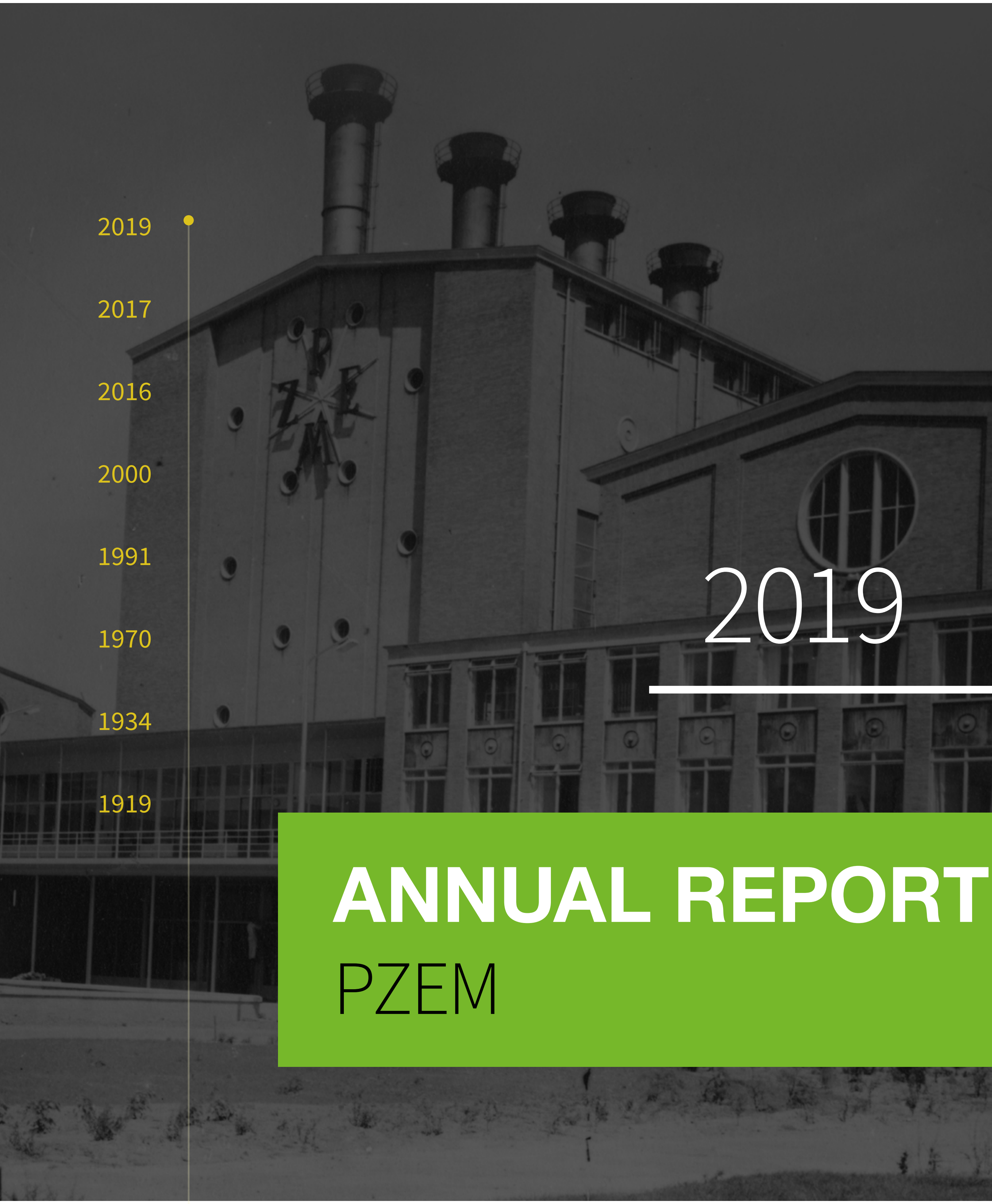
PZEM



2019

ANNUAL REPORT

PZEM

Colofon

This annual report for 2019 is a publication of PZEM.

Design: PZEM Marketing
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For questions, comments or suggestions, please contact PZEM, +31 (0)88 1346 000 or info@pzem.nl

The annual report 2019 can be consulted via PZEM.nl/jaarcijfers

PZEM
Poelendaelesingel 10
4335 JA Middelburg
The Netherlands

ANNUAL REPORT 2019

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About this report

In this Annual Report, PZEM N.V. (“PZEM”) gives an account of its activities in 2019. Sustainability and financial reporting have been integrated into this Annual Report to the greatest possible extent. The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as endorsed by the European Union, and the relevant provisions of the Dutch Civil Code (DCC).

This Annual Report is published by PZEM N.V. (Zeeland Provincial Energy Company).

2019 Management board report

1.1
PZEM in 2019

During the year, PZEM reached a clear turning point in terms of its performance.

Energy prices showed a clear upward trend, especially from the second half of 2018. Key drivers for the recovery were active measures to decarbonise the energy supply system, including reforms to the EU's Emissions Trading Scheme (EU-ETS) and the gradual phasing out of coal-fired power stations across Europe. After the announcement of reforms to the EU-ETS that would see the surplus of carbon emission allowances eliminated from the market, the price of carbon rights rose to a level of around 25 euros. Moreover, as the most polluting power plants - which generally produce base-load capacity - are being shut down at a high pace under national and international rules, spare capacity will be reduced further.

In the Netherlands, gas-fired power plants are currently the most important driver of Dutch wholesale electricity prices. Because higher carbon prices drive up production costs, this has a trickle-down impact on electricity prices. Those prices continued to hold up at this higher level, albeit with a slight decline during the year. Aside from carbon prices, electricity prices are driven to an important extent by gas prices in international markets. These remained historically low during the year.

As an increasingly larger share of our electricity production comes from fluctuating sources such as the sun and wind, there will be a further need for adjustable capacity. Although energy storage becomes more important, we believe that efficient gas-fired power plants will continue to have a key part to play in balancing hard-to-predict fluctuations in renewable energy sources for many years to come.

With a flexible and low-carbon portfolio, PZEM is well-positioned to benefit from these trends. Rising carbon prices particularly benefited the company's nuclear power plant, but our clean gas-fired power station and biomass plant also saw their financial performance improve slowly thanks to these developments. As the premium on delivering variable production has become increasingly important for the Sloe power station, we have become more positive about this side of our business as well.

2019 was also a year in which we dealt with a number of legacy issues. We sold the site and buildings at Poelendaelesingel and are now leasing back office space.

Position

PZEM produces and trades in energy 24 hours a day, 7 days a week. For its electricity production, the company uses a varied mix of natural gas, wind, biomass, and nuclear energy. Around 40% of the electricity that we generate comes from renewable sources, and with 100 to 125 grams of CO_2 per kWh, PZEM has the lowest emissions of all major Dutch energy producers. In increasingly dynamic energy markets, PZEM can add value and, once Eneco has been sold, will be the only Dutch-owned producer of any substantial size left on the Dutch market.

Our flexible capacity is key to ensuring security of supply in the Netherlands when the sun or wind resource dips. PZEM operates a clean and flexible, state-of the art, gas-fired power station in Sloe. Under various gas storage and transmission contracts, the company ensures effective availability and supply of gas to power stations and customers. We also buy renewable electricity from a number of large and smaller wind farms under long-term purchasing agreements (PPAs). The PPA with Gemini (the Netherlands' largest offshore wind farm) and the modern, clean and highly flexible Sloe power station are key pillars of our portfolio, in addition to our share interests in EPZ (nuclear power plant) and Evides (water company).

Following profitable years for our trading and (B2B) sales activities in 2017 and 2018, we can look back on 2019 as another year in which the performance of those activities surpassed our expectations. Availability as well as safety are key success factors for the nuclear power plant and EPZ can look back on 2019 as the year in which it achieved the highest level of availability to date. Finally, Evides (in which PZEM owns a 50% share interest) has also reported a good year.

Financial performance

Total net profit for 2019 came in at EUR 20 million, including EUR 24.3 million from our share of the profit of Evides. This is a substantial improvement on the loss of more than EUR 54 million reported in 2018. The improvement was driven by a number of trends. As part of our risk policy, we sell our electricity on the futures market. This means that there is a certain time lag on our exposure to developments on the electricity market. As a result, market improvements that began in the middle of 2018 with the improved incorporation of carbon prices into the cost of electricity only began to show a positive impact in 2019 in particular. Secondly, the financial performance of the organisation as a whole was better than expected in 2019. A third key driver was the return earned on the funds allocated for the decommissioning of the nuclear power plant. A savings fund has been formed for this long-term liability. These savings are invested conservatively in a mix of equities and bonds. Equity investments, in particular, yielded very strong returns in 2019. Although these are unrealised gains, they have been factored into PZEM's financial results in accordance with accounting rules.

PZEM and the Zeeland economy

PZEM has been firmly rooted in the local communities it serves for more than 100 years now. In 2020 we will continue to work with our shareholders and others to meet the challenges facing us in the province of Zeeland, the Netherlands and globally. Those challenges involving transitioning towards a more sustainable society. As a society, we will need to reduce CO_2 emissions generally and certainly prevent further global warming. PZEM recognises the challenges that local industries in Zeeland are facing in transitioning to renewable energy use. In order to fulfil its role as a facilitator and help local industries address these major challenges, PZEM has rejoined Smart Delta Resources (a collaboration between businesses and public bodies in Zeeland and Flanders, including NorthSeaPorts, GasunieTransportServices, and Fluxys), actively sharing its expertise on Hydrogen and Carbon Capture & Storage (CCS). We have also made our expertise available to the Zeeland provincial authorities to help draw up a Regional Energy Strategy (RES).

Safety performance

At PZEM, safety always comes first. In 2019, as in 2018 and 2017, our TRIR target was 3.0 (Total Recordable Injury Rate; the total number of incidents resulting in absenteeism as a percentage of the total number of hours worked). Unfortunately, we failed to meet this target and ended the year with a TRIR of 3.3, although this was a clear improvement on the 7.6 achieved in 2018. Safety has continued to be a priority item on the agenda of management at EPZ, BMC, Sloe and PZEM through incident analyses and improvement measures. For example, all PZEM employees were required to take a life-saving course (including resuscitation) in 2019.

Outlook

For 2020 we intend to continue to roll out the strategy adopted in 2019, aiming for balanced growth in production and sales. As part of this strategy, we believe that we have a clear role to play in meeting the need for expertise and skills in energy balancing. We will therefore focus on expanding gas generation and entering into more PPAs and optimising our trading activities. We expect to be able to expand our B2B proposition so as to achieve further growth in this area as well. We will also closely monitor developments in hydrogen and the capture of carbon dioxide so as to be able to take responsibility in a timely fashion once the underlying revenue models become clear. After years of downsizing, we anticipate a modest increase in the number of employees in 2020.

We expect conventional and renewable production to reach an effective and sustained market equilibrium over the next few years. The pace at which this will happen depends on many factors. These are not only of a technical and political nature, but also based on choices made nationally and, to an important degree, internationally. It is therefore difficult to predict how these factors will evolve in terms of timing.

PZEM will continue to focus on generating low-carbon energy and selling this (and natural gas and carbon allowances) to business customers and on trading markets. In addition to our own energy, we also sell energy generated by a number of wind farms on behalf of the owners of those farms. The Gemini wind farm is a perfect example, one that we are proud of.

