cyprus was established and operates in accordance with the provisions of the Electricity Development Law, Cap. 171, which inter alia provides for the way in which it is governed.

In addition to the above, the Board of Directors of the EAC, has adopted its own Corporate Governance Code and Code of Conduct, in the context of implementing CERA's Regulatory Decision 04/2014 on Operational Unbundling, dated 3 March 2015.

The Corporate Governance Code is a comprehensive text that consolidates and incorporates the principles of corporate governance, in accordance with international best practices, such as those implemented by the administration and management of EAC.

It includes, inter alia, the legal framework governing EAC's operation, recording the manner of operation of the Board, of the Joint Special Sub-committees (JSS), the other committees of the Board as well as the role of the General Manager and the Executive Directors.

It also includes the Internal Rule of Operation of the Joint Special Sub-committees (JSS), in which the powers granted or not by the Board of Directors are recorded.

In accordance with the principles of the Code of Public Governance:

- The Board ensures that the Organisation's purpose and the expected results for the citizens and users of the services provided is clear and makes sure that users receive high quality of services.
- The Board of Directors ensures that taxpayers and users receive value added services for the fee they pay.
- The responsibilities of the Board of Directors are clearly specified and the duties of the Directors are clearly specified and the Board ensures that they are fulfilled.
- Relations between Directors and the public must be clearly regulated.
- The Board specifies the Organisation's values, principles and standards and ensures that they are fully implemented. In addition, the Board sets strategic objectives, ensures sufficient financial and human resources and reviews the performance of the management.
- The behaviour of each Director is an example to emulate effective governance and the Board takes decisions in a detailed, diligent and transparent manner. There is also a clear distinction between the Board of Directors and management of the Organisation.
- The Board of Directors has access to high-level information, advice and support and ensures that an effective risk management system is in place.
- Directors have the skills, know-how and experience they need to perform their duties adequately.
- Balance must be achieved between continuity and renewal in the composition of the Board of Directors.
- Regarding accountability, the Board of Directors makes a distinction between official and unofficial relations and adopts an active and planned approach to dialogue with the public and its accountability towards the public.
- The Board undertakes an active and planned approach to its responsibility towards the Organisation's personnel and cooperates effectively with institutional bodies. In addition, the Board is responsible for the consequences of its actions and omissions, including civil or other liability of the Directors.

COMMITTEES/SUBCOMMITTEES OF THE BOARD OF DIRECTORS OF THE ELECTRICITY AUTHORITY CYPRUS

1. Advisory Subcommittee of the EAC for Personnel Matters

Andreas Marangos
CHAIRMAN
Constantinos Kosti
MEMBER
Christina Zikkou
MEMBER
Charilaos Karavas
COORDINATOR

The Advisory Subcommittee of the EAC for Personnel Matters consists of three Members of the Board of Directors of the Authority, one of which is the Authority Chairman. The remaining two Members are designated by the Board of Directors of the Authority.

The Members of the Advisory Subcommittee of the EAC for Personnel Matters, acts in accordance to Regulation 19 of the Electricity Authority Cyprus (Terms of Service) Regulations of 1986 (R.A.A. 291/86), as amended to this day and deals with personnel matters, such as hiring, appointment and promotion of employees, making recommendations and suggestions to the Board of Directors of the Authority.

The role of the Subcommittee is advisory, assisting the Board of Directors of the Authority in making decisions on personnel matters.

During the year 2018, this Subcommittee held 20 meetings and made respective recommendations on staff issues that it dealt with.

2. Finance Committee (Bills, Budgets, Financial Reports, Pricing, Insurance, Customer service for customers with overdue/outstanding electricity bills, etc.)

Michael Hadjipantela
CHAIRMAN
Charalambos Artemis
MEMBER
Constantinos Kosti
MEMBER
Yiannis Constantinides
MEMBER
Elena Tsolaki
MEMBER
Michael Komodromos
MEMBER
Maria Charalambous
COORDINATOR

The Committee's composition may change only upon the decision of the Board. It consists of six members from the Board and the Executive Finance Manager serves as the Coordinator.

The responsibilities of the Finance Committee are of advisory nature, mainly concerning submitting recommendations and opinions to the BoD on financial matters regarding the EAC as a Vertically Integrated Undertaking.

The Committee meets regularly once every three months and/or extraordinarily and calls any Member of the Board if deemed appropriate. The Committee met 9 times within 2018.

COMMITTEES/SUBCOMMITTEES OF THE BOARD OF DIRECTORS OF THE ELECTRICITY AUTHORITY CYPRUS

3. Audit Committee

Yiannis Constantinides
CHAIRMAN
Agni Sialarou
MEMBER
Elena Tsolaki
MEMBER
Andreas Constantinou
COORDINATOR

The main purpose of the Audit Committee is to support the Board on the fulfilment of its supervisory role and to monitor:

The performance and efficiency of the internal audit systems implemented by the Management and the Board of Directors.

The EAC's compliance with the legal and regulatory regime in force at each time and with the Code of Conduct.

Monitoring and assessment of the work carried out by the Internal Audit Management (IAM) to ensure the independence of the officers of the IAM, in accordance to the International Standards on the Professional Practice of Internal Auditing.

The completeness and accuracy of the financial statements compiled by the EAC.
The Committee met 6 times within 2018.

4. Communication Policy Committee

Agni Sialarou
CHAIRMAN
Elena Tsolaki
MEMBER
Christina Zikkou
MEMBER
Yiannis Constantinides
MEMBER
Christina Papadopoulou
COORDINATOR

The Communication Policy Committee is composed of four members from the Board of Directors. The Communication Policy Committee coordinator is the EAC Press Spokesperson, as designated by the BoD.

The Communication Policy Committee has a supervisory and coordinating role and is responsible for recording, planning and implementing the communication actions of the EAC.

The responsibilities of the Communication Policy Committee are as follows:
taking into account the public opinion and the views and concerns of customers and other stakeholders defining strategic communication with customers and other stakeholders through the media.

The Committee met 15 times within 2018.

5. Networks Joint Special Subcommittee (JSS)

Constantinos Kosti
CHAIRMAN
Christina Zikkou
MEMBER
Adamos Kontos
MEMBER

The Networks Joint Special Subcommittee (JSS), which is comprised of the Executive Networks Manager and two Non-executive Members of the EAC Board of Directors, manages the Networks Business Unit (NBU).

The mission and purpose of the Networks JSS is to ensure the independence of the function of and to make decisions regarding the Core Regulated Activities (CRA) of Transmission and Distribution.

The Networks JSS makes recommendations for the improvement of the organization and operation of the NBU, approves the Operational Plan, the Strategic Plan and the CRA Networks Budget and cares for the application and implementation of the aforesaid without interfering with the daily operational matters of the CRA.

The Subcommittee met 13 times within 2018.

6. Generation and Supply Joint Special Subcommittee (JSS)

Michael Hadjipantela
CHAIRMAN
Michael Komodromos
MEMBER
Alexis Michael
MEMBER

The Generation and Supply Joint Special Subcommittee (JSS), which is comprised of the Executive Generation and Supply Manager and two Non-executive Members of the EAC Board of Directors, manages the Generation and Supply Business Unit (GSBU).

The mission and purpose of the Generation and Supply JSS is to ensure the independence of the function of and to make decisions regarding the Core Regulated Activities (CRA) of Generation and Supply.

The Generation and Supply JSS makes recommendations for the improvement of the organisation and operation of the GSBU, approves the Operational Plan, the Strategic Plan and the CRA Generation and Supply Budget and cares for the application and implementation of the aforesaid without interfering with the daily operational matters of the CRA.

The Committee met 35 times within 2018.

11. Risk Management Committee

Christina Zikkou
CHAIRMAN
Yiannis Constantinides
MEMBER
Elena Tsolaki
MEMBER
Agni Sialarou
MEMBER
Andreas Ioannides
COORDINATOR

The Risk Management Committee supports the Board of Directors on risk management issues. In particular, it informs the BoD of the most important risks and their management framework, supervises the operation of the Risk Management Unit, and monitors and evaluates the risk profile of the EAC and the effectiveness of the risk management policies implemented by the EAC.

It also monitors and evaluates compliance with approved risk levels and the appropriateness of exposure limits. The Risk Management Committee is composed of four members from the Board of Directors. The Secretary of the Risk Management Committee is the Head of the Quality Assurance Division.

The Chairman of the Risk Management Committee shall submit an annual evaluation and assessment report on the work, proposals and findings of the Risk Management Committee to the Board of Directors.

OPERATIONAL UNBUNDLING

Following the Cyprus Energy Regulatory Authority (CERA) Regulatory Decisions No. 02/2014, 03/2014 and 04/2014 for the Unbundling of EAC accounts and the Operational Unbundling, EAC implements measures for its compliance.

Through the compliance procedure, EAC is restructured in four independent Core Regulated Activities (CRA) Generation, Supply, Transmission and Distribution, and to the Non- Regulated Activities.

The Corporate Governance and Operational Independence of the Core Regulated Activities are attested through the following:

- by the independent preparation of each Core Regulated Activity's budget, Strategic, Business and Action Plan
- with the implementation of the Corporate Governance Code and the Code of Conduct, as well as
- with the correct costing for all services provided to and between Core Regulated Activities, Non-Regulated Activities and Common Services, in order to avoid cross-subsidization and distortion of competition.

Further to the above, EAC established an independent directorate for the Distribution System Operator (DSO) within which the ring-fenced "Department of Meter Registration and Metering Records" operates to provide services to all Suppliers without discrimination.

By implementing the measures above, EAC aims to protect competition, avoid "discrimination" and non-discriminatory behavior towards consumers while safeguarding equal treatment of the users of the system and electricity market participants.

Since December 1, 2016, a date which was set by CERA as the day of the implementation of Operational Unbundling to mark the beginning of the regulatory control period, EAC officially applies Operational Unbundling. The implementation of Operational Unbundling is a continuous and dynamic process in which improvements are based on recommendations by EAC's Compliance Officers and the findings of internal and external auditors.

ANNUAL
REPORT
TABLES
2018

THE YEAR IN BRIEF

		2018	2017	% Increase (Decrease)
FINANCIAL ACTIVITY				
Total income	€ thousand	787.061	680.123	15,7
Total costs	€ thousand	741.462	617.901	20,0
Operating profit	€ thousand	45.599	62.222	(26,7)
Net profit for the year	€ thousand	36.725	50.690	(27,5)
Average net assets employed	€ thousand	1.908.718	1.920.369	(0,6)
Return on average net assets employed	%	2,4	3,2	(25,0)
EMPLOYEES				
Employees in service at 31 December		2.088	2.023	3,2

FINANCIAL SERVICES

FINANCIAL REVIEW

The financial statements of the EAC for the year 2018 together with the supporting statements are set out in pages 40 to 102.

Chart 1
Income, Costs & profit from operations

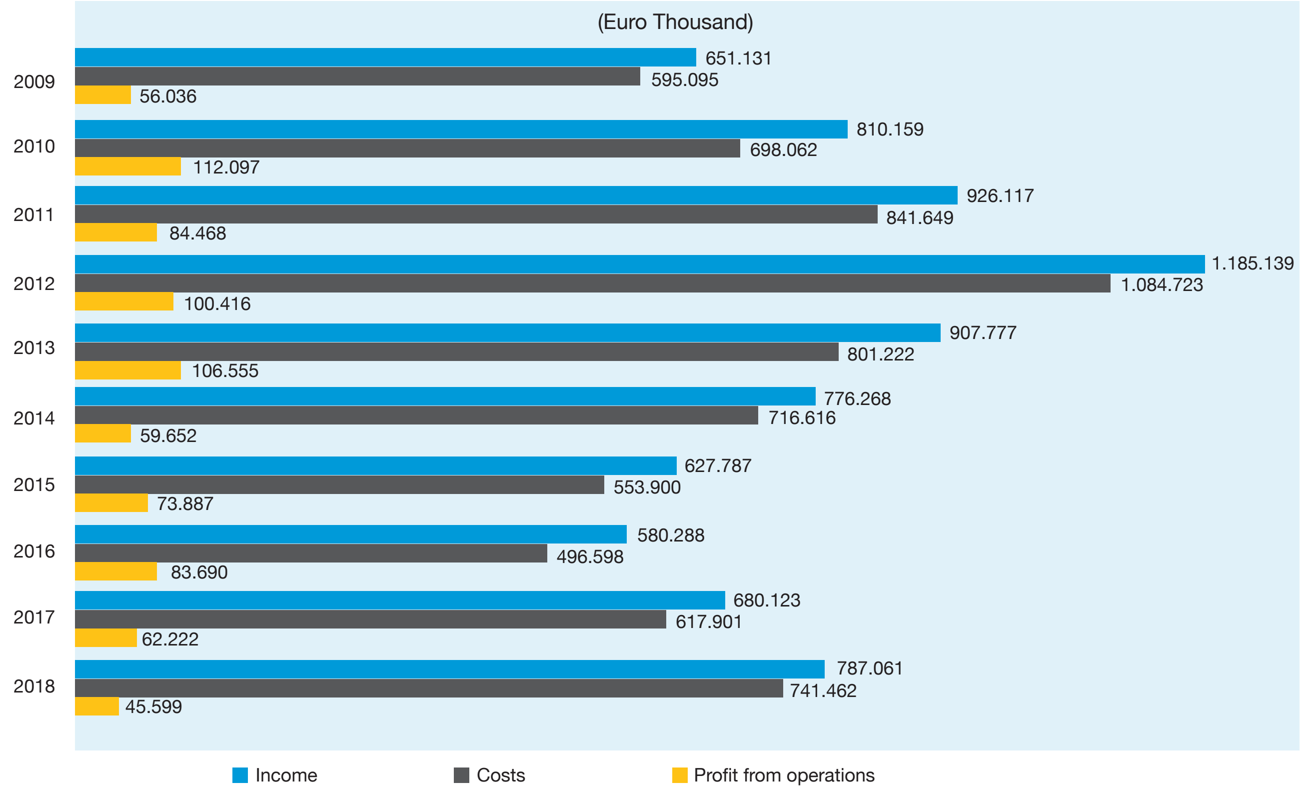


Chart 2
Prices paid for fuel oil & average prices used for tariff purposes

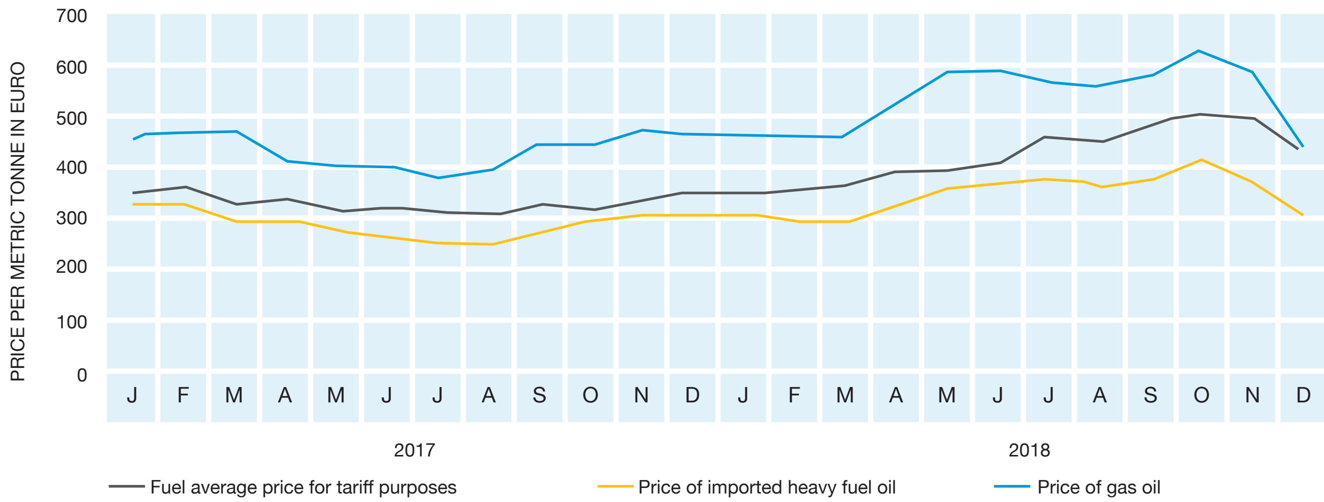


Table 3
Consolidated income statement for the year ended 31 December 2018 and changes from previous year

	2018	Increase (Decrease) over 2017
	€000	€000
INCOME		
Revenue from Sale of electricity	723.622	95.435
Consumers' capital contributions	22.541	473
Income from Desalination	15.480	1.867
Other operating income	20.812	10.604
Finance income	4.606	(1.441)
	787.061	106.938
Other income net	63	141
OPERATING COSTS	(744.309)	(126.486)
Net impairment profit on financial assets	2.784	2.784
Operating profit	45.599	(16.623)
Finance costs	(2.390)	271
Share of loss in joint venture	(5)	(5)
Profit before tax	43.204	(16.357)
Tax	(6.479)	2.392
Net profit for the year	36.725	(13.965)

FINANCIAL RESULTS

The financial results for the year and the changes from the previous year are shown in Table No. 3 above. The income from sales of electricity for the year, totaled to €723.622.000 showing an increase of €95.435.000 or 15,2%, mainly due to the increase in the tariff price as a result of the automatic adjustment due to the increase in fuel prices. The total operating costs were €744.309.000 showing an increase of €126.486.000 or 20,5%, mainly as a result of the increase in fuel prices as well as the increase in emission allowances cost. After accounting for net impairment profit on financial assets of €2.784.000, finance costs amounting to €2.390.000 and share of loss in joint venture of €5.000, there was a profit before tax of €43.204.000 compared to a profit of €59.561.000 in the previous year. After the deduction of tax amounting to €6.479.000, the net profit was €36.725.000 (2017: €50.690.000).