Thanks to our financial position, the quality of our portfolio, and the skills and strength of our staff, PZEM is well-positioned to fulfil an important and sustained role in the ongoing energy transition, not only regionally but also at a national level. We celebrated our centennial in 2019. We have been a proven and reliable producer and supplier of energy for over a hundred years.

In 2019

Total net profit for 2019 came in at EUR **20 million** positive. This is a substantial improvement compared to 2018. For 2020 we intend to continue to roll out the strategy adopted in 2019, aiming for balanced growth in production and sales.

Left: Frank Verhagen, right: Niels Unger

The anniversary festivities reflected the down-to-earthiness that the people in Zeeland are known for, with a very successful summit for stakeholders highlighting what we believe to be the essential role of nuclear power in tomorrow's energy mix.

Corona virus

In the early months of 2020, the world was confronted with the outbreak of COVID-19. At this point, the duration and impact of the virus outbreak are difficult to predict with precision. At PZEM we have taken a number of steps to ensure the continuity of our operations and control its impact.

In the first few weeks of the corona crisis, we focused on protecting the health and safety of our employees and ensuring business continuity. The number of staff working in the office has been limited so as to protect our employees as best we can. In terms of the required minimum number of staff, we are making a distinction between critical and less critical roles.

Developments in the real economy are going to have an impact on PZEM's financial flows. We are intensively monitoring those areas of the economy hit hardest and assessing the potential implications for the company. So far we have identified three potential effects.
First, we are likely to see a fall in demand. This will impact the company directly. As demand for electricity and emission allowances falls, so will prices.
Exactly what financial impact this is going to have we will not know until afterwards.

Secondly, we cannot rule out the possibility of bankruptcies occurring within our customer portfolio. We sell electricity and gas to Dutch companies. These activities are likely to be affected if customers fall into payment difficulty. We are monitoring the situation closely and will take steps to minimise any losses to PZEM.

Finally, we are keeping a close eye on our financial resources. In the past few years, PZEM has built up a sizeable financial buffer to protect the company's continuity in times of crises. We never anticipated a crisis of this magnitude occurring at this point in time. However, because of our prudent policy, we can fall back on those reserves. These comprise securities, deposits, and cash at bank spread across a large number of different parties and largely with short maturities. PZEM has a robust cash position with a quantity of on-demand instruments that are more than sufficient to meet its obligations even if revenues were to decline. We are also putting in place extra measures place because no one can predict how long the crisis will continue for and how big an impact it is going to have.

> PZEM will continue to focus on generating low-carbon energy and selling this (and natural gas and carbon allowances) to business customers and on trading markets.

These measures include increasing the quantity of on-demand cash instruments by not reinvesting the funds released or reinvesting them only for a very short term. We can do this because a sizeable amount of cash is released every month and so we have direct access to extra cash on a monthly basis. That is on top of the already existing cash buffer.

Summarising, we see a number of positive trends emerging for PZEM in terms of sustainability, including the recent debate about the closure of coal-fired power plants. Long-term prospects for the company are therefore good. However, the corona crisis will have a huge impact on all of us and will not pass the company unnoticed. We expect 2020 to be a difficult year for PZEM, certainly in financial terms. However, in light of our strong financial position and reserves, we are confident that the company's continuity will not come under threat.

A word of thanks

PZEM still is an exceptionally fine company with complex operations. It is of great importance that we can continue to rely on the support of all our stakeholders, as we have done over the last one hundred years. We have been implementing our strategy with the help and support of our employees. A special word of thanks and appreciation certainly goes to all of them. Their dedication and professionalism contributed to our ability to provide our customers with the best possible services during the year.

We are also grateful to the Supervisory Board, the Works Council and our shareholders for their ongoing support.

Frank Verhagen	Niels Unger
CEO	COO

1.2
Profile and key figures

> PZEM's roots go back a long way. In 1919 the Zeeland Provincial Electricity Company (PZEM) was set up

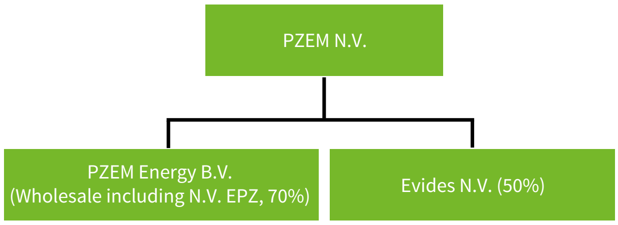
PZEM is a producer, trader, and supplier of energy products and services to business customers. CO_2 emissions from production are limited and our flexible capacity allows us to ensure supply even if the wind and sun are absent. We are trading 24 hours a day, 7 days a week, in order to balance supply and demand. So we know what is going on in the markets and what our trading partners and other customers need. PZEM is a stable factor in a dynamic energy market.

PZEM's shares are held by municipal and provincial authorities in the provinces of Zeeland, Noord-Brabant, and Zuid-Holland. The company's head office is located in Middelburg, The Netherlands.

1.2.1 FROM 1919 TO TODAY

PZEM's roots go back a long way. In 1919 the Zeeland Provincial Electricity Company (PZEM) was set up, followed in 1934 by the Zeeland Gas Company (ZEGAM). In 1991 the South West Netherlands Water Company (WMZ) and PZEM merged to form the utility company DELTA Nuts. In 2001 the company was officially renamed DELTA N.V. and, after taking over Internet pioneer ZeelandNet in 2002, also began to provide digital services through this subsidiary.
These years of shared history are one of the main reasons why there is such a special bond between PZEM and Zeeland. On 1 March 2017, following the sale of its retail operations, DELTA N.V. was renamed PZEM N.V. (Zeeland Provincial Energy Company). PZEM has, in one form or another, been part of the local communities for a century now.

1.2.2 Organisation at 31 December 2019



Products and services

PZEM Energy (Wholesale and EPZ)
PZEM Energy B.V. generates electricity at power stations that are partly owned by PZEM - including 70% of the power generated by EPZ's nuclear plant, 50% of production at the gas-fired Sloe power station, and 100% of production at the BMC Moerdijk poultry litter plant (in which we own a 50% share interest). We also buy electricity from a number of large and smaller wind farms under long-term purchase agreements, trade in asset-backed energy contracts, and supply power and gas to business customers across the Netherlands.

PZEM N.V.
In addition to the group companies and joint agreements referred to above, PZEM N.V. also owns a 50% share interest in Evides N.V.

1.2.3 ABOUT US

At PZEM, we generate electricity, day in, day out. Around 40% of this electricity already comes from renewable sources, as part of an optimum mix that also includes flexible conventional production. The PPA with Gemini (the Netherlands' largest offshore wind farm), nuclear power plant, biomass power station and our state-of-the-art, clean and highly flexible gas-fired power plant at Sloe form the pillars of our portfolio. On our trading floor, we optimise our portfolio and carry out trades 24 hours a day, 7 days a week. Ultimately, we supply power at the sharpest possible prices to supermarket chains, holiday parks, timber companies and horticultural businesses, as well as heavy industries. In what is an increasingly dynamic energy market, we provide proven added value to our customers. We have always done so.

Based in the province of Zeeland, PZEM is a reliable Dutch power company that ensures security and safety of supply during the transition to renewable energy sources. We do so by being reliable and flexible, and by innovating and making available our knowledge and expertise.

Mission (who we are)

PZEM operates future-proof production facilities that are flexible and have low CO_2 emissions. Through our 24/7 trading desk we have access to all relevant energy markets, placing PZEM in an excellent position to control risks and minimise the associated costs. Ultimately, this allows us to effectively manage energy products for our customers.

Vision (what we expect)

Looking ahead, we are working hard to address the challenges posed by the energy transition. Our customers expect no less from an energy expert. PZEM's vision is that renewable energy sources will become increasingly important on the road to a low-carbon energy supply system. Because the wind does not always blow and the sun does not always shine, this will lead to growing discrepancies between energy demand and supply. As greater flexibility will be required to match supply to demand, price fluctuations are likely to become more extreme. That will pose higher risks to both demand and supply that will need to be controlled. At PZEM, we intend to focus more explicitly on those trends.

Our strategy (what we will do)

PZEM seeks to achieve targeted growth and a balanced portfolio. Through its portfolio and 24/7 trading desk, the company is in an excellent position to control risks and minimise the associated costs. We also intend making our expertise and experience available to our customers to guide them through the energy transition.

In concrete terms, our goals are as follows:

1. **Expand gas generation**
   We will explore the possibilities for expanding our gas generation portfolio.

2. **Increase number of PPAs**
   We intend to add more new wind and solar PPAs to our portfolio.

3. **Excel in balancing**
   Our internal organisation will be fitted out as effectively as possible and be given the right tools to achieve the best possible generation and sales portfolios.

4. **Increase proceeds from trading floor**
   The trading floor is currently subject to very strict restrictions in terms of trading positions and products. Our new strategic plan will see a shift from risk aversion-only to value creation.

5. **Grow the B2B portfolio**
   We will look to expand our B2B operations by strengthening our commercial team.

6. **Ensure future flexibility**
   We are closely monitoring research and development trends so as to be able to respond effectively and timely to a number of highly promising developments in energy supply. Examples include hydrogen, demand-side management, and energy storage.

PZEM seeks to achieve targeted growth and a balanced portfolio. Through its portfolio and 24/7 trading desk, the company is in an excellent position to control risks and minimise the associated costs.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PZEM PORTFOLIO

PZEM's flexible portfolio, in combination with variable renewable production and nuclear baseload capacity (nuclear power plant), provides effective generation and low CO_2 emissions.

1. Sloe power station

The Sloe power station is one of the Netherlands' cleanest power stations.

PZEM's share interest	50%
Type of plant	CCGT
Place	Ritthem (NL)
Fuel	Natural Gas
Power Generation	870 MW
Share Power Generation	50%

2. EPZ (BS30)

EPZ is the Netherlands' only nuclear power plant to generate electricity

PZEM's share interest	70%
Type of plant	Nuclear power plant
Place	Borssele (NL)
Fuel	Uranium
Power Generation	485 MW
Share Power Generation	70%

3. BMC Moerdijk

BMC Moerdijk is a unique biomass power plant, the only one on the European continent to convert poultry litter into green electricity.

PZEM's share interest	50%
Type of plant	Biomass power plant
Place	Moerdijk (NL)
Fuel	Poultry litter
Power Generation	32 MW
Share Power Generation	100%

4. Windfarms

Various PPAs across the Netherlands.

PZEM's share interest	0%
Type of plant	Wind turbines
Place	Various sites
Fuel	Renewable
Power Generation	Variable
Share Power Generation	100%

A. Gas storage

PZEM uses gas storage facilities in depleted salt caverns in the north of the Netherlands.

B. . Gas pipeline infrastructure

PZEM owns the ZBL (Zuid-Beveland) pipeline. PZEM also buys capacity from the ZEBRA gas grid and has long-term access to Fluxys' transport capacity.

C. Customer portfolio

PZEM has a well-diversified portfolio of large and medium-sized industrial customers.

PZEM's regular portfolio-based operations

Below is a brief description of PZEM's activities divided into trading, B2B deliveries, and customised contracts (origination). The company's ordinary activities focus on maximising the value of its portfolio within set risk limits.

Trading & Optimization

The Asset Optimisation department is responsible for optimising the total market value of PZEM Energy's production portfolio on the wholesale market. That includes the purchase of renewable electricity production from a number of large and small wind farms under long-term purchase contracts.

The Trading department is responsible for optimising the market value of both the asset portfolio and customer portfolio. This is achieved through gas, electricity and CO_2 trading on the northwestern European energy markets. The department operates 24/7.

Commercial

The Origination department is responsible for entering into a wide variety of customised contracts with industrial customers and energy suppliers, focusing on electricity, gas, and GoOs (Guarantees of Origin) on the Dutch market.

B2B is responsible for entering into standardised energy contracts with medium-sized business customers. This is done through account management or through the online customer portal where customers can sign up to contracts. Here too, the focus is on electricity, gas, and GoOs on the Dutch market.

Consumer and Markets Authority's Code of Conduct

PZEM Energy is in compliance with the Code of Conduct for Suppliers of Retail Meters that can be Read Remotely, as published by the Dutch Consumer and Markets Authority (ACM). The full text of our compliance statement is included separately in this Annual Report.

1.2.4 STRONG TIES WITH LOCAL COMMUNITIES

Having public-sector shareholders and a local employee base, PZEM has strong ties with its home market. The company is firmly rooted in society and readily accepts its social responsibilities.

PZEM's commitment to society is reflected in the company's strong reputation in Zeeland.

Although we have has become smaller in size, PZEM still provides many high-skilled jobs. These types of jobs are scarce in Zeeland, which is why we continue to play an important role in the local economy.

1.2.5 CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility covers our energy operations and our aim to produce energy with minimal CO_2 emissions.

This Annual Report does not include water company Evides, in which PZEM owns a 50% interest. Evides reports on its CSR policy and related activities separately on its website at www.evides.nl. Below is a summary of the key statistics on PZEM's power generation activities. More detailed information is available at www.epz.nl, www.sloecentrale.nl and www.bmcmoerdijk.nl.

1.2.6 FINANCIAL STATEMENTS

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs), as adopted by the European Union, and the relevant provisions of the Dutch Civil Code (DCC; Chapter 9). PZEM conducts some of its major activities with others in the form of joint operations.

Our share of assets, liabilities, income and expenses associated with operations conducted by separate legal entities in which PZEM, in its capacity as a shareholder and customer, has the same rights and obligations as its partners, have been included in our financial information since 2013. This provides a better understanding of the structure of our capital base and profits.

Financial highlights (in EURm)	2019	2018	2017	2016
Revenue	574	602	601	789
Gross operational margin	**114**	**87**	**72**	**154**
EBITDA [1]	64	17	18	69
Net profit/(loss)	**20**	**(54)**	**314**	**58**
Normalised pre-tax profit/(loss)[2]	(13)	(72)	(73)	(71)
Investments in (in)tangible fixed assets	21	23	38	86

Share of revenue (in EURm)	2019	2018	2017	2016
Sale of electricity and electricity trading	494	496	482	590
Sale of gas and gas trading	80	106	119	199
Total revenue	**574**	**602**	**601**	**789**

The normalised result for 2019 improved substantially on previous years, driven mainly by rising energy prices. Additionally, a sizeable loss-making contract expired in September 2018.

For full details of the financial statements 2019, please refer to pages 47 et seq.

[1] Operating profit plus depreciation, amortisation and impairments

[2] Adjusted for the share of profit or loss in discontinued operations, impairments, the effect of provisions for onerous contracts, and the returns achieved on the fund set up to decommission the nuclear power plant.

1.3
Notes to the financial results

Good year for PZEM

2019 was a very good year financially for PZEM. The company ended the year with a net profit of EUR 19.8 million, after reporting a loss of EUR 53.6 million in 2018. That is an increase of no less than EUR 73.4 million. Similar to 2018, our trading and sales (B2B) activities performed well. The company's power plants also benefited from improved market prices.

In 2019 we achieved high returns on the funds allocated for the future dismantling of the nuclear power plant. Movements in value are recognised as finance income in the income statement. These are long-term investments designed to yield target returns over a long-term horizon, and may therefore see poorer years as well. Judging by these first few months, 2020 could be an example in point.

Similar to previous years, the income statement includes funds released from the provision for onerous contracts. In 2019 the provision for onerous contracts (for gas storage and transmission) contributed EUR 10.2 million to the net profit. This movement in the provisions therefore caused the profit for 2019 to improve by that amount. Adjusted for the positive effects of the provision for onerous contracts, the underlying net profit came to EUR 9.6 million. In 2018 the provision made a positive contribution to the profit of EUR 21.5 million, bringing the adjusted net loss for 2018 to EUR 75.1 million.

Impact of market trends

After several years of rising electricity prices, price levels stabilised in 2019 followed by a slightly downward trend. A key driver was the absence of severe winter temperatures dampening gas prices. As a result, prospects for the coming years did not improve further in 2019. The nuclear power plant, in particular, benefited from higher electricity prices. The Sloe power station is dependent on gas prices as well as electricity prices.

Revenue en gross margin

Revenue in 2019 stood at EUR 574.2 million, compared to EUR 601.8 million in 2018. The decline was caused by commercial (B2B) operations. Two years ago, PZEM refocused on a number of customer segments and so revenue fell in 2019 as sales volumes declined. Gross margin on the B2B operations did not decline.

Overall, revenue from production at the power plants and from customised contracts (such as the sale of electricity generated by the Gemini wind farm) remained the same.

Gross margin in 2019 rose by EUR 43.2 million to EUR 130.9 million (2018: EUR 87.7 million), driven to a large extent by the greater availability of the nuclear power plant and higher prices than the year before.

Profit on trading activities and commercial sales remained strong in 2019 compared to 2018.

Operating expenses

Our focus on cost control led to a reduction in staff costs (by 3.3%) and third-party costs (by 4.1%). The number of employees including proportionately consolidated group companies remained virtually the same at 400 FTEs in 2019. However, the average number of FTEs was higher in 2018.

At EUR 48.3 million, depreciation charges were slightly higher in 2019 than in 2018 (EUR 44.9 million), due in part to capitalised major maintenance at EPZ and the Sloe power station in 2018.

Other operating expenses were higher as a result of an extra addition to the provisions, prompted by a reduction in the actuarial rate of interest.

Net finance income or expense

Because of the very high returns achieved by the Foundation responsible for managing the funds to decommission the Borssele nuclear power plant, finance income improved to EUR 31.2 million in 2019. This performance was driven mainly by rising stock markets during the year. In addition to the mandatory investment by EPZ through the Foundation,
PZEM has invested some of its own assets in the same fund since December 2018. Interest charges on the loan extended to the Sloe power plant during the year were in line with 2018. Interest additions to the provisions in 2019 were down EUR 8.8 million on 2018 (EUR 11.7 million).

CASH FLOW AND INVESTMENTS

PZEM's cash flow in 2019 improved strongly on 2018. Adjusted for cash investments, net cash inflow stood at EUR 52.6 million, EUR 30.0 million of which reflecting an increase in the cash position and EUR 22.6 million an increase in cash invested. In 2018 we reported a net cash outflow of EUR 180.2 million. That is an improvement of EUR 232.8 million, EUR 128.7 million of which came from movements in working capital. Other drivers were the higher operating profit (combined with lower use of the provisions) and lower investment expenditure.

In 2019 cash inflow from operating activities was EUR 77.6 million (2018: cash outflow of EUR 113.4 million). The strong improvement in working capital was driven mainly by collateral obligations for our trading activities. In 2018 the working capital required for those obligations increased due to a strong rise in market prices. In 2019 the bulk of this cash expenditure flowed back as the relevant trading positions were settled and because of opposing market trends.
The strongly improved operating profit on wholesale operations in 2019 also contributed to the cash inflow from operating activities. In 2019 our share interest in water company Evides again made a positive contribution to the cash flow through dividend payments. In 2018 dividends from share interests showed a one-off improvement, thanks to a final dividend paid by Elsta after the combined heat and power plant was sold off.

Cash outflow from investing activities was EUR 9.9 million (2018: cash outflow of EUR 54.8 million), driven mainly by maintenance and replacement costs for EPZ and the Sloe power station, and payments made by EPZ into the fund set up to decommission the nuclear power plant. In 2018, due to a major maintenance stop at the EPZ nuclear power plant, investment expenditure on tangible fixed assets was higher that year.

In 2018 multiple payments were made into the fund set aside for the plant's decommissioning, causing a substantial net cash outflow from other non-current financial assets.
In 2019 we also received funds from security interests previously provided by PZEM, the sale of two interests in the SET Fund, and the sale of PZEM's head office in Middelburg.

CAPITAL POSITION AND SOLVENCY

In 2019 net realised and unrealised gains were EUR 66.0 million (2018: EUR 106.1 million in net realised and unrealised losses). Apart from this net gain, movements in the value of the derivatives portfolio, in particular, were recognised as unrealised gains or losses. These had a positive impact of EUR 46.1 million in 2019 (2018: negative impact of EUR 52.7 million).

Shareholders' equity including net profit or loss was EUR 1,346.6 million year to date. Due to net realised and unrealised gains, our solvency ratio improved to 58.9% at 31 December 2019 (2018: 57.3%).

1.4
PZEM and its people

The organisational changes that we first began putting in place in 2016 continued to take shape during the year. Also in 2019, the final effects of the restructuring emerged, following the separation of the retail operations (DELTA Retail) from the grid operations (Netwerkgroep). These mainly involved jobs in Facilities Management, Catering, and Reception.

Inflow & outflow

On 1 January 2019, PZEM (excluding EPZ, the Sloe power station, and Evides) employed 143 staff, 33 of whom were at the mobility stage or on a zero-hours contract under the Social Plan.
During the year, PZEM's workforce continued to fall to 134 employees (121.4 FTEs). This is how the situation stood at 31 December 2019. The decline can be explained by the departure of employees who previously became redundant and found new employment elsewhere, who retired, , or indeed who in 2019 made use of a scheme provided for in the Social Plan. A total of 13 employees left the company in connection with the Social Plan. Eight employees left by operation of law or at their own request or under the terms of a settlement agreement. One employee took retirement. Around two thirds of the outflow was foreseen or planned.

In 2019 we recruited a total of 13 talented employees. They either replaced those who left or had responded to vacancies (which had been open for some time). We also hired two trainees to supplement the number of FTEs budgeted for.

PZEM will continue to draft in temporary workers if necessary to carry out specialist jobs or projects, to cover peak periods, or to create a flexible layer. We encourage our employees – whose jobs have become redundant or who choose to change jobs – to move up within the company so as to utilise, grow, and retain their potential. In all cases, we will carefully weigh up the pros and cons of employing our own people or hiring in temporary external staff.

Number of employees

At 31 December 2019, PZEM employed a total of 134 employees (121.4 FTEs), excluding EPZ, the Sloe power station, and Evides.

At PZEM, 74% of our employees were men and 26% were women. In 2019 the average age was 43.5, virtually the same as in 2018 (43.9). With the exception of the board members, all PZEM employees fall within the scope of the collective agreement for energy producers and suppliers. Of our employees, 89% were on a permanent contract and 11% on a fixed-term contract. The share of permanent contracts declined compared to 2018 (97%). This can be explained by the new inflow compared to the outflow during the year, with new people usually being hired on the basis of a temporary contract.