ANALYSIS OF OPERATING COSTS

Table 4 below gives an analysis of the operating costs according to each category. The principal factors underlying the changes are reviewed below:

The average cost of fuel oil used by the EAC power stations increased by 21,7% to €395,76 per metric tonne. The consumption increased by 1,7% to 1050,4 thousand metric tonnes. Mainly as a result of the increase in price, the fuel oil bill increased by €79.772.000 to €415.703.000.

The purchase of electricity from third parties €37.865.000 increased by 34,2% mainly due to the increase in fuel oil price.

The greenhouse gas emission allowances cost increased by €26.236.000 to €38.474.000. The increase was mainly due to the increase in the average price per emission allowance purchased during the year which reached €15,99/allowance compared to €6,03/allowance during the previous year.

The total salaries and related costs amounted to €95.076.000 out of which €7.084.000 was capitalised in fixed assets and work in progress. The amounts capitalised relate to expenditure for development projects executed by the Authority's employees during the year. An amount of €87.992.000 or 92,5% was charged to the income statement. The increase of €2.049.000 or 2,2% to the total salaries and related costs charge is mainly due to the increase in the number of personnel in conjuction with a reduction in the current year cost of the defined benefit pension scheme.

Materials services and other expenditure were €26.722.000 (increase of €2.488.000 or 10,3%).

The depreciation charge was €98.136.000 (increase of €314.000 or 0,3%).

Table 4
Analysis of Operating costs

	2018		Increase/ (Decrease) over 2017	
	€000	%	€000	%
Fuel	415.703	55,8	79.772	23,7
Purchase of Electricity from third parties	37.865	5,1	9.652	34,2
Greenhouse gas emission allowances cost	38.474	5,2	26.236	214,4
KODAP fee	5.297	0,7	(43)	(0,8)
Staff costs	87.992	11,8	1.173	1,4
Repairs and maintenance	25.569	3,4	4.243	19,9
Cyprus Transmission System Operator fee	6.645	0,9	2.515	60,9
Cyprus Energy Regulatory Authority fees	1.906	0,3	136	7,7
Materials, services and other expenditure	26.722	3,6	2.488	10,3
Depreciation	98.136	13,2	314	0,3
TOTAL	744.309	100,0	126.486	20,5

Chart 3
Operating Expenditure
As per percentage of total operating expenditure

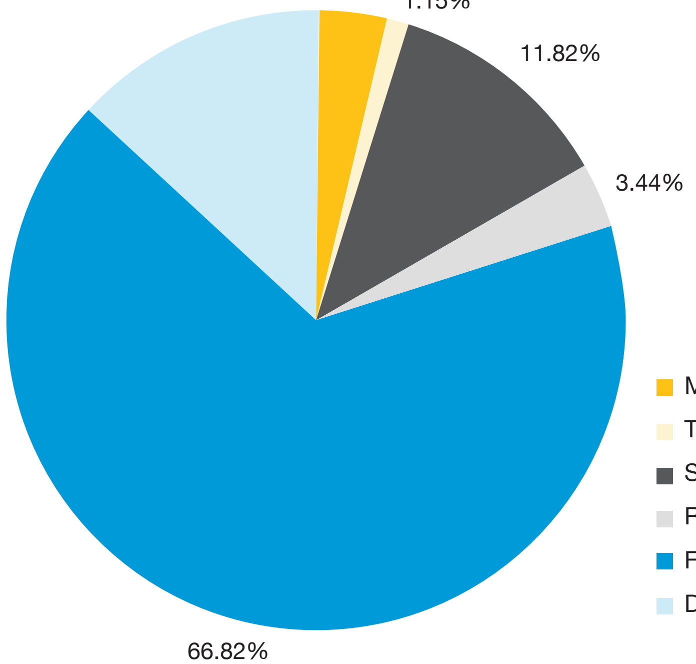


Table 5
Financing Requirements and Sources of Finance

	2018		2017	
	€000	**%**	**€000**	**%**
FINANCING REQUIREMENTS				
Tax	18.566	16,4	1.586	1,3
Capital expenditure	49.392	43,8	45.434	35,8
Loan servicing	44.971	39,8	79.912	62,9
	112.929	100,0	126.932	100,0
SOURCES OF FINANCE				
Profit before interest, tax and deprecation	117.477	104,0	133.431	105,1
Proceeds from disposal of fixed assets and investments	462	0,4	4	0,0
Interest received	5.014	4,4	6.038	4,8
Consumers' contributions	22.553	20,0	22.578	17,8
Working Capital changes	(32.577)	(28,8)	(35.119)	(27,7)
	112.929	**100,0**	**126.932**	**100,0**

CAPITAL REQUIREMENTS AND SOURCES OF FINANCE

Capital expenditure during the year amounted to €49.392.000 compared with €45.434.000 in 2017 (increase of €3.958.000).

The amount paid for taxation during the year 2018 amounted to €18.566.000 (2017: €1.586.000).

Loan repayments and interest paid amounted to €44.971.000 (2017: €79.912.000).

The total financing requirements of €112.929.000 were covered from internal sources and consumers contributions. Table 5 below shows the financing requirements during the year and the sources of finance.

FINANCIAL POSITION AT END OF YEAR

The historical cost of the assets employed at 31 December 2018 was €3.166.969.000 and the accumulated depreciation was €1.539.334.000 or 51,4% of the historic cost. The total net assets at 31 December 2018 were €1.895.054.000 and were financed by loans (€262.682.000 or 13,9%), other long term liabilities (€511.709.000 or 27,0%) and the balance (€1.120.663.000 or 59,1%) from own sources.

AUDITOR'S REPORT AND FINANCIAL STATEMENTS

Report and consolidated financial statements - 31 December 2018

CONTENTS

BOARD OF DIRECTORS AND OTHER OFFICERS

BOARD OF DIRECTORS

CHAIRMAN
Emily Yiolitis (from 1.2.2019)

Andreas Marangos (until 17.1.2019)

VICE-CHAIRMAN
Michalis Komodromos (from 1.2.2019)

Michalis Hadjipantela (until 17.1.2019)

MEMBERS
Elena Tsolakis (until 17.1.2019 and from 1.2.2019)

Agni Shialarou (until 17.1.2019 and from 1.2.2019)

Christina Zikkou (until 17.1.2019 and from 1.2.2019)

George Nikolettos (from 1.2.2019)

Chrysostomos Chrysostomou (from 1.2.2019)

Polyvios Lemonaris (from 1.2.2019)

Georgios Shammas (from 1.2.2019)

Yiannis Constantinides (until 17.1.2019)

Constantinos Costi (until 17.1.2019)

Michalis Komodromos (until 17.1.2019)

Charalambos Artemi (until 17.1.2019)

LEGAL ADVISERS
Ioannides Demetriou LLC, Nicosia

AUDITORS
PricewaterhouseCoopers Limited

CONSOLIDATED MANAGEMENT REPORT

1. The Board of Directors presents its report together with the audited consolidated financial statements of the Electricity Authority of Cyprus (the “Authority”) and its subsidiaries Elektriki Ananeosimes Ltd, EAC LNG Investments Company Ltd and ESCO AHK Ltd (together the “Group"') for the year ended 31 December 2018.

Principal activities

2. The principal activities of the Group, which have not changed since last year, are the generation, transmission, distribution and supply of electricity in Cyprus. Following an amendment in the Law on 24 November 2000 the Authority has been empowered to engage in activities that are relevant with the exploitation and development of its assets, technical capabilities, installations, services, knowhow and renewable energy sources.

Group Changes

3. During the year the Authority transferred to the Holy Archbishopric of Cyprus (HAC), 49% of the shares held in its subsidiary EAC Solar Thermal Power Ltd and the name of the company was subsequently changed to AIK - IAK AHERA Ananeosimes Ltd. The Board of Directors of the company is comprised of 5 members, two of which are appointed by the Authority, two are appointed by HAC and the Chairman is jointly appointed. In accordance with a relevant Joint Development Agreement between the Authority and HAC, the purpose of the company is the phased development, licensing, financing, construction, operation and maintenance of one or more photovoltaic parks. As a result of the above, the interest of EAC in AIK - IAK AHERA Ananeosimes Ltd is regarded as an investment in a Joint Venture. The Authority does not intend to proceed with any acquisitions or mergers.

Review of business developments, position and performance of the Authority’s business

4. The profit of the Group for the year ended 31 December 2018 was €36.725 thousand (2017: €50.690 thousand). On 31 December 2018 the total assets of the Group were €2.318.715 thousand (2017: €2.319.940 thousand) and the net assets were €1.120.663 thousand (2017: €1.114.562 thousand). The financial position of the Group as presented in the consolidated financial statements is considered satisfactory. The Board of Directors does not anticipate any significant changes in the activities of the Group in the near future.

5. As at 31 December 2018 the Group had 2.088 employees (2017: 2.023) and 576.223 consumers of electricity (2017: 568.500).

Principal risks and uncertainties

6. The principal risks and uncertainties faced by the Group are disclosed in notes 6, 7 and 26 of the consolidated financial statements.

7. Management determined impairment provisions for financial assets carried at amortised cost using the “expected credit loss” model required by IFRS 9 instead of the “incurred loss” model required by IAS 39. The impairment provision in accordance with the new IFRS 9, is based on assumptions with regard to the risk of default and takes into account historical information of the Group, the current market conditions as well as forecasts regarding future market conditions. As a result, the actual impairment losses from financial assets may differ from these estimates.

CONSOLIDATED MANAGEMENT REPORT

(CONT')

Financial risk management

8. The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk.

9. The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by a central treasury department under policies approved by the Board of Directors. The treasury department identifies, evaluates and hedges financial risks in close co-operation with the Group's operating units.

Market Risk

10. Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

11. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Foreign exchange risk

12. Foreign exchange risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the Group's functional currency. The Group is exposed to foreign exchange risk arising from various currency exposures with respect to the US Dollar but believes that any change in foreign exchange rates will not have a material effect on its results.

    Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

Cash flow interest rate risk

13. Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group's income and operating cash flows are dependent on changes in market interest rates.

    The Group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. See Note 6 for further disclosures on cash flow interest rate risk.

Credit risk

14. Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date. The Group has no significant concentration of credit risk. The carrying amount of financial assets represents the maximum credit exposure.

    Credit risk arises from cash and cash at bank, short term bank deposits, as well as from credit exposures to customers, including outstanding receivables.

    Sales to customers are settled in cash, direct debits or using major credit cards.

    As at 1 January 2018 the Group adopted IFRS 9 "Financial Instruments" and the credit risk management policies were accordingly amended, taking into account the expected credit loss model introduced by IFRS 9. Refer to Note 6 for further disclosures on credit risk.

Liquidity risk

15. Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses. See Note 6 for further disclosures on liquidity risk.

Future developments of the Group

16. The Board of Directors of the Authority does not expect any major changes or developments in the operations, financial position and performance of the Group in the foreseeable future.

Results

17. The results of the Group for the year are presented on page 41. The net profit for the year is transferred to reserves.

Board of Directors

18. The members of the Board of Directors as at 31 December 2018 and at the date of this report, as well as changes during the year, are presented on page 34.

19. There were no changes in the assignment of responsibilities of the Board of Directors. With the approval of the Council of Ministers there was an increase in the remuneration of the Board of Directors as from 1 January 2017.

Events after the reporting period

20. On 17 January 2019, the Authority transferred to the Holy Archbishopric of Cyprus, 101 shares which were held in AIK - IAK AHERA Ananeosimes Ltd and as a result its interest in the company was reduced to 49,99%.

21. There were no other material events after the reporting period, which have a bearing on the understanding of the consolidated financial statements.

Branches

22. The Group did not operate through any branches during the year.

Independent Auditors

23. The Independent Auditors, PricewaterhouseCoopers Limited, have expressed their willingness to continue in office.

By order of the Board of Directors

Emily Yiolitis
Chairwoman

4 June 2019, Nicosia

INDEPENDENT AUDITOR'S REPORT

To: the Board of Directors of the Electricity Authority of Cyprus
Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Electricity Authority of Cyprus (the ''Authority") and its subsidiaries (the ''Group"), which are presented in pages 40 to 102 and comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, the requirement of the Electricity Development Law, Cap. 171, the requirements of the Laws Regulating the Electricity Market of 2003-2017 and the requirements of the Cyprus Companies Law, Cap. 113.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards 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 International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Cyprus, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

The Board of Directors is responsible for the other information. The other information comprises the information included in the management report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and the requirements of the Cyprus Companies Law, Cap. 113, 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 Board of Directors is responsible for overseeing the Group's financial reporting process.

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

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

As part of an audit in accordance with ISAs, 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 a true and fair view.
- 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 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.

Report on Other Legal Requirements

Pursuant to the additional requirements of the Auditors Law of 2017, we report the following:

- In our opinion, the management report has been prepared in accordance with the requirements of the Cyprus Companies Law, Cap. 113, and the information given is consistent with the consolidated financial statements.
- In our opinion, and in the light of the knowledge and understanding of the Group and its environment obtained in the course of the audit, we have not identified material misstatements in the management report.

Other Matter

This report, including the opinion, has been prepared for and only for the Board of Directors of the Electricity Authority of Cyprus as a body, the Minister of Energy, Commerce, Industry and Tourism, the House of Representatives, and the Auditor General of the Republic in accordance with Section 69 of the Auditors Law of 2017 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Loizos A. Markides
Certified Public Accountant and Registered Auditor
for and on behalf of
PricewaterhouseCoopers Limited
Certified Public Accountant and Registered Auditor

P.O.Box 21612
1066 Nicosia, Cyprus

Nicosia, 4 June 2019

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

		2018	2017
	Note	**€000**	€000
Revenue	8	**768.054**	667.563
Other operating income - net	9	**19.007**	12.560
Other income / (losses) - net	10	**63**	(78)
Operating costs	11	**(744.309)**	(617.823)
Net impairment profit on financial assets		**2.784**	-
Operating profit		**45.599**	62.222
Finance costs	13	**(2.390)**	(2.661)
Share of loss in joint venture		**(5)**	-
Profit before tax		**43.204**	59.561
Tax charge	14	**(6.479)**	(8.871)
Profit for the year		**36.725**	50.690

The notes on pages 45 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

		2018	2017
	Note	**€000**	€000
Profit for the year		**36.725**	50.690
Other comprehensive income for the year, net of tax			
Items that will not be reclassified to income statement in future periods:			
Remeasurement of past-employment benefit obligations	12	**(22.781)**	49.755
Total income for the year		**13.944**	100.445

Other comprehensive income is presented after tax. The tax relating to each item of other comprehensive income is shown in Note 14.