Illness absenteeism

Illness absenteeism at PZEM (excluding EPZ, the Sloe power plant, and Evides) averaged 4.0% in 2019. This was again lower than in 2018 (4.5%) and within our 4.5% target. Long-term absenteeism occurred mainly in the mobility office/work-to-work programme and B2B. At 31 December 2019, illness absenteeism at PZEM (excluding EPZ, the Sloe power plant, and Evides) stood at 4.4%; slightly up due to a wave of influenza.

	2019	2018	2017	2016	Target
Illness absenteeism	4.0%	4.5%	4.9%	5.1%	4.5%

Long-term employability

In late December 2017, we launched an extended version of our employee motivation survey with the motto 'long-term employability'. Carried out in collaboration with Loyalis Kennis & Consult and health insurance company Zilveren Kruis, the survey involved filling in a questionnaire. The survey findings formed the basis for a follow-up programme in 2018, with all sorts of activities taking place to help improve long-term employability, including employability workshops, sports try-out sessions, and theme lunches on exercise, food and health.

The survey was repeated in 2019, based on a shortened questionnaire from the one originally used. The results showed a slight overall improvement in all areas compared to the 2017 results. The outcomes were discussed and analysed in more detail with each department. Health, work-life balance, ability to continue to work (also later in life), willingness to attend training courses, and lifestyle awareness were highlighted as positive factors. Key points requiring attention were communication, facilities, the work environment (largely to do with the office renovation), clarity about PZEM's future, and too much or not enough pressure of work.

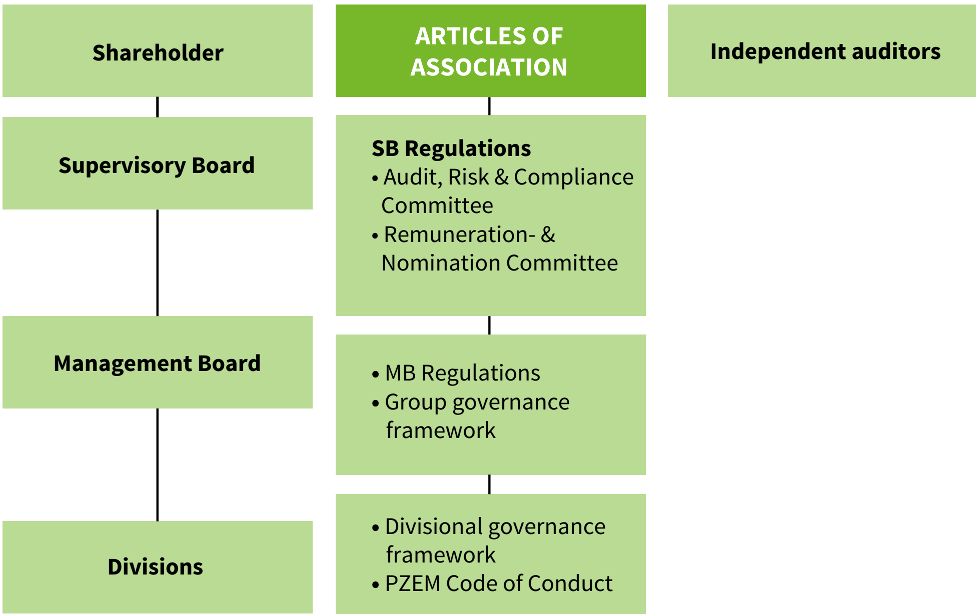
Review of appraisal and remuneration policies

In 2019 we launched a project aimed at modernising our appraisal and remuneration policies so as to align these more effectively with the organisational set-up and strategic objectives. A benchmark survey was conducted to compare remuneration levels at PZEM with those of our peers. The survey findings will be used to adopt an appropriate remuneration policy. The findings will become available in 2020. As part of the annual employee appraisal process, the Works Council, after a detailed procedure, consented to removing the link between the appraisal findings and annual pay rise. This is to improve the quality of appraisal interviews between employees and their managers and to give centre stage to personal development and aspirations, aligning individual goals with those of the organisation, and making effective use of skills and expertise.

Proposals are also being fleshed out to update our current employment package, themed around simplicity, transparency, choice, and individual responsibility. The aim is to be able to recruit new employees as and when necessary, and to remain attractive to our current employees in a job market that is evolving rapidly. We will continue our review of the company's appraisal and remuneration policies in 2020, based on the benchmark survey findings and the input received from various levels within the organisation.

1.5
PZEM and corporate governance

Governance structure PZEM



Sound business practices, integrity, respect, supervision, transparent reporting, and other forms of accountability are the cornerstones of PZEM's corporate governance policy. We voluntarily adhere to the Dutch Corporate Governance Code, which was drawn up for Dutch-based listed companies. We have adopted the Code's best-practice provisions in so far as they apply to us. In line with the principles of the Code, PZEM changed auditors in the 2019 financial year. In 2018 we invited the 'big four' accounting firms to submit a tender and we eventually selected KPMG.

Structure

PZEM N.V. is a company with a two-tier board within the meaning of Section 2:154 of the Dutch Civil Code. The involvement of the General Meeting of Shareholders (GMS) and the Supervisory Board with the company's operations is reflected in the company's articles of association and various sets of regulations. These documents also set out when the Management Board requires approval from either the Supervisory Board or the GMS for resolutions regarding investments and/or takeovers or the sale of all or any part of its business. PZEM's amended articles of association came into effect on 1 July 2017. The amount for which shareholder approval is required was adjusted.

Management Board

The Management Board's powers and responsibilities are defined in the Management Board Regulations. These provide for a division of duties among the Management Board members, define internal powers of attorney, lay down decision-making procedures, and contain rules that are consistent with the Dutch Corporate Governance Code, including rules dealing with conflicts of interest involving Management Board members.

PZEM endorses the rules on a balanced composition of the Management Board as referred to in Section 391.7, Title 9, Book 2 of the Dutch Civil Code, as introduced on 1 January 2013. The Management Board comprises only two positions, both which are still held by men, despite the changes to its composition in 2018. In the event of a future vacancy on the Management Board, the Supervisory Board will again endeavour to find a suitable female candidate. The Supervisory Board itself does meet the balanced composition requirement.

Supervisory Board

PZEM's Supervisory Board oversees the company's overall performance, including compliance with its policies, the results achieved by the Management Board, the company's financial position and risk profile, and its financial reporting. The Supervisory Board also acts as a sounding board for the Management Board. In order for the Supervisory Board to carry out its remit effectively, the Board's profile should be consistent with that of the company. The profile drawn up by the Supervisory Board in 2010 describes the capabilities required of its members, having regard to the extended powers of nomination vested in the Works Council.

The Supervisory Board is also in compliance with the Dutch Corporate Governance Code and Section 2.391.7 of the DCC in terms of its membership composition (independence, age diversity, background, and expertise). The Supervisory Board's powers and duties and internal decision-making processes and the role of its chairperson are set out in the Supervisory Board Regulations. These also provide for matters such as periodic reviews of the Supervisory Board's own performance, in accordance with the Corporate Governance Code.

Although decisions are taken by the Supervisory Board in a plenary setting, it has two subcommittees, i.e. the Audit, Risk & Compliance Committee and the Remuneration & Nomination Committee.

Shareholders

The role of PZEM's shareholders and the powers of the General Meeting of Shareholders (GMS) are set out in the company's Articles of Association. PZEM's shareholders are committed and dedicated, in part because they are public sector entities (all being municipalities or provincial authorities). Owing to the wide-ranging powers entrusted to the GMS under the Articles of Association, the way in which the shareholders exercise their voting rights has a significant influence on the company's policies and operations.

Two formal general meetings were held during the year.

Works Council

Amidst the Articles of Association, board regulations and similar arrangements, the relationship between PZEM and its Works Council should not go unmentioned. It is a relationship built on mutual respect, as reflected in standing consultations between the Works Council and the Management Board.

Compliance

PZEM maintains good relations with the Dutch Consumer and Markets Authority (ACM) and the Dutch Financial Markets Authority (AFM). Internal and external audits performed during the year revealed one fact that required reporting. Under the EU's REMIT Regulation, PZEM has an obligation, amongst other things, to publish the planned and unplanned unavailability of its facilities and any changes in availability. PZEM now publishes these notifications through the EEX Transparency Platform.

In 2017 the ACM launched an investigation into possible violations of the Regulation. As part of this ongoing investigation, the ACM paid an unannounced visit to PZEM. At the balance-sheet date, the investigation was still ongoing. We take the investigation very seriously and are fully cooperating with the authorities.

We are focusing fully on REMIT and want to improve continuously. During the year, we made various improvements to the REMIT publication process. An external firm was hired to assess its design. Their conclusions were positive. Areas for improvement have already been or will be addressed and worked out in detail.

During the year, no use was made of the option available under the Whistleblowing Scheme to report unwanted behaviour at work.

> Sound business practices, integrity, respect, supervision, transparent reporting, and other forms of accountability are the cornerstones of PZEM's corporate governance policy.

1.6
Report of the Supervisory Board

The Supervisory Board is pleased to report on its activities undertaken in 2019 and the way in which it has fulfilled its supervisory and advisory roles.

Membership composition

In 2019, PZEM N.V.'s Supervisory Board comprised:

- Mr G.A.F. (Gerard) van Harten (Chairman)
- Mr M.M. (Marc) van 't Noordende MBA (Vice-Chairman)
- Ms W.J.N. (Wendela) van Uchelen (Secretary)

Committees

The Supervisory Board's guiding principle is that practically any matter can be discussed at its plenary meetings. From this perspective of collective responsibility, we believe that there is no place for numerous committees consisting of Supervisory Board members entrusted with primary responsibility for individual areas of work. In line with the Dutch Corporate Governance Code, we have made an exception for the Audit, Risk & Compliance Committee and the Remuneration & Nomination Committee.

Meetings and other activities

In 2019, the Supervisory Board met four times with the Management Board attending, and nine times by means of a telephone conference.

The matters discussed included:

- financial matters, such as the quarterly reports and financial statements, and the company's financial plan containing its operational and financial goals;
- PZEM's business strategy and related strategic issues, including the sale of business divisions and investments and disposals;
- health, safety, security and the environment within the various business divisions;
- the main risks arising from the policies implemented;
- HR policy, including management development policy;
- risk management;
- dividend policy;
- investment policy and key investments and disposals;
- finance policy;
- tax issues;
- corporate governance, including the remuneration policy for the Management Board;

The Supervisory Board held regular consultations with the Management Board about the company's business strategy, including in particular the further implementation of the shareholders' strategy to sell PZEM's commercial operations.

Members of the Supervisory Board attended the meetings between the Management Board and the shareholders' committee. These meetings were held five times in 2019 to discuss PZEM's business strategy and implementation of the shareholders' strategy.

The Supervisory Board also had its annual meeting with the Zeeland provincial executive.

Members of the Supervisory Board also met with the Works Council to discuss the company's current situation and strategy.

During the year, the Supervisory Board was updated periodically by PZEM N.V.'s Management Board and EPZ's Board on the situation at EPZ, including the safety and decommissioning of the remaining core at the Borssele nuclear power plant.

The Supervisory Board also convened several times without the Management Board attending. Key items on the agenda were:

- the business strategy;
- a review of the performance of the Management Board and its members;
- the adoption of the Management Board's remuneration;
- the proposal to change auditors as from the 2019 financial year;
- the recruitment and selection of a new member to the Supervisory Board as of 2020.

A Supervisory Board delegation also met with a delegation of the Zeeland provincial executive to discuss the governance structure of Evides and how PZEM N.V. and its shareholders were to play a role within that structure.

The Supervisory Board also convened to review its own performance, without the Management Board attending, and to discuss such matters as its main duties and responsibilities (oversight and advice), cultural and behavioural aspects, and areas for improvement.

Audit, Risk & Compliance Committee

In 2019 the Audit, Risk & Compliance Committee comprised Mr Van 't Noordende (Chairman) and Mr Van Harten.

The Committee met five times during the year.
The issues discussed included:

- the auditor's management letter;
- financial plan;
- quarterly reports, half-year report, financial statements, IFRSs;
- financial results of projects and investments;
- cash flow projections and cash management;
- risk management;
- tax issues;
- design and set-up of the financial functions;
- (dis)investment proposals.

The Committee meetings were attended by the members of the Management Board, the Finance & Control manager, and the independent auditor. The Audit, Risk & Compliance Committee also met with the independent auditor without the Management Board attending.

Remuneration & Nomination Committee

This committee comprises Mr Van Harten (Chairman) and Ms Van Uchelen. The Committee met twice during the year. Its main activity was to start the process of looking for a new member for the Supervisory Board.

During the first half of 2019, Committee members conducted performance reviews with both the CEO and CFO.

Financial statements

The Supervisory Board reviewed and approved the annual report, financial statements, and notes for the 2018 financial year, as submitted by the Management Board. The Management Board prepared the financial statements for 2018 on that basis, and the Supervisory Board recommended their unqualified adoption by the General Meeting of Shareholders. The financial statements 2018 were adopted by the General Meeting of Shareholders in May 2018.

On the Supervisory Board's recommendation, again no dividend was paid to the shareholders for that financial year. The General Meeting of Shareholders subsequently granted discharge to the Management Board for the management conducted during the year and to the Supervisory Board for its supervision exercised during the year.

On behalf of PZEM N.V.'s Supervisory Board,
Gerard van Harten,
Chairman

From left to right: Gerard van Harten, Wendela van Uchelen, Marc van 't Noordende

Mr G.A.F. (Gerard) van Harten

Nationality: Dutch
First appointed: 25 September 2015
Current term: until 20 December 2023
Profession/main position: former CEO of Dow Benelux B.V.

Other board memberships at 31 December 2019:
- Advisory Board member, Stichting Biobased Delta;
- Board member, Roosevelt Institute of American Studies;
- Supervisory Board chairman, Green Chemistry Campus B.V.;
- Advisory Board chairman, University College Roosevelt;
- Advisory Board member, Stichting Wonen en Psychiatrie.

Ms W.J.N. (Wendela) van Uchelen

Nationality: Dutch
First appointed: 6 June 2018
Current term: until 5 June 2022
Profession/main position: Head of Legal Affairs, N.V. Nederlandse Spoorwegen, until 1 February 2019. Since 1 April 2019 General Counsel, Corporate Secretary and Head of ESG Operations, APG.

Mr M.M. (Marc) van ’t Noordende MBA

Nationality: Dutch
First appointed: 25 September 2015
Current term: until 25 September 2019 [3]
Profession/main position: Operating Partner with North Haven Infrastructure Partners, an investment fund managed by Morgan Stanley.

Other board memberships at 31 December 2019:
- Supervisory Board member and Audit Committee chairman, ICE Endex BV;
- Supervisory Board chairman, Berenschot Groep B.V.

[3] Mr Van ’t Noordende has indicated that he does not wish to extend his term. If all goes according to plan, a new Supervisory Board member will be appointed by the General Meeting of Shareholders scheduled to take place on 27 May 2020 so as to bring the numerical membership back into line with the required minimum of three.

1.7
Report of the Works Council

PZEM's newly formed Works Council began its activities on 1 November 2018. In 2019 the Work Council met sixteen times (regular meetings and brainstorming sessions). It also held meetings with the Management Board and HR Manager (standing consultations). A training day took place In the autumn.

PZEM N.V. operates a Works Council Support Scheme, which sets out how the company provides Works Council members with facilities so as to carry out their duties effectively. After extensive discussions, the scheme was adopted to the satisfaction of all parties. Since 1 September 2019 the Works Council has again been able to use the services of a formal secretary.

The Works Council is comprised of:

- Stephan de Beer (Chairman)
- Eric Poppe (Vice-Chairman)
- Carel van Veen (Secretary)
- David den Hollander
- Marjo de Jager
- Alwin van de Kop
- Artjan Lambert
- Aly Boxem-Hoogenberg (formal secretary).

The Works Council's executive committee comprises:

- Stephan de Beer (Chairman)
- Eric Poppe (Vice-Chairman)
- Carel van Veen (Secretary).

In addition to its standing meetings with the Management Board, the Works Council also in 2019 held a "Section 24 meeting" with Gerard van Harten representing the Supervisory Board.

This being the first meeting of the Works Council in its current form with Mr Van Harten, the main objective was to get to know each other and each other's expectations. The roles of the three Supervisory Board members was also explained. The Supervisory Board greatly appreciates the fact that employees as well as the Management Board are involved in defining the company's strategy.

The Works Council discussed a variety of issues. Key issues were:

- Housing;
- Strategy;
- Safety;
- Car fleet scheme.

The Works Council received two requests for its consent:

- Changes to the performance appraisal system;
- Changes to personnel profit-sharing for 2019.

The Works Council wishes to continue to maintain a constructive and long-term relationship with the Management Board in 2020 as well.

On behalf of the Works Council,
Carel van Veen,
Secretary

> The Works Council wishes to continue to maintain a constructive and long-term relationship with the Management Board in 2020 as well.

1.8
Risks and opportunities

PZEM wishes to seize market opportunities whilst at the same time minimising risks. To do so, the company has a risk management system in place, which we ensure is applied and adhered to across the company. The risk management system takes account of the specific features of the markets in which we operate.
Risk management will contribute to achieving our strategic objectives responsibly.

This section of the Annual Report looks at how risk management is structured within PZEM. We also discuss the main risks and uncertainties facing the company and how these are controlled.

PZEM Internal Control Framework

The Risk Management department has developed and put in place PZEM's Internal Control Framework (PICF) modelled on the COSO ERM framework. The PICF supports all departments at PZEM in meeting their risk management responsibilities and implementing the internal control system. The Management Board prepares a Management in Control Statement (MiCS) once every six months. The MiCSs are substantiated, amongst other things, by validating key controls (i.e. by establishing their effectiveness. for example through interviews with the managers involved). These key controls, in turn, are identified during annual Strategic Risk Assessments and several Thematic Risk Assessments. Divisional management discusses developments likely to impact the risk weightings with the Management Board at least twice a year.

Risk control is supported by a variety of policy documents, codes and guidelines covering areas such as behaviour, trading mandates, and compliance.

1.8.1 DUTIES AND RESPONSIBILITIES SET OUT IN THE PICF

Management Board and divisional management

The Management Board has ultimate responsibility for risk management at PZEM. However, primary responsibility lies with the divisions, whose staff and management are responsible for the proper performance of risk management and internal control operations.

Risk Management (including Internal Control and Compliance)

The Risk Management department advises and provides support to divisional management and staff with regard to risk identification and control. Risk Management is also responsible for internal fraud risk control. A separate compliance function ensures that PZEM is in compliance with applicable laws and regulations.

On the Management Board's instructions, Risk Management monitors compliance with the PICF so as to ensure that:

- PZEM is notified in a timely fashion as to when strategic, operational, and financial targets have been achieved;
- financial reporting is reliable;
- PZEM operates in accordance with applicable laws and regulations;
- sites and equipment are safe and secure;
- PZEM has a clear understanding of its obligations.

Independent audits

If the Management Board, Supervisory Board, Risk Management or a departmental head has any indication that there are problems with certain processes, or wishes or needs to have certain processes reviewed independently, then they may instruct a third party to conduct an independent audit. This will give divisional management additional assurance with regard to internal controls.

Independent auditors

When auditing the financial statements, the independent auditors investigate the design, existence, and, where appropriate, the effectiveness of the company's internal financial reporting controls. The audit findings and recommendations are set out in an annual Management Letter and reported to the Management Board, the Audit, Risk & Compliance Committee, and the Supervisory Board. The Management Letter, amongst other things, forms the basis for a further tightening of processes and/or controls.

Supervisory Board

PZEM's Management Board reports on, and accounts for, the design and operating effectiveness of the internal risk control system to the Audit, Risk & Compliance Committee and the Supervisory Board. External parties, such as the Dutch Financial Markets Authority (AFM) and Dutch Consumer and Markets Authority (ACM), monitor compliance with applicable laws and regulations.

1.8.2 RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

Risks and controls in 2019

Energy production is essential to society. PZEM's commitment to society is reflected in the company's strong reputation in Zeeland. Risks that may threaten the delivery of our services are identified as clearly as possible and mitigated where appropriate and economically feasible.

Controls are monitored using IT technology, amongst other things, and findings are reported periodically to the Management Board.

PZEM is involved in international gas and electricity trading. Prices on these markets fluctuate strongly. We use financial instruments to mitigate commodity, foreign exchange, interest rate, liquidity and credit risks, subject to the conditions laid down in the Financial Risk Manual and Treasury Charter.

Under the auspices of the Management Board, the Risk Management Committee has put in place general procedures and limits, and is responsible for ensuring that our energy trading and sales activities remain within the defined risk margins.

How risks evolved in 2019

Electricity and gas prices remained too subdued for us to make a profit on our production assets.
Although PZEM has a Standard& Poor's rating of BB, following the sale of our retail and grid operations, we have more than sufficient cash available.

We continued to monitor cyber risk closely during the year. Global trends in cybercrime are changing rapidly and require us to stay alert and focused.

Risks and controls in 2020

The Strategic Risk Assessments have not uncovered any new strategic risks compared to 2018.

Risk appetite

PZEM assesses its risk exposures, actions taken to mitigate risks, and any residual risks against its overall risk appetite by carrying out a variety of risk assessments. During those assessments, we determine the probability and impact of each individual risk. If either or both are elevated, we will develop and implement additional mitigating action. If residual risks continue to remain elevated, we may take follow-on action. This may include:

- accepting the elevated residual risk, but stepping up our monitoring efforts and taking additional action to limit any loss or harm if an incident occurs;
- sharing the elevated residual risk with a third party, for example through a joint venture or by taking out insurance;
- assessing whether the activity in question can be discontinued if it poses a threat to the company's continuity.

Management in Control Statements 2019

The Management Board twice signed a Management in Control Statement (MiCS) in 2019. EPZ, which is a PZEM subsidiary, combined these into an annual statement. The statements confirmed that the Management Board was generally 'in control' during the year.

Although no exceptions were noted, the management team did draw attention to the impact that implementation of the newly defined commercial strategy might have.
The two MiCSs issued for 2019 formed the basis for the Management Board's In Control Statement as included in this Annual Report.