The notes on pages 45 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018

	Note	2018 €000	2017 €000
Assets			
Non-current assets			
Property, plant and equipment	15	**1.627.635**	1.676.567
Financial assets at amortised cost	17	**131**	5.432
		1.627.766	1.681.999
Current assets			
Inventories	18	**132.891**	119.072
Trade receivables	17	**116.118**	80.170
Financial assets at amortised cost	17	**14.961**	13.929
Other non financial receivables	17	**16.431**	7.478
Greenhouse gasses emission allowances		**1.673**	349
Financial assets at fair value through profit or loss	17	**351**	557
Tax refundable	19	**4.287**	4.287
Short term deposits	20	**357.637**	378.687
Cash and cash at bank	20	**46.600**	33.412
		690.949	637.941
Total assets		**2.318.715**	2.319.940
Reserves and liabilities			
Capital reserve		**15.555**	15.555
Actuarial losses reserve		**(236.434)**	(213.653)
Revenue reserve		**1.341.542**	1.312.660
Total equity		**1.120.663**	1.114.562
Non-current liabilities			
Borrowings	21	**262.682**	299.817
Deferred tax liabilities	22	**87.125**	82.958
Deferred income	23	**424.584**	425.045
		774.391	807.820
Current liabilities			
Trade and other payables	24	**151.318**	128.222
Net defined benefit obligation	12	**212.194**	187.740
Tax liability	19	**-**	17.375
Borrowings	21	**37.135**	41.680
Deferred income	23	**23.014**	22.541
		423.661	397.558
Total liabilities		**1.198.052**	1.205.378
Total reserves and liabilities		**2.318.715**	2.319.940

These consolidated financial statements are signed today, 4 June 2019, as a result of the approval and decision of the Board of Directors.

E. YIOLITIS
Chairwoman

P. OLYMBIOS
General Manager

M. CHARALAMBOUS
Executive Manager Finance

The notes on pages 45 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	Capital reserve €000	Actuarial losses reserve €000	Revenue reserve €000	Total €000
Balance at 1 January 2017		**15.555**	**(263.408)**	**1.279.345**	**1.031.492**
Comprehensive income					
Profit for the year		-	-	50.690	50.690
Other comprehensive income					
Remeasurement of past employment benefit obligation	12	-	49.755	-	49.755
Total other comprehensive income		-	49.755	-	49.755
Total income for the year		-	49.755	50.690	100.445
Contributions and distributions					
Defence contribution on deemed dividend distribution		-	-	(17.375)	(17.375)
Balance at 31 December 2017		**15.555**	**(213.653)**	**1.312.660**	**1.114.562**
Effect of initial application of IFRS 9 as at 1 January 2018		-	-	(8.964)	(8.964)
Tax effect of initial application of IFRS 9 as at 1 January 2018		-	-	1.121	1.121
Restated balance at 1 January 2018		**15.555**	**(213.653)**	**1.304.817**	**1.106.719**
Comprehensive income					
Profit for the year		-	-	36.725	36.725
Other comprehensive income					
Remeasurement of post employment benefit obligation	12	-	(22.781)	-	(22.781)
Total other comprehensive loss		-	(22.781)	-	(22.781)
Total (expenses) / income for the year		-	(22.781)	36.725	13.944
Balance at 31 December 2018		**15.555**	**(236.434)**	**1.341.542**	**1.120.663**

1. The Capital Reserve represents a government grant.
2. Organizations which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic Law, during the two years after the end of the year of assessment to which the profits refer, will be deemed to have distributed this amount as dividend. Special contribution for defence will be payable on such deemed dividend at the end of the period of two years from the end of the year of assessment to which the profits refer. Special contribution for Defence was increased from 15% to 17% for the taxable year 2009 and 20% for taxable years 2010-11 and decreased to 17% for taxable years 2012 - onwards. The amount of this deemed dividend distribution is reduced by any actual dividend paid out of the profits of the relevant year by the end of the period of two years from the end of the year of assessment to which the profits refer. This special contribution for defence is paid by the Group on behalf of the Government of Cyprus.
3. The actuarial losses reserve represents the cumulative losses from the Defined Benefit Plan that were recognized in the Consolidated Statement of other comprehensive income. The actuarial losses arise from changes in the present value of post-employment benefit obligation resulting from experienced adjustments and the consequences of changes in actuarial assumptions.

The notes on pages 45 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Note	2018 €000	2017 €000
Cash flows from operating activities			
Profit before tax		**43.204**	59.561
Adjustments for:			
Depreciation of property, plant and equipment	15	**98.136**	97.822
Amortization of consumers' capital contributions	23	**(22.541)**	(22.068)
(Profit)/ loss from the sale of property, plant and equipment	10	**(269)**	1
Net impairment loss on financial assets		**(2.784)**	-
Profit from the sale of investments in subsidiaries		**(6)**	-
Share of loss from joint venture	16	**5**	-
Interest expense	13	**3.284**	4.163
Interest income	9	**(4.606)**	(6.047)
		114.423	133.432
Changes in working capital:			
Inventories		**(13.819)**	(14.662)
Trade receivables		**(36.705)**	3.276
Financial assets at amortised cost		**3.603**	-
Other receivables		**(8.953)**	3.523
Greenhouse gasses emission allowances		**(1.324)**	(349)
Financial assets at fair value through profit or loss	10	**206**	78
Trade and other payables		**23.102**	9.397
Defined benefit obligation		**1.672**	4.026
Cash generated from operations		**82.205**	138.721
Tax paid		**(18.566)**	(1.586)
Net cash from operating activities		**63.639**	137.135
Cash flows from investing activities			
Acquisition of property, plant and equipment	15	**(49.392)**	(45.434)
Receipt from disposal of shares in associate company	16	**5**	-
Short-term deposits		**15.901**	(20.454)
Proceeds from sale of property, plant and equipment		**457**	4
Additions to consumers' capital contributions	23	**22.553**	22.578
Interest received		**5.014**	6.038
Net cash used in investing activities		**(5.462)**	(37.268)
Cash flows from financing activities			
Repayments of long term borrowings		**(41.680)**	(75.709)
Interest paid		**(3.291)**	(4.203)
Net cash used in financing activities		**(44.971)**	(79.912)
Net increase in cash and cash at bank		**13.206**	19.955
Cash and cash at bank at beginning of the year (including impact of adoption of IFRS 9 on 1 January 2018)		**33.397**	13.457
Loss allowance for the year		**(3)**	-
Cash and cash at bank at end of the year	20	**46.600**	33.412

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2018

1. General Information

The Electricity Authority of Cyprus is a Public Corporate Body which was established in Cyprus under the Electricity Development Law Cap.171 of 1952. It is managed by a Board of Directors, consisting of a Chairman, Vice-Chairman and seven members, who are appointed by the Council of Ministers.

The address of the Authority's Head Office is at 11 Amfipoleos Street, Strovolos, P.O.Box 24506, 1399 Nicosia, Cyprus.

Pursuant to the above Law, the Group is engaged in the generation, transmission, distribution and supply of electricity. Following an amendment in the Law on 24 November 2000 the Authority has been empowered to engage in activities that are relevant with the exploitation and development of its assets, technical capabilities, installations, services and knowhow.

With the accession of Cyprus to the European Union and the opening up of the electricity market to competition, the Electricity Authority of Cyprus in preparing for its harmonization with the European Union has taken all the necessary steps in order to conform with Directive 2003/54/EC of the European Parliament and of the Council of 19th December 1996 concerning common rules for the internal market for electricity.

The Group prepares separate financial statements for the activities of generation, transmission, distribution and supply of electricity and for the other activities in accordance to the Laws regulating the Electricity Market of 2003-2018 and the relevant resolutions of the Cyprus Energy Regulatory Authority (CERA) regarding the functional and accounts unbundling.

2. Basis of preparation

The consolidated financial statements of the Electricity Authority of Cyprus have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union (EU), the requirements of the Electricity Development Law, Cap. 171, the Laws Regulating the Electricity Market of 2003-2018 and the Companies Law Cap. 113.

As of the date of the authorisation of the consolidated financial statements, all International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) that are effective as of 1 January 2018 and are relevant to the Group's operations have been adopted by the EU through the endorsement procedure established by the European Commission.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below in Note 4. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the years presented, unless otherwise stated. The principal accounting policies in respect of financial instruments and revenue recognition which applied until 31 December 2017 are presented in Note 30.

The consolidated financial statements have been prepared under the historical cost convention, except in the case of financial assets at fair value through profit or loss which are shown at their fair value and the defined benefit obligation which is recognized as plan assets, less the present value of the defined benefit obligation.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates and requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 7.

3. Adoption of new or revised Standards and Interpretations

During the current year the Group adopted all the new and revised International Financial Reporting Standards (IFRS) that are relevant to its operations and are effective for accounting periods beginning on 1 January 2018. This adoption did not have a material effect on the accounting policies of the Group except as follows:

- IFRS 9 "Financial Instruments"
- IFRS 15 "Revenue from contracts with customers"

As explained below, in accordance with the transition provisions of IFRS 9 and IFRS 15, the Group has elected the simplified approach for adoption of the standards. Accordingly, IFRS 9 and IFRS 15 were adopted without restating the comparative information. The comparative information is prepared in accordance with IAS 39 and IAS 18 and IAS 11, and the impact of adoption has been recognised in the opening retained earnings.

The following table summarizes the impact of adoption of the new standards for each individual line item of the balance sheet. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail in accordance with each standard below.

a) Impact on the balance sheet

	1 December 2017 as previously presented	Reclassifications[(1)]	31 December 2017 under IAS 39[(1)]	Effect of adoption of IFRS 9	1 January 2018 under IFRS 9
	€000	€000	€000	€000	€000
Trade and other receivables	107.009	(107.009)	-	-	-
Trade receivables	-	80.170	80.170	(1.118)	79.052
Financial assets at amortised cost	-	19.361	19.361	(162)	19.199
Other non financial receivables	-	7.478	7.478	-	7.478
Cash and cash at bank	33.412	-	33.412	(15)	33.397
Short-term bank deposit balances with original maturity date three months and above	378.687	-	378.687	(7.669)	371.018
Profits held	1.312.660	-	1.312.660	(8.964)	1.303.696
Deferred tax liabilities	82.958	-	82.958	(1.121)	81.837

[1] Changes in the presentation of the comparative period

The Group has voluntarily changed the presentation of certain amounts in the comparative balance sheet as disclosed in the table above to reflect the terminology of IFRS 9.

b) Impact on the income statements

Net impairment losses on financial assets are now presented on the face of the income statement (net losses €8.964.000 as at 1 January 2018).

i) IFRS 9 ''Financial instruments"

IFRS 9 "Financial instruments" replaces the provisions of IAS 39 that relate to recognition and derecognition of financial instruments and classification and measurement of financial assets and financial liabilities. IFRS 9 further introduces new principles for hedge accounting and a new forward-looking impairment model for financial assets.

The new standard requires debt financial assets to be classified into two measurement categories: those to be measured subsequently at fair value (either through other comprehensive income (FVOCI) or through profit or loss (either FVTPL or FVPL) and those to be measured at amortized cost. The determination is made at initial recognition. For debt financial assets the classification depends on the entity's business model for managing its financial instruments and the contractual cash flows characteristics of the instruments. For equity financial assets classification depends on the Group's intentions and designation.

In particular, assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at fair value through other comprehensive income. Lastly, assets that do not meet the criteria for amortised cost or fair value through other comprehensive income are measured at fair value through profit or loss. For investments in equity instruments that are not held for trading, the classification depends on whether the entity has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income.

If no such election has been made or the investments in equity instruments are held for trading they are required to be classified at fair value through profit or loss.

IFRS 9 also introduces a single impairment model applicable for debt instruments at amortised cost and fair value through other comprehensive income and removes the need for a triggering event to be necessary for recognition of impairment losses. The new impairment model under IFRS 9 requires the recognition of allowances for doubtful debts based on expected credit losses (ECL), rather than incurred credit losses as under IAS 39. The standard further introduces a simplified approach for calculating impairment on trade receivables as well as for calculating impairment on contract assets and lease receivables; which also fall within the scope of the impairment requirements of IFRS 9.
For financial liabilities, the standard retains most of the requirements of IAS 39. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to the entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

With the introduction of IFRS 9 "Financial Instruments", the IASB confirmed that gains or losses that result from modification of financial liabilities that do not result in derecognition shall be recognized in profit or loss.

IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the "hedge ratio" to be the same as the one management actually use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.

The Group has adopted IFRS 9 with a date of transition of 1 January 2018, which resulted in changes in accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets.

The Group's new accounting policies following adoption of IFRS 9 at 1 January 2018 are set out in Note 4.

Impact of adoption

In accordance with the transition provisions in IFRS 9, the Group has elected the simplified transition method for adopting the new standard. Accordingly, the effect of transition to IFRS 9 was recognised as at 1 January 2018 as an adjustment to the opening retained earnings. In accordance with the transition method elected by the Group for implementation of IFRS 9 the comparatives have not been restated but are stated based on the previous policies which comply with IAS 39. Consequently, the revised requirements of IFRS 7 "Financial Instruments: Disclosures" have only been applied to the current period. The comparative period disclosures repeat those disclosures made in the prior year.

On 1 January 2018, for debt instruments held by the Group, management has assessed which business models apply to the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI test). In addition separate

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

assessment for equity instruments held by the Group was performed, in respect of whether they are held for trading or not. As a result of both assessments, management has classified its debt and equity instruments into the appropriate IFRS 9 categories.

As a result of the adoption of IFRS 9, the Group revised its impairment methodology for each class of assets subject to the new impairment requirements. From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI, cash and cash at bank and shot term bank deposits with original maturity of 3 months and above and loan commitments and financial guarantees. The impairment methodology applied depends on whether there has been a significant increase in credit risk and whether the debt instruments qualify as low credit risk and whether the debt investments qualify as low credit risk.

The Group has the following types of assets that are subject to IFRS 9's new expected credit loss model: trade receivables, financial assets at amortised cost, cash and cash at bank and short term bank deposits with original maturity of 3 months and above.

The Group has adopted the simplified expected credit loss model for its trade receivables, as required by IFRS 9, paragraph 5.5.15, and the general expected credit loss model for financial assets at amortised cost, cash and cash at bank and short term bank deposits with original maturity of 3 months and above.

Based on the assessment performed by management, the incremental impairment loss as of 1 January 2018 amounted to €8.964.000. Accordingly, the impact of adoption of IFRS 9 on the Group's retained earnings as of 1 January 2018 amounted to loss €7.843.000 net of deferred tax.

The following table reconciles the carrying amounts of financial instruments, from their previous measurement categories in accordance with IAS 39 into their new measurement categories upon transition to IFRS 9 on 1 January 2018.

Financial asset	Note	Classification based on IAS39	New classification based on IFRS 9	Book value in accordance with IAS 39 (final balance 31/12/2017)	Book value in accordance with IFRS 9 (final balance 1/1/2018)
				€000	€000
Listed equity securities	17(c)	FVTPL	FVTPL	557	557
Trade receivables	17(a)	L&R (loans and receivables)	AC (amortised cost)	80.170	80.170
Financial assets at amortised costs	17(b)	L&R	AC	19.361	19.361
Short-term bank deposit balances with original maturity date of three months and above	20	L&R	AC	378.687	378.687
Cash and cash equivalents	20	L&R	AC	33.412	33.412

- *Investments in equity securities previously classified as financial assets at FVTPL:*

Equity securities – held for trading are required to be held as FVTPL under IFRS 9. As a result there was no impact on the amounts recognised in relation to the investments in equity securities held for trading that were previously classified as financial assets at FVTPL from the adoption of IFRS 9. Under IAS 39 equity securities designated as at fair value through profit or loss at inception were those that were managed and their performance was evaluated on a fair value basis, in accordance with the Group's documented investment strategy. Information about these financial assets was provided internally on a fair value basis to the Group's key management personnel. Under IFRS 9 investments in equity instruments are always measured at fair value, so as a result there was no impact from the adoption of IFRS 9 and other equity securities other than those held for trading were classified as financial assets at FVTPL.

- *Other financial instruments:*

For all other financial assets management assessed that the Group's business model for managing the assets is "hold to collect" and these assets meet SPPI tests. As a result all other financial assets were classified as financial assets at amortised cost and reclassified from the category "loans and receivables" under IAS 39, which was "retired". Previously under IAS 39 these financial assets were also measured at amortised cost. Thus there were no impact of adoption of IFRS 9 as of 1 January 2018.

At 31 December 2017, all of the Group's financial liabilities were carried at amortised cost. Starting from 1 January 2018 the Group's financial liabilities continued to be classified at amortised cost.

The assessment of the impact of adoption of IFRS 9 on the Group's accounting policies required management to make certain critical judgments in the process of applying the principles of the new standard. The judgments that had the most significant effect on management's conclusion are disclosed in Note 7.

Reconciliation of provision for impairment at 31 December 2017 and credit loss allowance at 1 January 2018.

The following table reconciles the prior period's closing provision for impairment measured in accordance with the incurred loss model under IAS 39 to the new credit loss allowance measured in accordance with the expected credit loss model under IFRS 9 at 1 January 2018:

	Provision under IAS 39 or IAS 37 at 31 December 2017	Remeasurement from incurred to expected loss	Credit loss allowance under IFRS 9 at 1 January 2018
	€000	€000	€000
Loans and receivables measurement category			
Trade receivables	15.259	1.118	16.377
Other financial receivables	75	162	237
Other financial assets	-	7.684	7.684

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONT')

The impact of these changes on the Group's equity is as follows:

	Effect on retained earnings
	€000
At 31 December 2017 - IAS 39	1.312.660
Recognition of expected credit losses based on IFRS 9:	
Trade receivables	(1.118)
Financial assets at amortised cost	(162)
Cash and cash at bank	(15)
Short-term bank deposits	(7.669)
Deferred tax	1.121
Total impact	(7.843)
At 1 January 2018	1.304.817

ii) IFRS 15 ''Revenue from Contracts with Customers"

IFRS 15 "Revenue from contracts with customers" and related amendments superseded IAS 18 "Revenue", IAS 11 "Construction Contracts" and related interpretations. The new standard replaces the separate models for recognition of revenue for the sale of goods, services and construction contracts under previous IFRS and establishes uniform requirements regarding the nature, amount and timing of revenue recognition. IFRS 15 introduces the core principle that revenue must be recognised in such a way to depict the transfer of goods or services to customers and reflect the consideration that the entity expects to be entitled to in exchange for transferring those goods or services to the customer; the transaction price.

The new standard provides a principle-based five-step model that must be applied to all categories of contracts with customers. Any bundled goods or services must be assessed as to whether they contain one or more performance obligations (that is, distinct promises to provide a good or service). Individual performance obligations must be recognised and accounted for separately and any discounts or rebates in the contract price must generally be allocated to each of them.

IFRS 15 provides further guidance on the measurement of revenue arising from contracts that have variable consideration due to discounts, rebates, consignment inventories etc. In accordance with the new standard, when the consideration varies, an entity includes in the transaction price some or all of an amount of variable consideration only to the extent that it is highly probable that a significant reversal in the cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Further, costs incurred to secure contracts with customers and certain costs incurred to fulfil such contracts have to be capitalised and amortised over the period when the benefits of the contract are consumed.

The amendments to IFRS 15 clarify how to identify a performance obligation in a contract, how to determine whether a company is a principal (that is, the provider of a good or service) or an agent (responsible for arranging for the good or service to be provided) and how to determine whether the revenue from granting a license should be recognised at a point in time or over time. In addition to the clarifications, the amendments include two additional reliefs to reduce cost and complexity for a company when it first applies the new standard.

The Group's new accounting policies following adoption of IFRS 15 at 1 January 2018 are set out below in Note 4.

Impact of adoption

In accordance with the transition provisions of IFRS 15, the Group has elected the simplified transition method for adopting the new standard. Accordingly, the cumulative effect of transition to IFRS 15 was recognized as at 1 January 2018 as an adjustment to opening retained earnings directly in equity.

The Group has applied IFRS 15 retrospectively only to contracts that are not completed contracts at the date of initial application and adopted the practical expedient not to retrospectively restate contracts for which contract modifications occurred before the date of initial application.

Based on detailed analysis of the Group's revenue streams and individual contracts' terms and on the basis of the facts and circumstances relating to the Group's revenue transactions, there was no impact of the adoption of IFRS 15 on 1 January 2018.

The assessment of the impact of adoption of IFRS 15 on the Group's accounting policies required management to make certain critical judgments in the process of applying the principles of the new standard. The judgments that had the most significant effect on Management's conclusion are disclosed in 7.

4. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. Apart from the accounting policy changes resulting from the adoption of IFRS 9 and IFRS 15 effective from 1 January 2018, these policies have been consistently applied to all the years presented, unless otherwise stated. The principal accounting policies in respect of financial instruments and revenue recognition applied till 31 December 2017 are presented in note 30.

Subsidiary undertakings

Subsidiary undertaking is an entity controlled by the Group. Control exists where 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. The subsidiary undertaking is consolidated from the date on which control is transferred to the Group and is no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated as is also the case with unrealized losses unless cost cannot be recovered.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given and equity instruments issued and liabilities incurred or assumed at the date of exchange. Costs directly attributable to

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONT')

the acquisition are recognized in the profit or loss. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the income statement.

Revenue

Recognition and measurement

Revenue represents the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer, excluding amounts collected on behalf of third parties (for example, value-added taxes).

The Group recognises revenue when the parties have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations, the Group can identify each party's rights and the payment terms for the goods or services to be transferred, the contract has commercial substance (i.e. the risk, timing or amount of the Group's future cash flows is expected to change as a result of the contract), 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 and when specific criteria have been met for each of the Group's contracts with customers.

The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. In evaluating whether collectability of an amount of consideration is probable, the Group considers only the customer's ability and intention to pay that amount of consideration when it is due.

Estimates of revenues, costs or extent of progress toward completion are revised if circumstances change. Any resulting increases or decreases in estimates are reflected in the income statement in the period in which the circumstances that give rise to the revision become known by management.

Identification of performance obligations

The Group assesses whether contracts that involve the provision of a range of goods and/or services contain one or more performance obligations (that is, distinct promises to provide a service) and allocates the transaction price to each performance obligation identified on the basis of its stand-alone selling price. A good or service that is promised to a customer is distinct if the customer can benefit from the good or service, either on its own or together with other resources that are readily available to the customer (that is the good or service is capable of being distinct) and the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (that is, the good or service is distinct within the context of the contract).

(a) Sales of electricity

Sales of electricity represent amounts receivable, based on consumption recorded by meters, net of V.A.T. Sales also include an estimate of the value of units supplied to consumers between the date of the last meter reading and the year end, and this estimate is included in receivables in the consolidated statement of financial position.

(b) Consumers' capital contributions

The Group accepts applications for extension of its network in areas not yet covered by the existing network by individuals and legal entities. Furthermore the Group accepts applications for additional load from the existing network. In both cases the Group charges the applicants with the construction cost.

The fact that the cost is recovered from applicants results in not having to be recovered by consumers through electricity tariffs. Otherwise this cost would have been included in tariffs and consumers would have been billed for the consumption of electricity with higher prices. All network extension applicants are charged with capital contributions and all consumers are billed with the same tariffs.

Applicants are ensured of the right of permanent access to the network for an unlimited period of time. The Group is committed to provide access for an unlimited period of time. Capital contributions represent the price for this continuous service and hence income is shown as deferred income and is gradually released to the consolidated income statement over a period identical to that of the assets constructed/acquired for this purpose, and which have an average life of 33 1/3 years. This period is considered a reasonable approximation for calculating the period of the customer relationship.

(c) Revenue from Desalination

Revenue from desalination represents the sale of desalinated water to the Water Board Authority in accordance with the supply as recorded by meters net of VAT. Sales also include an estimate of the value of metric tonnes supplied between the date of the last invoice and the end of the year and this estimate is included in financial assets at amortised cost in the consolidated statement of financial position.

(d) Income from contracts for replacement and maintenance of public lighting

The income represents the replacement and maintenance of public lighting for Community Boards and Municipalities. The Group recognises the performance obligations per contract and allocates the transaction price to each obligation identified, with reference to the stand-alone price.

Financing component

The Group does not have any material contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group elects to use the practical expedient and does not adjust any of the transaction prices for the time value of money.

Contract assets and contract liabilities

In case the services rendered by the Group as of the reporting date exceed the payments made by the customer as of that date and the Group does not have the unconditional right to charge the client for the services rendered, a contract asset is recognised. The Group assesses a contract asset for impairment in accordance with IFRS 9 using the simplified approach permitted by IFRS 9 which requires expected lifetime losses to be recognised from initial recognition of the contract asset. An impairment of a contract asset is measured, presented and disclosed on the same basis as a financial asset that is within the scope of IFRS 9. If the payments made by a customer exceed the services rendered under the relevant contract, a contract liability is recognised. The Group recognises any unconditional rights to consideration separately from contract assets as a trade receivable because only the passage of time is required, before the payment is due.

Contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 180 days past due.

Foreign currency translation

(a) Functional and presentation currency

Items included in the Group's consolidated financial statements are measured using the currency of the primary economic environment in which the Group operates ("the functional currency"). The consolidated financial statements are presented in Euro (€), which is the Group's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

All foreign exchange gains and losses are presented in profit or loss within "finance costs".

Employee benefits

The Group operates a defined benefit plan, comprising of a lump sum amount at the termination of employees services and post-employment benefits, and various other defined contribution plans, the assets of which are held in separate trustee-administered funds. These plans are mainly funded by the Group.

The net expense/(income) from interest and current service cost is charged to the income statement over the period of the expected service lives of the employees and is estimated annually by independent actuaries, using the projected unit method, in order

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONT')

to create sufficient reserves. The Group determines the net interest expense/(income) on the net defined benefit obligation (asset) for the period by applying the discount rate used to measure the defined benefit obligation (asset), taking into account any changes in the net defined benefit obligation (asset) during the period as a result of contributions and benefit payments. Remeasurements of the net defined benefit obligation, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income.

A provision for the contribution to the defined benefit scheme is made on a monthly basis so that adequate reserves are created during the working life of the employees. Additionally, from 2015 a recovery plan was effected which provides that an annual deficit payment should be made to the Pension Plan. From October 2011 under the first package of austerity measures, 3% from the salaries of the members of the defined benefit plan is deducted in order to ensure its viability.

IAS 19 does not specify whether an entity should distinguish current and non-current portions of assets and liabilities arising from post-employment benefits. The Group recognizes the net defined benefit obligation as current liability because a distinction between current and non-current portion arising from defined benefit plans may sometimes be arbitrary.

The Authority's contributions to the defined contribution plans are charged to the consolidated income statement in the year to which they relate.

Current and deferred income tax

The tax expense for the period comprises current and deferred tax including interest and penalties. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income. In this case, the tax is also recognized in other comprehensive income.

The current income tax is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the country in which the Group operates and generates taxable income. The Group periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. If applicable tax regulation is subject to interpretation, it establishes provision where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted until the reporting date and are expected to apply when the related deferred income tax asset is recognized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the Authority where there is an intention to settle the balances on a net basis.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly related to the acquisition of property, plant and equipment. For projects carried out by external contractors, cost is based on the value of work executed and certified by engineering consultants. For projects carried out by the Group's own staff, cost comprises of materials, labour and related overheads.

Major spare parts and stand-by equipment are accounted for as property, plant and equipment when the Group expects to use them during more than one period.

	Years
Power station buildings	30
Other buildings	35
Power station plant and machinery	25
Other plant and machinery	25-30
Lines and cables	35-40
Meters	15
Motor vehicles	7
Furniture, fixtures and office equipment	10
Tools and instruments	10
Computer hardware	5
Computer software	3

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Expenditure for repairs and maintenance of property, plant and equipment is charged to the consolidated income statement of the year in which they were incurred. The cost of major renovations and other subsequent expenditure are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Gains and losses on disposal of property, plant and equipment is determined by comparing proceeds with the carrying amount and these are included in "other gains/losses-net" in the consolidated income statement.

Greenhouse Gas Emission Allowances

Based on the Cyprus Law for the Scheme of Greenhouse Gas Emission Allowance Trading, N.132(I)/2004, greenhouse gas emission allowances are allocated to the various operators (companies) with the objective of reducing the level of pollution in the environment.

Each operator, whose annual emissions exceed the number of emission allowances allocated for the specific year, is obliged to buy as many emission allowances as required to cover the shortage and in addition to pay a penalty fee for each eco of excess emission.

Granted CO2 emission allowances are initially recognized at nominal value (nil value) when the Group is able to exercise control over these rights. Purchased greenhouse gases emission allowances are initially recognized at cost (purchase price) within intangible assets. A liability is recognized when the level of emissions exceeds the level of allowances granted. The liability includes the total cost of the purchased allowances and any additional deficit at the current market value of the allowances as at the reporting date. Movements in the liability are recognized in the consolidated statement of profit or loss.

The intangible assets are surrendered at zero value at the end of the compliance period reflecting the consumption of economic benefit. Surplus emission allowances can be carried forward and off-set future shortages (up to the end of the compliance period) or be sold. Proceeds from the sale of surplus emission allowances are recognized upon the sale of these rights. During the year no sales of surplus took place.

Impairment of non-financial assets

Assets that have an indefinite useful life, including goodwill, are not subject to amortization and are tested annually for impairment. Assets (except inventory and deferred tax) that are subject to depreciation or amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units). Non-financial assets, other than goodwill, that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment loss is recognized in the profit or loss.

Financial assets - Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through OCI or through profit or loss), and
- those to be measured at amortised cost.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONT')

The classification and subsequent measurement of debt financial assets depends on: (i) the Group's business model for managing the related assets portfolio and (ii) the cash flow characteristics of the asset. On initial recognition, the Group may irrevocably designate a debt financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

For investments in equity instruments that are not held for trading, classification will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI). This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

Financial assets - Recognition and derecognition

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date when the Group commits to deliver a financial instrument. All other purchases and sales are recognized when the entity becomes a party to the contractual provisions of the instrument.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

Financial assets - Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVTPL are expensed in profit or loss. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in 'other income'. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the income statement. Financial assets measured at amortised cost (AC) comprise: cash and cash at bank, short-term bank deposits with original maturity of 3 months and above, trade receivables and financial assets at amortised cost.

- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in other income. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the income statement

- **FVTPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment and any related balance within the FVOCI reserve is reclassified to retained earnings. The Group's policy is to designate equity investments as FVTPL.

Changes in the fair value of financial assets at FVTPL are recognised in other gains/(losses) in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

Financial assets – impairment – credit loss allowance for ECL

From 1 January 2018, the Group assesses on a forward-looking basis the ECL for debt instruments (including loans) measured at AC and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group measures ECL and recognises credit loss allowance at each reporting date. The measurement of ECL reflects: (i) an unbiased and probability weighted amount that is determined by evaluating a range of possible outcomes, (ii) time value of money and (iii) all reasonable and supportable information that is available without undue cost and effort at the end of each reporting period about past events, current conditions and forecasts of future conditions.

The carrying amount of the financial assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within 'net impairment losses on financial and contract assets'.

Debt instruments measured at AC are presented in the balance sheet net of the allowance for ECL.