1.8.3 SUMMARY OF MAIN RISKS

Below is a summary of the main strategic risks facing PZEM. The summary also shows how we mitigate the probability and/or impact of those risks.

Major risks facing PZEM are:

1. Poor market conditions (prices)

Poor market conditions (low electricity prices, pressure on spark spreads, and lower flexi value) may affect the company's financial performance. potentially causing it to have insufficient financial means and threatening its continuity in the long term.

Controls

- Reduce dependence on market conditions by exploring related business activities that have an effective risk/return ratio.

2. Unexpected outages at power plants

Unplanned outages at power plants, notably the nuclear power plant (EPZ), may cause PZEM to incur additional costs and adversely affect the company's profitability.

Controls

- Strict management of investment and maintenance projects so as to increase availability through:
  - Effective communication between EPZ and PZEM management;
  - Collaboration with co-shareholder RWE;
  - Ensuring the availability of the power plants to as high a degree as possible by making this a KPI and raising awareness at the facilities in question

3. Unpredictable behaviour by government

If the nuclear power plant operated by EPZ has to shut down temporarily or otherwise following a political decision by central government or on the instructions of the regulatory authority, this will negatively impact PZEM's financial performance and put jobs at EPZ at risk.

Controls

- Ensure that PZEM and its subsidiaries are in compliance with all regulations

4. Outcome of court cases

Decisions handed down in court cases may lead to cash outflows or contracts being terminated.

Controls

- Seek specific external advice;
- Keep files properly updated;
- Meet contractual obligations (e.g. the provision of collateral).

5. Management of cash assets and investments

In light of the large amount of cash and cash equivalents available to the company, there is a risk of funds being misappropriated through fraud, imprudent investment policies, possible bankruptcies in the financial services sector, or unintentional conduct.

Controls

- Treasury now reports directly to the CEO;
- The Treasury Charter sets out the basic conditions for cash investments (e.g. type, duration, and diversification)
- Specific procedures for checking cash in bank accounts.

6. Filling critical roles

Because of the company's smaller size and uncertain future, there is a risk that employees with specific expertise that is critical to our operations may leave the company, causing skills gaps within the organisation, loss of know-how, and processes being run inefficiently.

Controls

- Offer career perspectives and prioritise continuity and employment aspects within divisions;
- Follow up on employee motivation survey findings;
- Transparent communications with employees;
- Broader allocation of tasks.

7. Legal and regulatory changes

As a result of legal and regulatory changes (including EMIR, REMIT, MiFID and GDPR) and Brexit, there is a risk that changes may not be implemented in our operations and systems in a timely fashion, which will cause the company to be non-compliant.

Controls

- Put in place a flexible organisation and flexible systems that can respond quickly to legal and regulatory changes;
- Test new contracts against existing and upcoming laws and regulations;
- Draft in external expertise, if necessary.

8. IT and Information security

Due to the growing use of cloud applications and the possibility of cyber attacks, there is a risk that systems may not be available, which in turn will threaten business continuity.

Controls

- Raise awareness among management and end-users, for example by means of phishing tests to check staff alertness. A feature has been added to report phishing messages so as to improve security.
- Keep up to date on cyber security trends.
- Mobile phones and other mobile devices were fitted with improved protection to ensure a high level of protection.
- Staff awareness campaign in the shape of a multi-year e-learning programme

9. Safety performance

Careless behaviour and/or inattentiveness may cause accidents.

Controls

- Continue to raise awareness of potential risks in the workplace;
- Create a culture in which staff feel free to call each other to account over their behaviour;
- Incident monitoring through TRIR and LTIR reports.

Summarising table:

	Risk	Control	Risk area	Current risk after mitigating action
1	Poor market conditions	Develop commercial strategy	Strategic	High
2	Unforeseen unavailability of power plants	Strict management of investment and maintenance projects	Operational	Medium
3	Shutdown of nuclear power plant by central government	Comply with all regulations	Compliance	Low
4	Outcome of court cases	Combine internal knowledge and expertise with external advice	Financial	Medium
5	Management of cash assets and investments	Continue to pursue conservative Treasury policy	Financial	Medium
6	Filling critical roles	Offer perspectives to staff and broaden knowledge base	Operational	Low
7	Legal and regulatory changes	Flexible organisation coupled with external advice	Compliance	Low
8	IT and Information security	Specific ongoing actions in collaboration with external experts	Operational	Medium
9	Safety performance	Continue to strengthen safety culture	Operational	Low

1.8.4 RISK FEATURES OF THE MARKETS IN WHICH PZEM OPERATES

Commodity price risk

Market risks arise from price movements in the markets where PZEM buys and sells (commodities, currencies, transmission capacity, imports/exports capacity, etc.). It is company policy to mitigate the impact of price movements in the short term and to track prevailing market prices in the long term. For systematic risk control purposes, asset allocations and positions are determined on the basis of expected price developments. These positions are monitored on a daily basis. Trading risks are mitigated by strictly enforcing a system of limits, the most important of which is calculated using the Value-at-Risk method.

Potential adverse trends in commodity prices, notably falling electricity prices, in the coming years pose a risk to PZEM's future continuity. A price fall may have an immediate dampening impact on the profits of our production units. Sales contracts where there is no correlation between electricity market prices and fuel prices would be hit hardest, such as nuclear power. Revenues would fall whereas costs would remain virtually stable. Each euro off the selling price would immediately be reflected in profit or loss, unless the output is hedged. Different market studies, incidentally, suggest a further rise in commodity prices.

Value-at-Risk

Determining Value-at-Risk (VaR) involves using various assumptions regarding possible changes in market conditions. VaR identifies the maximum portfolio losses likely to be incurred as a result of price changes over a three-day period with a confidence level of 95% (i.e. in 5% of cases the portfolio losses may exceed the VaR limit). VaR is calculated using Monte Carlo simulations based on historical volatilities and correlations. Because portfolios include opposing positions and there is an underlying correlation, the VaR of the total portfolio is smaller than the sum total of individual portfolio VaRs.

Cash flow hedges

PZEM uses financial instruments to minimise fluctuations in expected cash flows. The company uses derivatives, including forward contracts and swaps, to control the effects of future changes in market prices. These hedging instruments are derivatives of commodities traded by PZEM and they are entered into to mitigate cash flow, price, and currency risks. Hedge accounting is applied to cushion the total change in value of these derivatives in the income statement.

Currency risk

Currency risk is the risk that the value of assets changes due to movements in foreign exchange rates. PZEM's risk policy is to hedge currency risks associated with positions denominated in a foreign currency. To hedge this risk, the company uses

financial instruments (forward contracts) to minimise fluctuations in expected cash flows.
Currency positions arising from commodity and other contracts are reported directly to the Treasury department and hedged.

Currency risk limits are set periodically in consultation with the Risk Management Committee and monitored by the Treasury department.

Interest rate risk

PZEM's interest rate risk policy is to mitigate the effects of interest rate fluctuations. To hedge this risk, the company uses derivatives, such as interest rate swaps.

Liquidity risk

Liquidity risk is the risk that PZEM has insufficient funds available to meet its short-term liabilities. In light of the revenues generated by, amongst other things, the sale of some of our business divisions, there is currently no such risk. However, liquidity risk may become an issue in the longer term if, contrary to expectations, market prices fail to improve.

PZEM's capital management policy focuses on centralising its cash management and borrowing and repayment operations at the level of the holding company PZEM N.V. as effectively as possible. On the basis of its business plan, the company prepares an annual financing plan to give direction to the activities undertaken by the Treasury department. The financing plan also sets out how surplus cash is to be invested (in accordance with the appropriate policy), taking into account the buffers needed for our operating activities. Cash flows are monitored on an ongoing basis.

1.9
Statement by the Management Board

The Management Board is responsible for the design and operating effectiveness of the company's risk management and internal control system: the PZEM Internal Control Framework (PICF). We reviewed its design and operation during 2019, based in part on the Management in Control Statements drawn up within the organisation and reviewed by Risk Management.

Risk-taking is inextricably linked to the company's operations and the implementation of its strategy. The PICF framework allows PZEM to take risks by identifying, controlling, and actively monitoring those risks and taking appropriate action where necessary. The Management Board seeks to minimise the probability and impact of any errors, incorrect decisions, or unforeseen events.
We are aware that the PICF does not provide absolute assurance that business targets will be achieved and all misstatements, loss, fraud or breaches of the law eliminated.

PZEM adheres to the Dutch Corporate Governance Code, where possible. The DCCC recommends a periodic rotation of auditors. As from the 2019 financial year PZEM changed auditors, with KMPG replacing Deloitte, and so all processes and systems were audited with a fresh set of eyes.

As part of their audit of the financial statements for 2019, the independent auditors tested the design, existence and, where appropriate , the operating effectiveness of the company's internal financial reporting controls. They reported their findings to the Management Board, the Audit, Risk & Compliance Committee, and the Supervisory Board.

In Control Statement

On the basis of the foregoing, the Management Board believes that the risk management and internal control system operated effectively during 2019 and provides reasonable assurance that the financial statements for the year under review contain no material misstatements.

The Management Board will ensure compliance with the PICF in 2020.

Management statement

To our knowledge:

- the financial statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of PZEM N.V.;
- the additional information, as contained in this Annual Report, gives a true and fair view of the state of affairs at 31 December 2019 and of PZEM N.V.'s operations during the 2019 financial year;
- the Risks and Opportunities section, as contained in this Annual Report, provides a description of potential material risks facing PZEM N.V.

Middelburg, The Netherlands, 15 April 2020

The Management Board of PZEM N.V.

Frank Verhagen
Niels Unger

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CONSOLIDATED BALANCE SHEET

(EUR 1,000)	Ref. no.	31-12-2019	31-12-2018
NON-CURRENT ASSETS			
Intangible assets	**1**	**1,049**	**1,248**
Property, plant and equipment	**2**	**503,912**	**472,273**
Joint ventures, associates and other investments	3	397,984	393,422
Loans to joint ventures, associates, etc.	4	2,855	4,879
Deferred tax assets	4	7,274	6,189
Other financial assets	4	555,934	461,503
Derivatives	5	5,821	22,432
Financial assets		**969,868**	**888,425**
Total non-current assets		**1,474,829**	**1,361,946**
Current assets			
Inventories	**6**	**83,490**	**83,811**
Trade receivables	7	20,683	24,154
Current tax assets	7	12,531	16,294
Other receivables	7	565,580	655,054
Derivatives	5	44,688	40,070
Total receivables		**643,482**	**735,572**
Total current assets		**726,972**	**819,383**
Cash	**8**	**84,859**	**54,891**
TOTAL ASSETS		**2,286,660**	**2,236,220**
Shareholders' equity		1,326,809	1,334,373
Profit for the year		19,812	(53,640)
Group equity		**1,346,621**	**1,280,733**
Provisions	9	515,062	459,957
Long-term debt	10	121,084	134,427
Deferred tax liabilities	11	15,820	8,978
Lease liabilities	11	6,677	-
Other non-current liabilities	11	29,445	28,011
Derivatives	5	25,745	91,420
Non-current liabilities		**713,833**	**722,793**
Trade payables	12	48,116	52,820
Current tax liabilities	12	12,084	9,870
Current portion of provisions	12	50,778	44,168
Other liabilities	12	25,016	38,902
Derivatives	5	90,213	86,934
Current liabilities		**226,206**	**232,694**
Total liabilities		**940,039**	**955,487**
TOTAL EQUITY AND LIABILITIES		**2,286,660**	**2,236,220**