For debt instruments at FVOCI, an allowance for ECL is recognised in profit or loss and it affects fair value gains or losses recognised in OCI rather than the carrying amount of those instruments.

Expected losses are recognized and measured according to one of two approaches: general approach or simplified approach.

For trade receivables including trade receivables with a significant financing component and contract assets [and lease receivables] the Group applies the simplified approach permitted by IFRS 9, which uses lifetime expected losses to be recognised from initial recognition of the financial assets.

For all other financial assets that are subject to impairment under IFRS 9, the Group applies the general approach – three stage model for impairment. The Group applies a three stage model for impairment, based on changes in credit quality since initial recognition. A financial instrument that is not credit-impaired on initial recognition is classified in Stage 1.

Financial assets in Stage 1 have their ECL measured at an amount equal to the portion of lifetime ECL that results from default events possible within the next 12 months or until contractual maturity, if shorter ("12 Months ECL"). If the Group identifies a significant increase in credit risk ("SICR") since initial recognition, the asset is transferred to Stage 2 and its ECL is measured based on ECL on a lifetime basis, that is, up until contractual maturity but considering expected prepayments, if any ("Lifetime ECL"). Refer to Note 6, Credit risk section for a description of how the Group determines when a SICR has occurred. If the Group determines that a financial asset is credit-impaired, the asset is transferred to Stage 3 and its ECL is measured as a Lifetime ECL. The Group definition of credit impaired assets and definition of default is explained in Note 6, Credit risk section.

Financial assets - Reclassification

Financial instruments are reclassified only when the business model for managing those assets changes. The reclassification has a prospective effect and takes place from the start of the first reporting period following the change.

Financial assets – write-off

Financial assets are written-off, in whole or in part, when the Group exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery. The write-off represents a derecognition event. The Group may write-off financial assets that are still subject to enforcement activity when the Group seeks to recover amounts that are contractually due, however, there is no reasonable expectation of recovery.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

Financial Assets - Modification

The Group sometimes renegotiates or otherwise modifies the contractual terms of the financial assets. The Group assesses whether the modification of contractual cash flows is substantial considering any new contractual terms that substantially affect the risk profile of the asset.

If the modified terms are substantially different, the rights to cash flows from the original asset expire and the Group derecognises the original financial asset and recognises a new asset at its fair value. The date of renegotiation is considered to be the date of initial recognition for subsequent impairment calculation purposes, including determining whether a SICR has occurred. The Group also assesses whether the new loan or debt instrument meets the SPPI criterion. Any difference between the carrying amount of the original asset derecognised and fair value of the new substantially modified asset is recognised in profit or loss, unless the substance of the difference is attributed to a capital transaction with owners.

In a situation where the renegotiation was driven by financial difficulties of the counterparty and inability to make the originally agreed payments, the Group compares the original and revised expected cash flows to assets whether the risks and rewards of the asset are substantially different as a result of the contractual modification. If the risks and rewards do not change, the modified asset is not substantially different from the original asset and the modification does not result in derecognition. The Group recalculates the gross carrying amount by discounting the modified contractual cash flows by the original effective interest rate, and recognises a modification gain or loss in profit or loss.

Cash and cash at bank

In the statement of cash flows, cash and cash at bank includes cash in hand, deposits held at call with banks with original maturities of less than three months which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. In the balance sheet bank overdrafts are shown within borrowings in current liabilities. Cash and cash at bank are carried at AC because: (i) they are held for collection of contractual cash flows and those cash flows represent SPPI, and (ii) they are not designated at FVTPL.

Short-term bank deposits

These amounts relate to short-term bank deposits with maturity 3-12 months. These are held with the objective to collect their contractual cash flows and their cash flows represent solely payments of principal and interest. Accordingly, these are measured at amortised cost, less provision for impairment.

Financial assets at amortised cost

These amounts generally arise from transactions outside the usual operating activities of the Group. These are held with the objective to collect their contractual cash flows and their cash flows represent solely payments of principal and interest. Accordingly, these are measured at amortised cost using the effective interest method, less provision for impairment. Financial assets at amortised cost are classified as current assets if they are due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current assets.

Interest income

Interest income from financial assets at amortised cost which is calculated using the effective interest method is recognised in the income statement as "Other income". Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit impaired. For credit - impaired financial assets - Stage 3 the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance), for Stage 1 and Stage 2 – gross amount of financial assets.

Financial liabilities - measurement categories

Financial liabilities are initially recognised at fair value and classified as subsequently measured at amortised cost.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings, using the effective interest method, unless they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment (for liquidity services) and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires). The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

A material modification in the terms of an existing financial liability or part of it, is treated as a termination of the original financial liability and recognition of a new financial liability. Any gain or loss on termination is recognised in profit or loss except when it arises as a result of transactions with shareholders acting in their capacity as shareholders, in which case it is recognised directly in equity. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Any expenses or fees arising are recognised as part of the gain or loss on termination.

Borrowing costs are interest and other costs that the Group incurs in connection with the borrowing of funds, including interest on borrowings, amortisation of discounts or premium relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance lease charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset, when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably. Borrowings are classified as short-term liabilities unless the Group has the unconditional right to postpone the repayment of the liability for at least twelve months after the date of the consolidated statement of financial position.

Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. Cost includes purchase cost, transport and handling costs. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses. Provision is made for damaged, deteriorated, obsolete and unusable items where appropriate.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less loss allowance.

Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, in which case they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

Trade receivables are also subject to the impairment requirements of IFRS 9. The Group applies the IFRS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. See Note 6 Credit risk section.

Trade receivables are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period mainly of not less than 2 years. The assessment is carried out separately for each customer, taking into account the specific data of the customer.

Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of the Group's business. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the Group if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortized cost using the effective interest method.

Comparatives

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.

5. New accounting pronouncements

At the date of approval of these financial statements a number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2018, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Group's financial statements, with the exception of the following:

- IFRS 16 ''Leases" (issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019). The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the new standard on its financial statements and as of the date of issue of these financial statements the impact of the adoption of this standard is not known/ or reasonably estimable.

- Plan Amendment, Curtailment or Settlement - Amendments to IAS 19 (issued on 7 February 2018 and effective for annual periods beginning on or after 1 January 2019). The amendments specify how to determine pension expenses when changes to a defined benefit pension plan occur. When a change to a plan-an amendment, curtailment or settlement-takes place, IAS 19 requires to remeasure net defined benefit liability or asset. The amendments require to use the updated assumptions from this remeasurement to determine current service cost and net interest for the remainder of the reporting period after the change to the plan. Before the amendments, IAS 19 did not specify how to determine these expenses for the period after the change to the plan. By requiring the use of updated assumptions, the amendments are expected to provide useful information to users of financial statements. The Group is currently assessing the impact of the amendments on its financial statements and as of the date of issue of these financial statements the impact of the amendments is not known/ or reasonably estimable.

6. Financial risk management

(i) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow interest rate risk), credit risk and liquidity risk.

The Group's risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by a central treasury department under policies approved by the Board of Directors. The treasury department identifies, evaluates and hedges financial risks in close co operation with the Group's operating units.

- **Market Risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments.

The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

- **Foreign exchange risk**

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the Group's functional currency. The Group is exposed to foreign exchange risk arising from various currency exposures with respect to the US Dollar but believes that any change in foreign exchange rates will not have a material effect on its results.

Management monitors the exchange rate fluctuations on a continuous basis and acts accordingly.

The net foreign exchange difference credited/ debited to the consolidated income statement amounts to (€894.000) (2017: (€1.502.000)) and relates to normal operating and financing activities (Note 13).

The Group's exposure to foreign currency risk was as follows:

31 December 2018	United States Dollars
	€000
Assets:	
Short term deposits	12.475
	12.475
Liabilities:	
Suppliers	(30.968)
Amount available for interpleader proceedings	(13.385)
	(44.353)
Net foreign currency exposure	**(31.878)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

31 December 2017	United States Dollars
	€000
Assets:	
Short term deposits	11.746
	11.746
Liabilities:	
Suppliers	(32.532)
Amount available for interpleader proceedings	(12.717)
	(45.249)
Net foreign currency exposure	**(33.503)**

Sensitivity analysis

A 10% strengthening of the Euro against the following currencies at 31 December 2018 and 2017 would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. For a 10% weakening of the Euro against the relevant foreign currency at Euro and 2017, there would be an equal and opposite impact on the equity and profit or loss.

	Equity		Profit or loss	
	2018	**2017**	**2018**	**2017**
	€000	€000	€000	€000
United States Dollars	**2.789**	2.931	**2.789**	2.931
	2.789	2.931	**2.789**	2.931

Cash flow interest rate risk

Interest rate risk is the risk that the value of financial instruments will fluctuate due to changes in market interest rates. The Group's income and operating cash flows are dependent on changes in market interest rates.

The Group's interest rate risk arises from long term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

At the reporting date the interest rate profile of interest- bearing financial instruments was:

	2018	2017
	€000	€000
Fixed rate instruments		
Financial assets	**357.637**	378.687
Financial liabilities	**(365)**	(404)
Variable rate instruments		
Financial liabilities	**(299.452)**	(341.093)
	57.820	37.190

Sensitivity analysis

A decrease of 100 basis points in interest rates at 31 December 2018 and 2017 would have increased equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. For a decrease of 100 basis points there would be an equal and opposite impact on the equity and profit or loss.

	Equity		Profit or loss	
	2018	**2017**	**2018**	**2017**
	€000	€000	€000	€000
Variable rate instruments	**2.620**	2.985	**2.620**	2.985
	2.620	2.985	**2.620**	2.985

The Management of the Group monitors the interest rate fluctuations on a continuous basis and acts accordingly.

- **Credit risk**

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the reporting date.

Credit risk arises from cash and cash at bank, short term deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

(i). Risk management

Sales to customers are settled in cash, direct debits or using major credit cards.

For banks and financial institutions, credit ratings from independent parties are utilised.

(ii). Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- Trade receivables
- Financial assets at amortised cost
- Cash and cash equivalents (cash and cash at bank and short-term bank deposits with maturity date of three months and above)

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables and contract assets have been grouped based on shared credit risk characteristics and the days past due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

The following table represents the Group's trade receivables grouping:

Category	Category
Government departments/services	Related Parties
Municipalities	
Villages	
Other Related Parties	
Residential	Others
Vulnerable	
Other	

The expected loss rates are based on the payment profiles of sales over a period of 48 months before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP of the country in which it sells its goods and services to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

The following table summarises the Group's expected loss rates:

	Expected Loss Rate			
	Active		Final	
Past due days	Related parties	Other	Related parties	Other
Before expiration	0,12%	0,25%	0,25%	0,50%
21 to 60	0,25%	0,50%	0,50%	1,00%
More than 61 to 90	1,00%	2,00%	2,00%	4,00%
More than 91 to 120	2,50%	5,00%	10,00%	20,00%
More than 121 to 360	10,00%	15,00%	40,00%	60,00%
More than 360	40,00%	60,00%	80,00%	100,00%

For all the final accounts (irrespective of their classification) for which the year of issue is prior to the year of the financial statements, an expected credit loss is recognised of 100%.

Additionally, the Group recognises an expected credit loss on receivables from unread consumption of 0,1%.

On that basis, the loss allowance for trade receivables, including receivables from unrecorded consumption, as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows:

	31 December 2018					
	Final Accounts		Active accounts		Other trade receivables	
	Gross book value	Loss Provision Amount	Gross book value	Loss Provision Amount	Gross book value	Loss Provision Amount
Past due days	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Over 365	13.013	13.013	1.168	652	1.192	1.192
From 181 up to 365	323	235	672	92	-	-
From 121 up to 180	168	112	562	79	-	-
From 91 up to 121	228	132	1.036	49	-	-
From 61 up to 90	156	22	1.909	37	-	-
From 21 up to 60	324	167	17.942	87	-	-
Not overdue	315	5	42.762	99	50.365	44
Total	**14.527**	**13.686**	**66.051**	**1.095**	**51.557**	**1.236**

	1 January 2018					
	Final Accounts		Active accounts		Other trade receivables	
	Gross book value	Loss Provision Amount	Gross book value	Loss Provision Amount	Gross book value	Loss Provision Amount
Past due days	**€000**	**€000**	**€000**	**€000**	**€000**	**€000**
Over 365 days	13.431	13.425	1.260	704	1.336	1.336
From 181 up to 365	393	278	836	111	-	-
From 121 up to 180	138	90	684	95	-	-
From 91 up to 121	107	29	958	46	-	-
From 61 up to 90	139	45	1.739	33	-	-
From 21 up to 60	132	23	10.555	50	-	-
Not overdue	86	19	28.020	65	35.615	29
Total	**14.426**	**13.909**	**44.052**	**1.104**	**36.951**	**1.365**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

The closing loss allowances for trade receivables and contract assets as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Trade receivables
	€000
31 December 2017 - calculated under IAS 39	15.259
Amounts restated through opening retained earnings	1.119
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	16.378
Decrease in loss allowance recognised in profit or loss during the year	(361)
31 December 2018	16.017

Trade receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 365 days past due.

Impairment losses on trade receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Previous accounting policy for impairment of trade receivables

During the prior year, the impairment of trade receivables was assessed based on the incurred loss model. A provision for impairment of trade receivables was established when there was objective evidence that the Group would not be able to collect all amounts due according to the original terms of receivables. The amount of the provision was the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the effective interest rate.

The carrying amount of the asset was reduced through the use of an allowance account, and the amount of the loss was recognised in profit or loss within operating costs. When a trade receivable was uncollectible, it was written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off were credited against 'operating costs' in profit or loss.

Other financial assets at amortised cost

Other financial assets at amortised cost include other financial receivables and cash and cash equivalents.

For the other financial assets at amortised cost the general credit loss model is applied.

The Group considers the probability of default upon initial recognition of the asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Specifically the following indicators are incorporated:

- Internal credit rating

- external credit rating (as far as available)

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations

- significant increases in credit risk on other financial instruments of the same borrower/counterparty

- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements

- significant changes in the expected performance and behaviour of the borrower/counterparty, including changes in the payment status of counterparty in the group and changes in the operating results of the borrower

Macroeconomic information (such as market interest rates or growth rates) is incorporated as part of the internal rating model. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP of the country in which it sells its goods and services to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in this factor.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company. The Group categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 365 days past due. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

The Group uses three categories for other financial receivables and cash and cash equivalents which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned, where possible, to external credit rating companies, such as Standard and Poor, Moody's and Fitch.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group's definition of category	Basis for recognition of expected credit loss provision	Basis for calculation of interest revenue
Performing	Counterparties have a low risk of default and a strong capacity to meet contractual cash flows	Stage 1: 12 month expected losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime	Gross carrying amount
Underperforming	Counterparties for which there is a significant increase in credit risk; as significant increase in credit risk is presumed if interest and/or principal repayments are 30 days past due (see above in more detail)	Stage 2: Lifetime expected losses	Gross carrying amount
Non-performing	Interest and/or principal repayments are 90 days past due	Stage 3: Lifetime expected losses	Amortised cost carrying amount (net of credit allowance)
Write-off	Interest and/or principal repayments are 365 days past due and there is no reasonable expectation of recovery	Asset is written off	None

The Group has no financial assets which are subject to the impairment requirements of IFRS 9 and which have had modifications to their contractual cash flows.

Over the term of the other financial receivables and cash and cash equivalents the Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of customers, and adjusts for forward looking macroeconomic data. For cash and cash equivalents, a Loss Given Default of 45% is assumed in case of default.

The Group provides for credit losses against other financial receivables and cash and cash equivalents. The following tables contains an analysis of the credit risk exposure of each class of financial instruments for which an ECL allowance is recognised. The gross carrying amounts below also represent the Group's maximum exposure to credit risk on these assets as at 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

Other financial receivables

Internal credit rating	Gross carrying amount €000	(Loss allowance) €000	Carrying amount (net of impairment provision) €000
Performing	15.348	(256)	15.092
Underperforming	-	-	-
Not performing	75	(75)	-
Write off	-	-	-
Total other receivables	**15.423**	**(331)**	**15.092**

Short-term deposits

Internal credit rating	External credit rating	Gross carrying amount €000	(Loss allowance) €000	Carrying amount (net of impairment provision) €000
Performing	BBB - B	28.607	(230)	28.377
Performing	CCC - C	83.831	(1.056)	82.775
Performing	Without rating	250.348	(3.863)	246.485
Total short-term deposits		**362.786**	**(5.149)**	**357.637**

No significant changes to estimation techniques or assumptions were made during the reporting period.

Cash and cash at bank

Internal credit rating	External credit rating	Gross carrying amount €000	(Loss allowance) €000	Carrying amount (net of impairment provision) €000
Performing	BBB - B	815	-	815
Performing	CCC - C	42.115	(15)	42.100
Performing	Without rating	2.234	(3)	2.231
Total[1]		**45.164**	**(18)**	**45.146**

[1] The balance of cash and cash at bank on the consolidated financial position is cash in hand.

No significant changes to estimation techniques or assumptions were made during the reporting period.

Other financial receivables

The following table discloses the changes in the credit loss allowance and gross carrying amount for other financial receivables between the beginning and the end of the reporting period:

	Credit loss allowance			Gross carrying amount		
	Stage 1 Performing	Stage 3 Non-performing	Total	Stage 1 Performing	Stage 3 Non-performing	Total
	€000	€000	€000	€000	€000	€000
As at 31 December 2017 (calculated under IAS 39)	**-**	**75**	**75**	**19.361**	**75**	**19.436**
Amounts restated through opening retained earnings	162	-	162	-	-	-
Opening balances as at 1 January 2018 (calculated under IFRS 9)	**162**	**75**	**237**	**19.361**	**75**	**19.436**
Movement in financial assets	94	-	94	(4.013)	-	(4.013)
Closing balances as at 31 December 2018 (calculated under IFRS 9)	**256**	**75**	**331**	**15.348**	**75**	**15.423**

Short-term deposits

The following table discloses the changes in the credit loss allowance and gross carrying amount for short-term deposits between the beginning and the end of the reporting period:

	Credit loss allowance		Gross carrying amount	
	Stage 1 Performing	Total	Stage 1 Performing	Total
	€000	€000	€000	€000
As at 31 December 2017 (calculated under IAS 39)	**-**	**-**	**378.687**	**378.687**
Amounts restated through opening retained earnings	7.669	7.669	-	-
Opening balances as at 1 January 2018 (calculated under IFRS 9)	**7.669**	**7.669**	**378.687**	**378.687**
Movement in financial assets	(2.520)	(2.520)	(15.901)	(15.901)
Closing balances as at 31 December 2018 (calculated under IFRS 9)	**5.149**	**5.149**	**362.786**	**362.786**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

Cash and cash at bank

The following table discloses the changes in the credit loss allowance and gross carrying amount for cash and cash equivalents between the beginning and the end of the reporting period:

	Credit loss allowance		Gross carrying amount	
	Stage 1 Performing	**Total**	**Stage 1 Performing**	**Total**
	€000	**€000**	**€000**	**€000**
As at 31 December 2017 (calculated under IAS 39)	**-**	**-**	**33.412**	**33.412**
Amounts restated through opening retained earnings	15	15	-	-
Opening balances as at 1 January 2018 (calculated under IFRS 9)	**15**	**15**	**33.412**	**33.412**
New financial assets originated or purchased	3	3	13.206	13.206
Closing balances as at 31 December 2018 (calculated under IFRS 9)	**18**	**18**	**46.618**	**46.618**

(iii). Net impairment gains on financial and contract assets recognized in profit or loss

During the year, the following gains were recognised in profit or loss in relation to impaired financial assets:

	2018	2017
	€	**€**
Impairment losses		
- individually impaired receivables (previous accounting policy)	-	1.794
- movement in loss allowance for trade receivables	361	-
- Impairment losses on other financial assets	(94)	-
- Reversal of previous impairment losses	2.517	-
Net impairment losses on financial assets	**2.784**	**1.794**

Credit quality of financial assets at 31 December 2017

The credit quality of financials assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if applicable):

	2017
	€000
Not past due trade receivables - net	
Group 1	**1.430**
Group 2	**8.469**
Group 3	**29.818**
	39.717
Past due trade receivables - net	
Group 4	**11.817**
Group 5	**2.511**
Group 6	**686**
Group 7	**5.117**
Group 8	**20.322**
	40.453
Other receivables	
Group 9	**8.671**
Group 10	**10.690**
	19.361
Short term bank deposits	
B1	**23.700**
Caa1	**133.023**
Caa2	**11.147**
Caa3	**39.991**
Without rating(1)	**170.826**
	378.687
Cash and cash equivalents(2)	
BB	**-**
Ba3	**708**
Caa1	**26.390**
Caa2	**1.369**
Caa3	**2.112**
	30.579

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

Group 1:	New customers (less than 6 months) with no defaults in the past.
Group 2:	Existing customers (more than 6 months) with no defaults in the past.
Group 3:	Receivables for consumption invoiced in the following year.
Group 4:	Existing customers (more than 6 months) with some defaults in the past. All defaults were full recovered.
Group 5:	Receivables for which provision has been made, excluding related parties.
Group 6:	Receivables from related parties for which provision has been made.
Group 7:	Receivables from related parties including amounts with some defaults in the past.
Group 8:	Other trade receivables including amounts with some defaults in the past.
Group 9:	Other receivables with no defaults in the past.
Group 10:	Past due receivables.

[1] Management monitors the credit risk that arises from deposits in financial institutions without rating.
[2] The rest of the consolidated statement of financial position item 'cash and cash equivalents' is cash in hand and cash and cash equivalents without rating. Cash and cash equivalents without rating was €2.357.000.

None of the financial assets that are fully performing has been renegotiated.

- **Liquidity risk**

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

	Less than 1 year	Between 1 and 2 years	Between 2 to 5 years	More than 5 years
	€000	€000	€000	€000
At 31 December 2017				
Borrowings (Capital and interest)	47.838	46.717	122.793	193.029
Trade and other payables*	121.442	-	-	-
	169.280	46.717	122.793	193.029
At 31 December 2018				
Borrowings (Capital and interest)	40.680	39.946	106.643	165.132
Trade and other payables*	138.116	-	-	-
	178.796	39.946	106.643	165.132

*Excluding statutory liabilities and deferred income.

The Group has procedures with the object of minimising such losses such as maintaining sufficient cash and other highly liquid current assets and by having available an adequate amount of committed credit facilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

(ii) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non current borrowings' as presented in the consolidated statement of financial position less short term deposits and cash and cash equivalents. Total capital is calculated as 'equity' ('Reserves' and 'Deferred Income' as shown in the consolidated statement of financial position) plus net debt.

During 2018, the Group's strategy, which was unchanged from 2017, was to maintain the gearing ratio within 0% to 10%. The gearing ratio at 31 December 2018 and 2017 was as follows:

	2018	2017
	€000	€000
Total borrowings (Note 21)	299.817	341.497
Less: Short term deposits (Note 20)	(357.637)	(378.687)
Cash and cash equivalents (Note 20)	(46.600)	(33.412)
Net debt	(104.420)	(70.602)
Total equity	1.568.261	1.562.148
Total Capital as defined by Management	1.463.841	1.491.546
Gearing ratio	(7)%	(5)%

(iii) Fair value estimation

The fair values of the Group's financial assets and liabilities approximate their carrying amounts at the reporting date.

The table below analyses financial instruments measured in the statement of financial position at fair value by valuation method. Different levels are defined as follows:

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

	Level 1	Level 1
	2018	2017
	€000	€000
Assets		
Financial assets at fair value through profit or loss: - Equity securities	351	557
Total financial assets measured at fair value	351	557

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1. Instruments included in Level 1 comprise primarily equity investments listed on the Cyprus Stock Exchange classified as trading securities.

The fair value of financial instruments that are not traded in an active market (for example, unlisted equity securities) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- Adjusted comparable price-to-book value multiples.
- Other techniques, such as discounted cash flow analysis.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

7. Critical accounting estimates and judgements

The preparation of consolidated financial statements in accordance with IFRSs requires from Management the exercise of judgement, to make estimates and assumptions that influence the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. The estimates and underlying assumptions are based on historical experience and various other factors that are deemed to be reasonable based on knowledge available at that time. Actual results may deviate from such estimates.

The estimates and underlying assumptions are revised on a continuous basis. Revisions in accounting estimates are recognized in the period during which the estimate is revised, if the estimate affects only that period, or in the period of the revision and future periods, if the revision affects the present as well as future periods.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(i) Impairment of financial assets

The loss allowances for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. Details of the key assumptions and inputs used are disclosed in Note 6 Credit Risk.

An increase or decrease in loss given default rate in case of default by 1% compared to the loss given default rate used in the ECL estimates calculations for cash and cash equivalents at 31 December 2018 and 1 January 2018 would result in an increase or decrease in credit loss allowances by €115.000 and €171.000 respectively.

(ii) Deferred income

The Group accepts applications for extension of its network in areas not yet covered by the existing network by individuals and legal entities. Furthermore the Group accepts applications for additional load from the existing network. In both cases, the Group charges the applicants, in accordance with the relevant Regulatory Decision, with the construction cost, which is settled by the applicants prior to the commencement of the relevant work. The Management of the Group has assessed that the relevant agreements do not contain a significant financing component, since, according to the relevant Regulatory Decision, the settlement of the payable amount is carried out before the execution of the relevant works. The assets remain under the control of the Group, that performs all necessary repairs and maintenance. Construction cost is recognized in property, plant and equipment.

The fact that the cost is recovered from applicants results in not having to be recovered by consumers through electricity tariffs. Otherwise, this cost would have been included in tariffs and consumers would have been billed for the consumption of electricity with higher prices. All network extension applicants are charged with capital contributions and all consumers are billed with the same tariffs.

Applicants are ensured of the right of permanent access to the network for an unlimited period of time. The Group is committed to provide access for an unlimited period of time. Capital contributions represent the price for this continuous service and hence income is shown as deferred income and is gradually released to the consolidated statement of profit or loss over a period identical to that of the assets constructed/acquired for this purpose, and which have an average life of 33 1/3 years. This period is considered a reasonable approximation for calculating the period of the customer relationship.

(iii) Tax

Significant judgement is required in determining the provision for income taxes. These are transactions and calculations for which the ultimate tax determination is uncertain. The Group recognizes liabilities for anticipated tax issues based on estimates of whether additional taxes will be due.

Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets in the period in which such determination is made.

If the actual final outcome differs by 10% from Management's estimates then the Group would need to increase its current tax liabilities by €181.400 (2017: €176.200) if the final outcome was not in the Group's favour.

(iv) Defined Benefit Plan

The present value of the Defined Benefit Plan obligation, depends on several factors that are determined based on the actuarial valuation by using various assumptions and estimates. The assumptions and estimates used for determining the defined benefit cost and the obligation/asset, includes the discount rate, the expected increase of salaries and pensions. Such assumptions and estimates are subject to considerable uncertainty due to the long term nature of the plan.

8. Revenue

	2018	2017
	€000	€000
Revenue from Sale of electricity	**723.622**	628.187
Income from desalination	**15.480**	13.613
Consumers' capital contributions	**22.541**	22.068
Income from reconnection	**1.547**	1.596
Other revenue	**4.864**	2.099
Total revenue	**768.054**	667.563

There was no material impact from the change in the revenue recognition policies applicable from 1 January 2018.

Sale of electric energy does not include the consumption of Turkish Cypriots in the areas of the Republic of Cyprus where the Government of the Republic does not exercise effective control. The unbilled electrical energy, calculated at a special rate, amounts to €467.000 (2017: €465.000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONT')

9. Other operating income - net

	2018	2017
	€000	€000
Income from fees for telecommunication usage of optical fibres	1.588	1.612
Compensation from Insurance Companies	6.031	-
Income from TSOC	3.757	3.019
Profit from sale of investments in subsidiaries	6	-
Sundry income	3.019	1.882
Interest income calculated using effective interest rate method for financial assets at amortised cost		
Bank balances	4.000	5.417
Other	606	630
	19.007	12.560

10. Other income/ (losses) - net

	2018	2017
	€000	€000
Property, plant and equipment (Note 15):		
Gain / (loss) from sales	269	(1)
Fair value losses on financial assets at fair value through profit or loss	(206)	(77)
	63	(78)

11. Operating costs

	2018	2017
	€000	€000
Fuel	415.703	335.931
Purchase of Electricity from third parties	37.865	28.213
Greenhouse gas emission allowances cost	38.474	12.238
KODAP fee	5.297	5.340
Salaries and employer's contributions (Note 12)	87.992	86.819
Depreciation of property, plant and equipment (Note 15)	98.136	97.822
Repairs and maintenance	25.569	21.326
Independent auditor's fees for the compulsory audit of the annual financial statements	68	66
Rental expenses	689	609
Provision for impairment of inventories	900	1.286
Stock write off	741	971
Bad debts writen off/ provision for bad debts	(91)	(1.794)
Cyprus Energy Regulatory Authority fees	1.906	1.770
Cyprus Transmission System Operator fee	6.645	4.130
Transport	2.353	2.196
Insurance	3.491	2.996
Telephones and postages	1.603	1.726
Electricity, cleaning and water	1.865	1.866
Other expenses	15.103	14.312
Total expenses	744.309	617.823

The total fees charged by the Authority's statutory auditor during the year ended 31 December 2018 for tax consultancy services amounted to €7.900 (2017: €6.000) and for other non-audit services amounted to €162.800 (2017: €27.500).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

12. Staff costs

	2018	2017
	€000	€000
Salaries	68.576	65.571
Social insurance and other costs	8.568	8.212
Social cohesion fund	1.387	1.322
Defined benefit cost - current year cost	14.763	16.233
Employees' deductions for the defined benefit plan (Footnote 1)	(1.748)	(1.699)
Other defined contribution plans	3.530	3.388
	95.076	93.027
Average number of staff employed during the year	2.055	2.029

Footnote 1: The amount represents deduction of 3% on the employees' salaries and is paid to the Group for maintaining the viability of the Defined Benefit Plan per Law 216 (i) 2012, paragraph 4 and is included in employer's contributions.

	2018	2017
	€000	€000
The staff costs were allocated as follows:		
Income statement (Note 11):		
Staff costs	87.992	86.819
Capitalised in fixed assets and work in progress	7.084	6.208
	95.076	93.027

Defined Benefit Plan

The amounts recognised in the consolidated statement of financial position and the consolidated statement of other comprehensive income of the Group as at 31 December 2018 are in accordance with the actuarial valuation as at 31 December 2018 for the defined benefit plan. The assets used for the purposes of the actuarial valuation were extracted from the financial statements of the Electricity Authority's employees defined benefit plan (the "Plan") for the year ended 31 December 2018.

	2018	2017
	€000	€000
Present value of defined benefit obligation	745.286	735.745
Fair value of plan assets	(533.092)	(548.005)
Net obligation on the consolidated statement of financial position	212.194	187.740
Funding level	72%	74%

	2018	2017
	€000	€000
Current service cost	11.417	12.496
Net interest expense	3.346	3.737
Total expense recognized in 'staff costs'	14.763	16.233

Movement in net obligation included in the consolidated statement of financial position	2018	2017
	€000	€000
Net obligation in the statement of financial position at the beginning of the year	187.740	233.469
Contributions by the employer	(13.090)	(12.207)
Total expense recognised in the consolidated income statement	14.763	16.233
Total amount recognised in other comprehensive (income)/loss	22.781	(49.755)
Net obligation at the end of the year	212.194	187.740

Changes to the present value of the defined benefit obligation during the year	2018	2017
	€000	€000
Present value of the defined benefit obligation at beginning of the year	735.745	771.662
Current service cost	11.417	12.496
Interest cost	13.062	12.257
Contributions by participants	1.084	1.064
Benefits paid out	(24.545)	(24.710)
Adjustments: - Actuarial loss/ (gain) - (financial assumptions)	7.625	(31.012)
- Actuarial loss/ (gain) - (experience)	898	(6.012)
Present value of the defined benefit obligation at the end of the year	745.286	735.745

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

Changes to the fair value of plan assets during the year	2018	2017
	€000	€000
Fair value of plan assets at the beginning of year	548.005	538.193
Expected return on plan assets	9.716	8.520
Contributions by the employer (Note)	13.090	12.207
Contributions by participants	1.084	1.064
Benefits paid out	(24.545)	(24.710)
Adjustments: Actuarial (loss)/ gain	(14.258)	12.731
Fair value of plan assets at the end of the year	533.092	548.005

Note: Employer's contributions include an amount of €1.717.000 (2017: €1.669.000), that was deducted at the rate of 3% from the employees' salaries for maintaining the viability of the Defined Benefit Plan per Law 216 (ii) 2012, paragraph 4 and is presented against Group's staff cost.