CONSOLIDATED INCOME STATEMENT

(EUR 1,000)	Ref. no.	2019	2018
Revenue	13	574,244	601,766
Cost of sales	14	(460,241)	(514,733)
Gross operating margin		**114,003**	**87,033**
Other gains and losses (third parties)	15	13,096	6,007
Fair value gains and losses on the trading portfolio	16	3,767	(5,319)
Gross margin		**130,866**	**87,721**
Third-party services	17	(48,831)	(50,944)
Staff costs	18	(39,759)	(41,137)
Depreciation, amortisation and impairment	19	(48,253)	(44,903)
Other operating expenses	20	(5,997)	(244)
Total net operating expenses		**(142,839)**	**(137,228)**
Earnings from operations		**(11,973)**	**(49,507)**
Share in results of joint ventures and associates	21	27,320	21,439
Operating result		**15,347**	**(28,068)**
Net finance income (expense)	22	12,657	(23,406)
Profit before tax		**28,004**	**(51,474)**
Corporate income tax	23	(8,191)	(2,166)
Profit after tax from continuing operations		**19,812**	**(53,640)**
Profit after tax from discontinued operations		-	-
PROFIT FOR THE YEAR		**19,812**	**(53,640)**
Attributable to:			
SHAREHOLDERS OF DELTA N.V.		**19,812**	**(53,640)**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(EUR 1,000)	2019	2018
REALISED PROFIT:		
Profit/(loss) after taks for the year	**19,812**	**(53,640)**
UNREALISED GAINS AND LOSSES		
Unrealised gains and losses that will not be reclassified to profit or loss	-	-
Unrealised gains and losses that may be reclassified to profit or loss		
1. Effective portion of gains and losses on cash flow hedges		
Energy derivatives (gross)	2,610	(64,066)
Reclassification adjustments	40,625	8,743
Unrealised gains and losses on energy derivatives cash flow hedges	**43,236**	**(55,323)**
Interest rate derivatives (gross)	(2,483)	(2,145)
Reclassification adjustments	5,973	6,533
Unrealised gains and losses on interest derivatives cash flow hedges	**3,490**	**4,388**
(Deferred) corporate income taks	(646)	(1,809)
Total effective portion of gains and losses on cash flow hedges	46,080	(52,744)
2. Share of other comprehensive income in joint ventures and associates		
Share of other comprehensive income in joint ventures and associates	70	288
Reclassification adjustments		-
Unrealised gains and losses on joint ventures and associates	**70**	**288**
(Deferred) corporate income taks	-	-
Total share of other comprehensive income in joint ventures and associates	**70**	**288**
3. Other movements		
Reclassification adjustments	-	-
(Deferred) corporate income taks	-	-
Total other movements	-	-
Total other comprehensive income	46,150	(52,456)
TOTAL COMPREHENSIVE INCOME	**65,962**	**(106,096)**
Total comprehensive income attributable to:		
SHAREHOLDERS OF PZEM N.V.	**65,962**	**(106,096)**

For an explanation of movements in energy and interest-rate derivatives, please refer to Section 5 of the notes to the consolidated balance sheet.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR 1,000)	Total	Paid-up capital	Statutory reserve	Hedge reserve	Other non-distributable reserves	Other reserves	Unappropriated profit
ADJUSTED CARRYING AMOUNT AS AT 1 JANUARY 2018	**1,386,829**	**6,937**	**143,098**	**(57,211)**	**323**	**981,052**	**312,630**
Profit appropriation for 2017	-	-	-	-	-	312,630	(312,630)
Payment of dividend	-	-	-	-	-	-	-
Other changes	0	-	(4,538)	-	(91)	4,630	-
Total comprehensive income	(106,096)	-	288	(52,744)	-	-	(53,640)
CARRYING AMOUNT AS AT 31 DECEMBER 2018	**1,280,733**	**6,937**	**138,848**	**(109,955)**	**232**	**1,298,312**	**(53,640)**
Profit appropriation for 2018	-	-	-	-	-	(53,640)	53,640
Payment of dividend	-	-	-	-	-	-	-
Other changes	(74)	-	21,777	-	(90)	(21,762)	-
Total comprehensive income	65,962	-	70	46,080	-	-	19,812
CARRYING AMOUNT AS AT 31 DECEMBER 2019	**1,346,621**	**6,937**	**160,694**	**(63,875)**	**143**	**1,222,910**	**19,812**

The statutory reserve comprises undistributed profits of associates and is therefore not freely distributable. This also applies to the hedge reserve, which should be seen in relation to unrealised income from fair value changes in derivatives used for hedging purposes.

Fair value changes in derivatives after tax are largely shown within the hedge reserve. For further details, see Section 5 'Basis of recognition and measurement of financial instruments' and Section 5.1.3. of the notes to the consolidated balance sheet. Other non-distributable reserves mainly comprise a revaluation reserve for derivatives.

Other reserves comprise retained earnings.

CONSOLIDATED CASH-FLOW STATEMENT
(PREPARED BASED ON THE INDIRECT METHOD)

(EUR 1,000)	2019	2018
From operating activities		
Earnings from operations	(11,973)	(49,507)
Fair value gains and losses on the trading portfolio	(3,767)	5,319
Adjustment for deferred income	88	67
Depreciation, amortisation and impairment	48,301	44,903
Provisions	(5,324)	(54,231)
Inventories	323	(2,141)
Trade receivables	3,471	(3,204)
Trade payables	(4,704)	454
Other receivables/payables	43,904	(80,785)
From operating activities	**70,319**	**(139,125)**
Cash flows arising from dividends received from joint ventures and associates	18,068	34,489
Cash flows from finance income and expense	(9,562)	(11,080)
Cash flows from taxes on profits	(1,243)	2,274
Cash flow from operating activities	**77,583**	**(113,442)**
Cash flow from investing activities		
Acquisition and disposal of intangible assets and property, plant and equipment (after deduction of cash acquired)	(11,083)	(22,219)
Acquisition of investments in subsidiaries and associates and interests in joint ventures (after deduction of cash disposed)	(527)	(1,931)
Disposal of investments in subsidiaries and associates and interests in joint ventures	5,284	-
Other financial assets	(3,610)	(30,676)
Cash flow from investing activities	**(9,936)**	**(54,826)**
FREE CASH FLOW BEFORE DIVIDEND	**67,647**	**(168,268)**
From financing activities		
Paying off borrowings	(12,866)	(11,890)
Change in deposits	(22,571)	85,000
Lease obligations	(2,242)	-
Cash flow from financing activities	**(37,679)**	**73,110**
EVOLVEMENT CASH FLOW DURING THE YEAR	**29,968**	**(95,158)**
Cash as at 1 January	**54,891**	**150,049**
Evolvement cash position during the year	29,968	(95,158)
Cash as at 31 December	**84,859**	**54,891**

Accounting policies

ACCOUNTING POLICIES

PZEM N.V. ("PZEM") is a public limited liability company organised and existing under Dutch law. Throughout 2019, PZEM N.V. was the parent company of a number of subsidiaries involved in:

- energy generation, transmission, trading, and supply;
- developing and producing renewable energy, including wind power and water services.

Partly in view of those activities, PZEM owns interests in a number of joint arrangements, associates, and other investments.

PZEM N.V.'s shareholders are the Zeeland provincial authorities, the municipalities in Zeeland, several municipalities in the provinces of Zuid-Holland and Noord-Brabant, and the Zuid-Holland and Noord-Brabant provincial authorities.

PZEM N.V.'s registered office is situated at Poelendaelesingel 10, Middelburg, The Netherlands. The company is registered with the Chamber of Commerce under number 22031457.

In 2019, the following changes occurred within the group:

- Triqua B.V. was liquidated on 15 March 2019;
- On 7 November 2018, Enzee B.V. (a wholly owned subsidiary of EPZ N.V.) was incorporated. The subsidiary was first consolidated in the 2019 financial statements.

PZEM N.V.'s functional currency is the euro. The consolidated financial statements have been prepared according to the going-concern principle.

PZEM N.V. used the option available under Title 9, Book 2, of the Dutch Civil Code to prepare the company financial statements in accordance with the International Financial Reporting Standards applied to its consolidated financial statements, with the exception of equity-accounted group companies and investments.

The company income statement is presented in abridged form in accordance with Section 402, Title 9, Book 2, of the Dutch Civil Code.

The 2019 financial statements were signed and released for publication by the Supervisory Board on 15 April 2020 The Supervisory Board will present the financial statements for adoption and approval by the General Meeting of Shareholders on 27 May 2020.

1. COMPLIANCE WITH IFRS AND SUMMARY OF CHANGES IN IFRS RECOGNITION AND MEASUREMENT RULES

PZEM's consolidated financial statements have been prepared in compliance with the International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB) and the interpretations issued by the IFRS Interpretations Committee (IFRS IC) of the IASB, as endorsed by the European Commission (EC) up to and including 31 December 2019.

Adopted new standards and/or improvements
New standards and/or supplements/improvements in relation to the previous financial year were issued by the IASB and endorsed by the European Commission for adoption within the European Union. Changes not yet endorsed by the European Commission are omitted from the summary below.

1.1. PZEM ADOPTED THE FOLLOWING STANDARDS AND IMPROVEMENTS IN ITS 2019 FINANCIAL STATEMENTS

IFRS 16, Leasing.

- This standard aims to improve accounting for leases.
- Approval of IFRS 16 will lead to changes being made to the following standards and interpretations IFRS 1 First-time Adoption of IFRS, IFRS 3 Business Combinations, IFRS 4 Insurance Contracts, IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments, IFRS 13 Fair Value Measurement, IFRS 15 Revenue from Contracts with Customers, IAS 1 Presentation of Financial Statements, IAS 2 Inventories, IAS 7 Statement of Cash Flows, IAS 12 Income Taxes, IAS 16 Property, Plant and Equipment, IAS 21 The Effects of Changes in Foreign Exchange Rates, IAS 23 Borrowing Costs, IAS 32 Financial Instruments: Presentation, IAS 37 Provisions, Contingent Liabilities and Contingent Assets, IAS 39 Financial Instruments: Recognition and Measurement, IAS 40 Investment Property, IAS 41 Agriculture, IFRIC 1 Changes in Existing Decommissioning, Restoration and Similar Liabilities, IFRIC 12 Service Concession Arrangements, SIC 29 Service Concession Arrangements: Disclosures, and SIC 32 Intangible Assets - Web Site Costs.
- PZEM performed an analysis of the potential impact of this new standard on its consolidated financial statements. The analysis showed that assets (leased assets/tangible fixed assets)

and lease liabilities measured at present value (and shown within interest-bearing debt) will increase by EUR 4.0 million. IFRS 16 will also lead to capitalised 'leased assets' being depreciated over the remaining term of the lease and recognised as an expense under 'Depreciation and impairments of tangible fixed assets'. Interest on lease liabilities will be recognised in the income statement under 'Finance expense'. As shown in the analysis performed by PZEM, the impact of this new standard on its financial statements will be limited .

- As a result, the 2018 comparatives were not restated on adoption of IFRS 16.