Remeasurements:	2018	2017
	€000	€000
(Loss)/gain from the remeasurement of the defined benefit obligation	(8.523)	37.024
Difference between the expected and actual return on plan assets	(14.258)	12.731
Total actuarial (loss) / gain recognized in other comprehensive income / (expense)	(22.781)	49.755

The cumulative actuarial amount recognised in the statement of other comprehensive income until 31 December 2018 was €236.434.000 deficit (2017: €213.653.000 deficit).

The principal actuarial assumptions used for the actuarial valuation were:

	2018	2017
	%	%
Discount rate	1,91	1,79
Average expected return on plan assets	1,91	1,79
Total salary increases	1,25% (0,75%+0,50%) + promotional and merit increases	1,25% (0,75%+0,50%) + promotional and merit increases
General salary increases	0,50%	0,50%
Social Insurance Scheme supplementary pension increases	1,50	1,50
Pension increases	1,0	1,0
Increase on maximum insurable earnings limit	2,00	2,50
Price inflation	1,50	1,50
Mortality table	60% of PA90	60% of PA90
Plan duration	17,76 years	18,57 years

In accordance with the amended IAS19, the discount rate should reflect the rate at which the liabilities could effectively be settled. Accordingly, the discount rate has been extracted from annual yield of the iBoxx Euro Composite AA Bond Index with maturity of 17,76 years (2017: 18,57 years) which corresponds to the average maturity life of the Plan's liabilities.

Assumptions regarding current year's future mortality rates are according to the published general mortality table PA90 (2017: PA90). The underlying table reduced by 40% represents the expected mortality of the Plan's members after retirement. According to the underlying mortality rate table, the expected life for a male and female aged 65 (normal retirement age) is 18,4 years and 22,2 years respectively.

The sensitivity of the defined benefit obligation to changes in the significant financial assumptions, keeping other assumptions constant, is as follows:

	2018		2017	
	Change	Impact	Change	Impact
Discount rate	+0,50%	-8,20%	+0,50%	-8,30%
Discount rate	-0,50%	9,40%	-0,50%	9,50%
Salaries	+0,50%	5,50%	+0,50%	6,00%
Salaries	-0,50%	-5,00%	-0,50%	-5,60%
Pensions	+0,50%	9,30%	+0,50%	9,90%
Pensions	-0,50%	-8,50%	-0,50%	-9,00%
Life expectancy	+1 year	4,20%	+1 year	4,20%
Life expectancy	-1 year	-4,10%	-1 year	-4,10%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONT')

Based on the unaudited financial statements of the Plan, its assets are comprised as follows:

	2018		2017	
	€000	%	€000	%
Immovable property	29.174	5,46	28.362	5,16
Shares	91.434	17,10	94.091	17,11
Bonds - (Government)	52.419	9,80	49.815	9,06
Bonds - (Other)	-	-	3.929	0,71
Receivables	749	0,13	1.296	0,24
Loans	12.349	2,31	19.974	3,63
Hedge Funds	11.759	2,20	4.268	0,78
Mutual bond funds	205.663	38,46	196.953	35,81
Cash and cash equivalents	131.234	24,54	151.242	27,50
	534.781	100,00	549.930	100,00

The amount above represents the total of assets before deducting reserves and liabilities.

The Plan did not hold any of the Group's financial assets, immovable property or other assets.

The estimated regular statement of profit or loss charge for the financial year 2019 based on the amended IAS 19 is as follows:

	2019	2018
	€000	€000
Current service cost	9.145	11.083
Net interest charge	4.172	3.482
Total	13.317	14.565

The actual charge in the consolidated income statement will remain unknown until the end of the year, where any potential additional costs will be determined.

Expected benefits to be paid from the defined benefit plan for the next year are €26.265.186 (2018: €24.799.360).

The expected contributions to be paid to the defined benefit plan for the financial year 2019 are €13.335.847 (2018: €14.119.324).

13. Finance costs

	2018	2017
	€000	€000
Interest expense:		
Borrowings	3.194	4.116
Interest on taxes	-	1
Other	90	46
	3.284	4.163
Net foreign exchange transaction losses	(894)	(1.502)
	2.390	2.661

The finance cost is allocated as follows:

	2018	2017
	€000	€000
Consolidated income statement	2.390	2.661
	2.390	2.661

14. Tax

	2018	2017
	€000	€000
Current tax:		
Corporation tax - previous years	1	-
Defence contribution	1.190	1.586
Total current tax	1.191	1.586
Deferred tax (Note 22):		
Origination and reversal of temporary differences	5.288	7.285
Total deferred tax	5.288	7.285
Tax charge	6.479	8.871

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

Tax on Group profit before tax differs from the theoretical amount that would arise using the applicable tax rates as follows:

	2018	2017
	€000	€000
Profit before tax	43.204	59.561
Tax calculated at the applicable tax rates on income	5.401	7.445
Tax effect of expenses not deductible for tax purposes	163	688
Tax effect of income not subject to tax	(1.394)	(848)
Tax charge - previous years	1	-
Deferred tax - previous years	1.118	-
Defence contribution	1.190	1.586
Tax charge	6.479	8.871

The Group is subject to income tax on taxable profits at the rate of 12,5%

As from tax year 2012 tax losses of 5 years can be carried forward and set against taxable profits. Under certain conditions, interest received may be subject to special contribution for defence at the rate of 30%. In such cases this interest will be exempt from income tax. In certain cases dividends received from abroad may be subject to special contribution for defence at the rate of 20% for the years 2012 and 2013 and 17% for the year 2014 and thereafter.

Gains on disposal of qualifying titles (including shares, bonds, debentures, rights thereon etc) are exempt from Cyprus income tax.

The tax (charge)/credit relating to components of other comprehensive income is as follows:

Tax effects of components of other comprehensive income

	Year ended 31 December 2018			Year ended 31 December 2017		
	Before tax	Tax (charge)/ credit	After tax	Before tax	Tax (charge)/ credit	After tax
	€000	€000	€000	€000	€000	€000
Defined benefit obligation: Remeasurements of past employment benefit obligation	(22.781)	-	(22.781)	49.755	-	49.755
Other comprehensive income	(22.781)	-	(22.781)	49.755	-	49.755

15. Property, plant and equipment

	Freehold land	Build-ings	Plant and machin-ery	Lines, cables and meters	Motor vehi-cles	Furniture, fixtures and office equipment	Tools and instru-ments	Computer hardware and software	Work in progress	Total
	€000	€000	€000	€000	€000	€000	€000	€000	€000	€000
At 1 January 2017										
Cost	42.171	357.149	1.515.897	1.057.015	20.974	7.408	7.389	35.851	29.527	3.073.381
Accumulated depreciation	-	(146.549)	(717.764)	(412.556)	(20.260)	(6.623)	(6.906)	(33.763)	-	(1.344.421)
Net book value	42.171	210.600	798.133	644.459	714	785	483	2.088	29.527	1.728.960
Year ended 31 December 2017										
Opening net book value	42.171	210.600	798.133	644.459	714	785	483	2.088	29.527	1.728.960
Additions	264	70	48	211	1.103	182	71	555	42.930	45.434
Disposals	-	-	-	-	-	-	-	(5)	-	(5)
Depreciation charge	-	(11.901)	(55.825)	(27.575)	(569)	(222)	(151)	(1.579)	-	(97.822)
Transfers	160	2.119	18.312	19.535	-	-	-	1.355	(41.481)	-
Closing net book value	42.595	200.888	760.668	636.630	1.248	745	403	2.414	30.976	1.676.567
At 31 December 2017										
Cost	42.595	359.338	1.534.257	1.076.760	22.020	7.377	7.460	37.703	30.976	3.118.486
Accumulated depreciation	-	(158.450)	(773.589)	(440.130)	(20.772)	(6.632)	(7.057)	(35.289)	-	(1.441.919)
Net book value	42.595	200.888	760.668	636.630	1.248	745	403	2.414	30.976	1.676.567
Year ended 31 December 2018										
Opening net book value	42.595	200.888	760.668	636.630	1.248	745	403	2.414	30.976	1.676.567
Additions	304	104	138	152	834	98	103	1.316	46.343	49.392
Disposals	(185)	(1)	-	-	-	(2)	-	-	-	(188)
Depreciation charge	-	(11.907)	(55.932)	(27.926)	(400)	(200)	(144)	(1.627)	-	(98.136)
Transfers	193	869	15.739	21.557	-	-	-	53	(38.411)	-
Closing net book value	42.907	189.953	720.613	630.413	1.682	641	362	2.156	38.908	1.627.635
At 31 December 2018										
Cost	42.907	360.310	1.550.134	1.098.469	22.187	7.444	7.563	39.047	38.908	3.166.969
Accumulated depreciation	-	(170.357)	(829.521)	(468.056)	(20.505)	(6.803)	(7.201)	(36.891)	-	(1.539.334)
Net book value	42.907	189.953	720.613	630.413	1.682	641	362	2.156	38.908	1.627.635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

In the consolidated statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2018	2017
	€000	€000
Net book value	188	5
Profit/(Loss) from the sale of property, plant and equipment (Note 10)	269	(1)
Proceeds from disposal of property, plant and equipment	457	4

Depreciation amounting to €98.136.000 (2017: €97.822.000) has been charged to operating costs.

Land and equipment located in Turkish occupied area

The total fixed assets shown in the consolidated statement of financial position include land and equipment located in the area occupied by the Turkish invasion force, whose cost approximates €12.978.000. The depreciation provision for the year 2018 in respect of these assets was NIL (2017: NIL) bringing the accumulated provision at 31 December 2018 to €12.440.000 (2017: €12.440.000) and leaving a written down value of €538.000 (2017: €538.000) which represents the cost of land. The consequences of the Turkish occupation on the value of this land and equipment is unknown.

16. Investment in joint venture

	2018	2017
	€000	€000
At beginning of year	-	-
Transfer from subsidiary	10	-
Disposal to third party	(5)	-
Share of loss in joint venture	(5)	-
At end of year	-	-

The above relate to the interest of the Group in the Joint Venture AIK-IAK AHERA Ananeosimes Ltd. The company has share capital consisting solely of ordinary shares. The Group as at 31 December 2018 held 51% of the share capital of the company. The country of incorporation and principal place of business of the company is Cyprus.

During the year the Authority transferred to the Holy Archbishopric of Cyprus (HAC), 49% of the shares held in its subsidiary EAC Solar Thermal Power Ltd and the name of the company was subsequently changed to AIK - IAK AHERA Ananeosimes Ltd. The Board of Directors of the company is comprised of 5 members, two of which are appointed by the Authority, two by HAC and the Chairman is jointly appointed. In accordance with a relevant Joint Development Agreement between the Authority and HAC, the scope of the company is the phased development, licensing, financing, construction, operation and maintenance of one or more photovoltaic parks. As a result, the interest of the Authority in the company AIK-IAK AHERA Ananeosimes Ltd is regarded as an investment in Joint Venture.

The principal activity of the associate company is the development of photovoltaic parks. The Joint Venture is of strategic importance for the extension of the operations of the Group in the field of Renewable Energy Sources.

The Joint Venture is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's interest in the Joint Venture.

17. Financial assets and other non-financial receivables

a) Trade receivables

	2018	2017
	€000	€000
Trade receivables	132.135	95.429
Less: expected credit loss on trade receivables	(16.017)	(15.259)
Trade receivables - net	116.118	80.170

(i) Fair value of trade receivables

Due to the short-term nature of the current receivables, their carrying amount is considered to be the same as their fair value.

(ii) Impairment and risk exposure

Information about the current year impairment of trade receivables and the Group's exposure to credit risk can be found in note 6.

Prior year impairment of trade receivables:

At 31 December 2017, trade receivables of €58.101.000 were fully performing.

Trade receivables that are less than three months past due are not considered impaired. As of 31 December 2017, trade receivables of €18.872.000 were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2017
	€000
Up to 3 months	15.581
3 to 6 months	1.129
Over 6 months	2.162
	18.872

As at 31 December 2017, trade receivables of €18.456.000 were impaired and provided for. The amount of the provision was €15.259.000. The individually impaired receivables mainly relate to consumers, which are in an unexpectedly difficult economic situation. It was assessed that a portion of the receivables is expected to be recovered. The ageing of these receivables is as follows:

	2017
	€000
Up to 3 months	1.650
3 to 6 months	1.340
Over 6 months	15.466
	18.456

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONT')

The creation and release of provision for impaired receivables have been included in operating costs in the consolidated statement of comprehensive income (Note 11). Amounts charged to the provision account are generally written off, when there is no expectation of recovering additional cash.

Other groups within trade and other receivables contain impaired assets or past due amounting to €75.000.

The maximum exposure to credit risk at the reporting date is the carrying value of each group of receivable mentioned above. The Group does not hold any collateral as security.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	2018	2017
	€000	€000
Euro - functional and presentation currency	116.118	80.170
	116.118	80.170

b) Financial assets at amortised cost

Financial assets at amortised cost include the following:

	2018	2017
	€000	€000
Capital contributions receivable by instalments	404	510
Receivable from RES fund	5.290	10.690
Other receivables	9.729	8.236
	15.423	19.436
Less: Loss allowance for financial assets at amortised cost	(331)	(75)
Net financial assets at amortised cost	15.092	19.361
Less non-current amounts	(131)	(5.432)
Current amounts	14.961	13.929

The amount of € 5.290.000 (2017: €10.690.000) relates to past due receivable from the RES fund. On 16/5/2017, the Board of Directors of the Authority decided to deduct from the toral receipts of the RES fee charged on electricity bills every month, the amount payable to RES producers as subsidy and then deduct the amount of €450.000, which is the minimum amount required to settle the amount due to the Authority within a period of 3 years.

The maturity of non-current receivables is as follows:

	2018	2017
	€000	€000
Between 1 and 2 years	43	5.343
Between 2 and 5 years	88	89
	131	5.432

The fair values of non current trade financial assets approximates their carrying values at the reporting date.

The carrying amounts of the Group's financial assets at amortised cost are denominated in the following currencies:

	2018	2017
	€000	€000
Euro - functional and presentation currency	31.523	26.839
	31.523	26.839

c) Financial assets at fair value through profit or loss

Financial assets at FVTPL comprise the following:

	2018	2017
	€000	€000
Listed Equity securities - Cyprus Stock Exchange	351	557

Financial assets at fair value through profit or loss are recorded in the statement of cash flow as part of the movement in working capital, under cash generated from operating activities.

Changes in fair values of financial assets at fair value through profit or loss are recorded in 'Other income/(losses) - net' (Note 10) in profit or loss.

d) Other non-financial assets

	2018	2017
	€000	€000
Advance payments to subcontractors	12.806	3.969
Deposits and prepayments	3.625	3.509
	16.431	7.478

18. Inventories

	2018	2017
	€000	€000
Fuel	69.528	56.761
Spare parts and other consumables	63.363	62.311
	132.891	119.072

The cost of inventories recognized as expense and included in operating costs amounted to €428.188.000 (2017: €345.525.000).

At 31 December 2018, inventories amounting to €5.719.607 (2017: €7.825.113) were impaired and provided for. The amount of the provision was €900.000 (2017: €1.286.418).

Inventories are stated at cost less impairment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

19. Tax refundable / Tax (liability)

	2018	2017
	€000	€000
Corporation tax	4.287	4.287
Special contribution for defence	-	(17.375)
	4.287	(13.088)

There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

20. Cash and Cash Equivalents

Short-term bank deposits

	2018	2017
	€000	€000
Short-term bank deposits	362.786	378.687
Less loss allowance for short-term bank deposits	(5.149)	-
Short-term bank deposits net	357.637	378.687

Information about the effect on the value of short-term deposits from the application of IFRS 9 as at 1 January 2018 as well as on the current year impairment of short-term bank deposits and the Group's exposure to credit risk can be found in note 6.

The effective interest rate on short-term bank deposits was 0,10% - 2,65% (2017: 0,50% - 2,15%) and these deposits had a maturity of 3-12 (2017: 3 - 12 months), Deposits of €12,5 million (2017: €11,7 million) are used as guarantees for fuel deliveries.

The short-term bank deposits are denominated in the following currencies:

	2018	2017
	€000	€000
Euro - functional and presentation currency	345.189	366.941
United States Dollars	12.448	11.746
	357.637	378.687

Cash and cash at bank

Cash and cash at bank included in the consolidated statement of cash flows represent the amounts in the consolidated statement of financial position of cash at bank and in hand and are analysed as follows:

	2018	2017
	€000	€000
Cash at bank and in hand	45.407	32.637
Short-term bank deposits	1.211	775
	46.618	33.412
Less loss allowance of cash at bank	(18)	-
Cash and cash at bank net	46.600	33.412

Information about the effect on the value of cash in the bank from the application of IFRS 9 on 1 January 2018 as well as the current year impairment of cash at bank and in hand and the Group's exposure to credit risk can be found in note 6.

The effective interest rate on short term bank deposits was 0,05% - 1,00% (2017: 1,00% - 1,40%) and these deposits had a maturity of 30 days (2017: 30 days).

Cash and bank balances are denominated in the following currencies:

	2018	2017
	€000	€000
Euro - functional and presentation currency	46.163	32.862
United States Dollars	437	550
	46.600	33.412

Reconciliation of liabilities arising from financing activities:

	Bank borrowings	Total
	€000	€000
Balance at 1 January 2017	417.206	417.206
Cash flows:		
Capital repayments	(75.709)	(75.709)
Repayment of interest	(4.113)	(4.113)
Interest expense	4.113	4.113
Balance at 31 December 2017 / 1 January 2018	**341.497**	**341.497**
Cash flows:		
Capital repayments	(41.680)	(41.680)
Repayment of interest	(3.192)	(3.192)
Interest expense	3.192	3.192
Balance at 31 December 2018	**299.817**	**299.817**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

21. Borrowings

	2018	2017
	€000	€000
Current		
Bank borrowings	37.135	41.680
Non-current		
Bank borrowings	262.682	299.817
Total borrowings	299.817	341.497

Maturity of non-current borrowings is as follows:

	2018	2017
	€000	€000
Between 1 and 2 years	34.055	37.135
Between 2 and 5 years	88.076	99.893
Over 5 years	140.551	162.789
	262.682	299.817

The loans are payable in Euro as stipulated in the loan agreements. Loans are guaranteed as to the repayment of principal and interest by the Republic of Cyprus.

The weighted average effective interest rates at the reporting date were as follows:

	2018	2017
	%	%
Bank overdrafts and loans	1,0	1,0

The exposure of the Group's borrowings to interest rate changes and the contractual repricing dates at the reporting dates are as follows:

	2018	2017
	€000	€000
Floating rate		
6 months or less	299.452	341.093
Fixed rate on maturity	365	404
	299.817	341.497

The Group has the following unutilized borrowing facilities:

	2018	2017
	€000	€000
Floating rate		
Expiring within one year	80.000	35.000
Expiring beyond one year	-	42.500
	80.000	77.500

The carrying amounts of bank overdrafts and bank loans approximate their fair value.

The carrying value of the Group's borrowings is denominated in the following currencies:

	2018	2017
	€000	€000
Euro - functional and presentation currency	299.817	341.497
	299.817	341.497

22. Deferred tax liabilities

Deferred tax liabilities are analysed as follows:

	2018	2017
	€000	€000
Deferred tax liabilities to be settled after twelve months	87.125	82.958

Deferred taxation is calculated in full on all temporary differences under the liability method using the applicable tax rates with the exception of the difference which arises as a result of the actuarial loss amounting to €241.877 thousand, which Management assesses that it will not be able to utilize within the five year period defined by the relevant law (Note 14).

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority. The gross movement of the deferred taxation account is as follows:

	2018	2017
	€000	€000
At 1 January	82.958	75.673
Charge to income statement (Note 14)	5.288	7.285
Charge to other comprehensive income	-	-
At 31 December	87.125	82.958

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (CONT')

The movement in deferred income tax assets and liabilities during the year is as follows:

	Accelerated tax depreciation	Deferred income	Tax loss	Other	Total
	€000	€000	€000	€000	€000
At 1 January 2017	135.136	(55.885)	(2.224)	(1.354)	75.673
Charged/(credited):					
Income statement	5.484	(64)	1.820	45	7.285
Balance at 31 December 2017	140.620	(55.949)	(404)	(1.309)	82.958
Impact of adopting IFRS 9	-	-	(272)	(849)	(1.121)
Restated balance at 1 January 2018	**140.620**	**(55.949)**	**(676)**	**(2.158)**	**81.837**
Charged/(credited):					
Income statement	5.451	(1)	(454)	292	5.288
Balance at 31 December 2018	**146.071**	**(55.950)**	**(1.130)**	**(1.866)**	**87.125**

23. Deferred income

	2018	2017
	€000	€000
Balance at 1 January	**447.586**	447.076
Additions	**22.553**	22.578
Transferred to the consolidated income statement	**(22.541)**	(22.068)
Balance at 31 December	**447.598**	447.586
Deferred income more than one year	**(424.584)**	(425.045)
Deferred income within one year	**23.014**	22.541

24. Trade and other payables

	2018	2017
	€000	€000
Fuel oil suppliers	**30.968**	32.532
Other Suppliers	**32.414**	20.009
Interest payable	**76**	83
Accrued expenses	**3.385**	3.139
Creditors for purchase of land and substations	**8.282**	8.409
Amount available for interpleader proceedings[1]	**13.385**	12.717
Other creditors	**12.027**	10.799
Total financial liabilities to trade and other creditors at amortised cost	**100.537**	87.688
Deferred income - road lighting contracts	**1.363**	-
Value Added Tax payable	**11.181**	6.179
Pay As You Earn Tax Payable	**658**	601
Retention from contractors on capital contracts	**3.092**	2.489
Consumers' deposits	**34.487**	31.265
Other liabilities	**50.781**	40.534
Trade and other creditors	**151.318**	128.222

The fair values of trade and other payables approximate their carrying values at the reporting date.

[1] This amount represents a retention of amounts payable to a supplier of fuel to award beneficiaries through interpleader proceedings of various demanders against the Group and the specific supplier.

25. Subsidiary undertakings

	2018 % Holding	2017 % Holding	Country of incorporation	Principal activities
Electriki Ananeosimes Limited (previous Electriki Ltd)	100	100	Cyprus	Renewable energy sources
EAC LNG Investments Company Ltd	100	100	Cyprus	Dormant
ESCO AHK Ltd	100	100	Cyprus	Energy saving
AIK-IAK AHERA Ananeosimes Ltd (previous EAC Solar Thermal Power Ltd) (Note 16)	51	100	Cyprus	Photovoltaic parks

The results of Subsidiary undertakings were consolidated in the Group accounts of Electricity Authority of Cyprus. At 31 December 2018, the investment in AIK-IAK AHERA Ananeosimes Ltd is accounted for as an Investment in Joint Venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

26. Contingent liabilities

(a) As at 31 December 2018 the Group had a contingent liability in respect of possible tax for various expenses, amounting to €1.814.000 (2017: €1.762.000) and possible refund for defence contribution amounting to €10.435.000 (2017: €4.073.000).

(b) On 2 December 2015, Income Tax authorities sent a notification letter to the Authority regarding Tax Enforcement for non-withholding tax from employees emoluments for the year 2009, which amounted to €3.925.000 plus interests and penalties. The Authority filed an objection on 26 January 2016 for the above mentioned case. The Group believes that there is an adequate defence against all claims and therefore no provision has been made in the financial statements.

(c) As at 31 December 2018 the Group had contingent liabilities in respect of pending litigations amounting to €3.817.000 (2017: €4.082.000) and contingent asset of €5.000 (2017: €10.000).

The Group believes that adequate defence exists against all claims and does not expect to suffer significant loss. Accordingly no provision has been made in these financial statements in respect of this matter.

(d) On 31 December 2018 the Group had the following guarantee documents:

(i) An amount of €2.771.000 for the benefit of Senior Customs Officer regarding the authorization granted to the Group for exemption from payment of excise duty on energy products used for electricity generation, including fuel oil (diesel).

(ii) An amount of €210.000 for the benefit of the Department of Environment for the permit of industrial emissions and waste management.

(iii) An amount of €11.000 for the benefit of the Human Resources Development Authority for participating in the development plan of training.

27. Commitments

Capital commitments

	2018	**2017**
	€000	€000
Commitments in respect of contracts or with work in progress	**118.509**	112.769
Approved commitments but not contracted or without any work in progress	**241.227**	83.923
Approved commitments with expenditure outstanding	**359.736**	196.692

Operating lease commitments - where the Authority is the lessee

The future minimum lease payments under non-cancellable operating leases are as follows:

	2018	**2017**
	€000	€000
Not later than one year	**393**	366
Later than one year and not later than 5 years	**350**	505
Over 5 years	**13**	13
	756	884

28. Related party transactions

The Electricity Authority of Cyprus is a Public Corporate Body which was established in Cyprus under the Electricity Development Law Cap. 171 of 1952.

(i) Sales

	2018	**2017**
	€000	€000
Sales of electricity to related parties of the Group	**68.544**	61.609

The related parties consist of Governmental controlled entities (e.g. Government Offices, Ministries etc.). All sales were made under normal trade terms and conditions.

(ii) Year end balances - net

	2018	**2017**
	€000	€000
Receivable from related parties from sales of electricity	**8.021**	5.803

The related parties consist of Governmental controlled entities (e.g. Government Offices, Ministries etc.).

(iii) Key management personnel compensation

The compensation of key management personnel is as follows:

	2018	**2017**
	€000	€000
Salaries	**337**	217
Social insurance and other costs	**61**	42
Social cohesion fund	**7**	4
Pension fund costs	**61**	56
	466	319

(iv) Directors' remuneration

The total remuneration of the Directors is as follows:

	2018	**2017**
	€000	€000
Emoluments in their executive capacity	**78**	58

29. Events after the reporting period

On 17 January 2019, the Authority transferred to Holy Archbishopric of Cyprus, 101 shares held in AIK - IAK AHERA Ananeosimes Ltd and as a result the interest of the Authority in the company was reduced to 49,99%.

There were no other material events after the reporting date which have a bearing on the understanding of the Consolidated Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(CONT')

30. Accounting policies until 31 December 2017

Accounting policies applicable to the comparative period ended 31 December 2017 that were amended by IFRS 9 and IFRS 15, are as follows.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for the sale of goods and services in the ordinary course of the Group's activities, net of Value Added Taxes.

The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below.

(a) Sales of electricity

Sales of electricity represent amounts receivable, based on consumption recorded by meters, net of V.A.T. Sales also include an estimate of the value of units supplied to consumers between the date of the last meter reading and the year end, and this estimate is included in receivables in the consolidated statement of financial position.

(b) Interest income

Interest income is recognized on a time proportion basis using the effective interest method.

(c) Consumers' capital contributions

The Group accepts applications for extension of its network in areas not yet covered by the existing network by individuals and legal entities. Furthermore the Group accepts applications for additional load from the existing network. In both cases the Group charges the applicants with the construction cost.

The fact that the cost is recovered from applicants results in not having to be recovered by consumers through electricity tariffs. Otherwise this cost would have been included in tariffs and consumers would have been billed for the consumption of electricity with higher prices. All network extension applicants are charged with capital contributions and all consumers are billed with the same tariffs.

Applicants are ensured of the right of permanent access to the network for an unlimited period of time. The Group is committed to provide access for an unlimited period of time. Capital contributions represent the price for this continuous service and hence income is shown as deferred income and is gradually released to the consolidated income statement over a period identical to that of the assets constructed/acquired for this purpose, and which have an average life of 33 1/3 years. This period is considered a reasonable approximation for calculating the period of the customer relationship.

(d) Revenue from Desalination

Revenue from Desalination represents the sale of desalinated water to the Water Board Authority in accordance with the supply as recorded by meters net of VAT. Sales also include an estimate of the value of metric tonnes supplied between the date of the last invoice and the end of the year and this estimate is included in receivables in the consolidated statement of financial position.

Financial assets

(i) Classification

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

- **Financial assets at fair value through profit or loss**

This category has two sub categories: financial assets held for trading and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Derivative financial instruments are also classified as held for trading. Financial assets designated as at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with the Group's documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the Group's key management personnel. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within twelve months of the reporting date.

- **Loans and receivables**

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which there is no intention of trading the receivable. They are included in current assets, except for maturities greater than twelve months after the reporting date. These are classified as non current assets. The Group's loans and receivables comprise trade and other receivables, short-term deposits, cash at bank an in hand in the consolidated statement of financial position.

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade date which is the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Loans and receivables are presented at amortised cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are presented in profit or loss within "other (losses)/gains - net" in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss as part of other income when the Group's right to receive payments is established.

(iii) Impairment of financial assets

The Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets, other than financial assets at fair value through profit or loss, is impaired.

A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the profit or loss.

Trade receivables

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision of impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(CONT')

of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss within 'administrative expenses'. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'administration expenses' in profit or loss.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Cash and cash equivalents

Cash and cash equivalents comprise from cash at bank and in hand, short-term bank deposits with average maturities of 90 days or less and bank overdrafts. Short-term bank deposits with average maturities 3-12 months are included in short-term deposits and under investing activities for cash flow purposes. In the consolidated statement of financial position bank overdrafts are shown within borrowings in current liabilities.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings, using the effective interest method, unless they are directly attributable to the acquisition, construction or production of a qualifying asset, in which case they are capitalised as part of the cost of that asset.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment (for liquidity services) and amortised over the period of the facility to which it relates.

Borrowings are removed from the balance sheet when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

A substantial modification of the terms of an existing financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Any gain or loss on extinguishment is recognised in profit or loss except to the extent that it arises as a result of transactions with shareholders acting in their capacity as shareholders when it is recognised directly in equity. The terms are considered to be substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the discounted present value of the remaining cash flows of the original financial liability. Any costs or fees incurred are recognised as part of the gain or loss on the extinguishment.

Borrowing costs are interest and other costs that the Group incurs in connection with the borrowing of funds, including interest on borrowings, amortisation of discounts or premium relating to borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings, finance lease charges and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, being an asset that necessarily takes a substantial period of time to get ready for its intended use or sale, are capitalised as part of the cost of that asset, when it is probable that they will result in future economic benefits to the Group and the costs can be measured reliably. Borrowings are classified as current liabilities, unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the consolidated statement of financial position date.

Electricity Authority of Cyprus
Head Ofice

11 Amfipoleos str.
P.O.Box 24506
CY-1399 Lefkosia

Tel: +357 22201000
Fax: +357 22201020

E-mail: eac@eac.com.cy
Website: www.eac.com.cy

Edited by
General Management Office
Public Ralations Department

Design
ORB COMMUNICATIONS LTD

Annual Report 2018 has been issued in electronic form only.

Electricity
Authority
of Cyprus