1.2. PZEM DID NOT ADOPT THE FOLLOWING RELEVANT STANDARDS AND IMPROVEMENTS IN ITS 2019 FINANCIAL STATEMENTS. ADOPTION IS MANDATORY FOR ANNUAL PERIODS BEGINNING ON OR AFTER 1 JANUARY 2020.

1. IFRS 3 'Business Combinations':
   - clarifies the accounting when a party obtains control of a business in which it already owned an interest in the form of a joint operation. The transaction will be treated as a business combination 'achieved in stages', with the interest previously held in the joint operation being remeasured at fair value.

2. IFRS 11 'Joint Arrangements':
   - clarifies the accounting when a party acquires joint control of a business in which it already held an interest in the form of a joint operation. In that situation, the interest previously held will not be remeasured at fair value.

3. IAS 12 'Income Taxes':
   - clarifies the existing rules on the recognition of tax on dividend payments. Those rules now apply to all income tax consequences of dividends, rather than just specific situations, in which different tax rates apply to distributed and non-distributed profits.

4. IAS 23 'Borrowing Costs':
   - clarifies that when a specific loan is still outstanding after the qualifying asset has become ready for its intended use or sale, the loan becomes part of the entity's general borrowings. On that basis, a rate will then be calculated to capitalise the borrowing costs as part of the cost of acquisition of that asset (such as a tangible fixed asset).

5. IAS 28 'Investments in Associates and Joint Ventures':
   - This standard has been adjusted to clarify that an entity must apply IFRS 9 Financial Instruments, including the impairment requirements, to long-term interests other than shares acquired. This applies only if the long-term interests constitute part of the net investment in the associate or joint venture. The share interest that constitutes part of the net investment is accounted for using the equity method. Those other long-term interests are subject to the measurement requirements in IFRS 9 rather than IAS 28, as was previously the case.

2. GENERAL ACCOUNTING POLICIES

2.1 ESTIMATES AND ASSUMPTIONS

The preparation of financial statements entails the use of estimates and assumptions based on past experience and on factors considered acceptable in management's judgement. These estimates primarily concern the proceeds from the supply and transmission of electricity and gas to end-users based on staggered meter readings, deferred tax assets, and provisions. These estimates and assumptions will affect the information shown in the financial statements, and the actual figures may be different. The effects of changes in estimates are recognised prospectively in the income statement. Changes in estimates may also lead to changes in assets and liabilities or equity components. Such changes in estimates are recognised in the period in which they occur.
Any specific disclosures about estimates and assumptions are provided in the notes to the balance sheet and income statement. Measurement of the provision for onerous contracts, in particular, may be affected by future estimates because commodity markets are volatile. Although this provision is based as much as possible on existing contracts and positions, estimated movements in commodity prices (electricity, gas, CO_2) are a key influencing factor. Expected future price paths are based on recent forecasts issued by a reputable independent firm as at the balance-sheet date. These forecasts are in turn based on in-depth market and regulatory analyses conducted by the firm. Still, these price sets are also projections.

2.2 IMPAIRMENT OF ASSETS

Tests are conducted annually to check for indications that assets may be impaired. If that is the case, an estimate is made of the asset's recoverable amount, which is the higher of its fair value less costs to sell and its value in use. If the fair value less costs to sell leads to unavoidable costs, a liability is recognised. Value in use is measured as the present value of the estimated future cash flows, based on the business plans drawn up internally and approved by the Management Board, using a pre-tax discount rate that reflects current market interest rates. Specific risks relating to the asset or the cash-generating unit are incorporated into the estimated future cash flows. Annual impairment tests are conducted for recognised goodwill.

An impairment loss is recognised if the carrying amount of an asset or the cash-generating unit to which the asset belongs exceeds its recoverable amount.

The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then to reduce the carrying amounts of the other assets of the unit (or group of units) on a pro rata basis. The carrying amount of an asset should not be reduced to below its recoverable amount.

An impairment loss is reversed if it there has been a change in the basis on which the recoverable amount was previously determined. An impairment loss is reversed only to the extent that the carrying amount of the asset due to reversal does not exceed its carrying amount less depreciation or amortisation if no impairment loss had been recognised. An impairment loss or reversal of an impairment loss is recognised in profit or loss. Impairment losses on goodwill are not reversed.

2.3 MEASUREMENT OF FINANCIAL INSTRUMENTS

Unless stated otherwise in the notes to the individual items in the financial statements, management believes that the carrying amounts of financial instruments are reasonable approximations of the fair value of those instruments.

2.4 GOVERNMENT SUBSIDIES

Government subsidies are recognised as soon as it is reasonably certain that the conditions for obtaining the subsidy have been or will be met and the subsidy has been or will be received. When investment projects are capitalised, subsidies received and contributions to the construction costs are deducted from the acquisition cost of the assets.
Operating subsidies are shown within revenue. Subsidies in the form of tax breaks are factored into the calculation of the taxable amount

2.5 FOREIGN CURRENCY

Assets and liabilities denominated in a foreign currency are translated into euros at the exchange rates prevailing at the end of the reporting period. Differences arising from movements in exchange rates are recognised in profit or loss, unless relating to the net investment in foreign entities, in which case they are recognised in equity as part of other comprehensive income.

Income and expenses denominated in a foreign currency are translated into euros at the exchange rates prevailing at the time of the transaction.

2.6 TAXATION

2.6.1 INCOME TAXES

Income taxes comprise current taxes and movements in deferred taxes. These amounts are taken to the income statement or recognised in equity as part of other comprehensive income.

Current taxes comprise amounts that are probably due and capable of being offset against the taxable profit for the year. They are calculated on the basis of the prevailing tax laws and rates.

2.6.2 DEFERRED TAXES

Deferred taxes are recognised for differences between the carrying amount and tax base of assets and liabilities.

Deferred taxes are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on the prevailing tax laws and rates. Deferred taxes are stated at face value. Deferred tax assets are recognised only if and to the extent that it is probable that sufficient taxable profits and/or other temporary differences will be available against which they can be utilised.

A deferred tax asset is recognised for unused tax losses and unused tax credits if and to the extent that it is probable that taxable profits will be available against which such unused losses or credits can be utilised.

3. BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial information of PZEM N.V. and its group companies. Group companies are legal entities and companies over which control is exercised in terms of their governance and operational and financial policies. IFRS 10 Consolidated Financial Statements provides that an investor controls an investee if the investor is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power over the investee to affect the amount of the investor's returns. Existing and potential voting rights that were exercisable or convertible as at the balance-sheet date are considered when determining whether PZEM N.V. controls an entity. Other agreements that allow PZEM N.V. to determine operating and financial policy are also taken into account.

Group companies are included in the consolidation from the date when control is obtained.
Consolidation is discontinued from the date when control over the group company ceases.
Group companies are fully consolidated, with 100% of their equity and profit or loss being included in the consolidation. If the share interest in a group company is less than 100%, the non-controlling interest is shown separately in the balance sheet and income statement.

Joint arrangements are recognised in proportion to PZEM's (group company's) interest in the arrangement if the arrangement involves a joint operation. They are included in the consolidation from the date when the arrangement is entered into. Consolidation discontinues from the date when the arrangement ceases.
Joint arrangements that take the form of 'joint operations' are consolidated according to the partial method.

The investment is recognised in the consolidated financial statements as follows:

- Assets to which the investor has direct rights are recognised fully in the financial statements,
- Liabilities for which the investor is directly responsible are recognised fully in the financial statements.
- Revenue from the sale of the investor's share of the output of the joint operation by the joint operation itself is recognised fully in the financial statements (the joint operation itself being responsible for the sale of the output).
- Revenue from the sale of the investor's share of the output of the joint operation by the investor is recognised fully in the financial statements.
- Expenses allocated directly to the investor are fully recognised in the financial statements;
- Assets, liabilities, revenue and expenses that are not directly attributable to the investors are allocated to the investors indirectly in proportion to their interest in the joint operation.

Joint arrangements that take the form of 'joint ventures' are accounted for according to the equity method.

Associates are recognised using the equity method.

Purchase accounting

The acquisition of a group company is accounted for using the purchase accounting method. The accounting policies adopted by group companies are adjusted, where necessary, to ensure consistency with the policies applied by PZEM.

Scope of consolidation

These financial statements include a separate overview of subsidiaries, associates, and joint ventures, specifying the relevant share interests.

4. BASIS OF RECOGNITION AND MEASUREMENT OF ASSETS AND LIABILITIES

The financial statements have been prepared under the historical cost convention, with the exception of derivatives (financial instruments), which are carried at fair value, and the differences referred to below. All transactions in financial instruments are recognised on the transaction date.

4.1 INTANGIBLE FIXED ASSETS

Intangible fixed assets comprise goodwill paid, software, and acquired transmission rights.

Software

Capitalised software is carried at historical cost less amortisation. Amortisation is on a straight-line basis over a period of 5 years. The useful life is assessed annually, with any adjustments being accounted for prospectively.

Transmission rights

Transmission rights are measured at cost and amortised on a straight-line basis over a period of 20 years. The useful life is assessed annually, with any adjustments being accounted for prospectively.

Customer contracts

Customer contracts are measured at cost and amortised over their expected useful lives.

4.2 PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment are stated at cost less accumulated depreciation on a straight-line basis over their estimated useful lives, as determined according to technical and economic criteria, taking into account the estimated residual values less accumulated impairment losses. Land is not depreciated. In accordance with IFRIC 18, third-party contributions to the construction costs of an item of property, plant or equipment are no longer deducted from the carrying amount of the asset; instead, they are recognised within deferred revenue (liability).

External financing expenses for assets (construction period interest) are included in the cost if they can be allocated directly to the asset.

If an asset consists of various components with different depreciation periods and residual values, the components are recognised separately. Investments to replace components are capitalised, with the replaced component being written down simultaneously. Estimated useful lives and estimated residual values are assessed annually when the business plan is prepared. If an impairment test shows an impairment loss, the carrying amount is adjusted accordingly.

At 31 December 2017, the fair value of the increase in our share interest in EPZ from 50% to 70% as capitalised in 2011 was fully impaired.

Major periodic maintenance of property, plant and equipment is capitalised and depreciated over the period in between the maintenance operations according to the component approach.

Decommissioning provisions are capitalised as part of property, plant and equipment and depreciated over the power plant's expected useful life.

Property, plant and equipment under construction is stated at costs incurred as at the balance-sheet date, including the costs of materials and services, direct staff costs, an appropriate share of directly attributable overhead costs, and the financing costs allocated directly to the asset.

4.3 NON-CURRENT FINANCIAL ASSETS

General

A business combination involves bringing together separate entities or businesses into one reporting entity. Business combinations are accounted for using the acquisition method. Steps in applying the acquisition method are:

1. Identification of the acquirer;
2. Measurement of the cost of the business combination;
3. Allocation of the cost of the business combination as at the acquisition date.

The cost of a business combination is the aggregate of the acquisition-date fair values of the assets acquired, liabilities incurred or assumed and equity instruments issued by the acquirer. With the revision of IFRS 3 (effective since 2009), the costs directly attributable to the acquisition are no longer shown within the cost of the business combination, and instead are recognised directly in profit or loss. Goodwill is measured as the value by which the cost of the business combination exceeds the acquirer's interest in the net fair value of identifiable assets, liabilities, and contingent liabilities. Negative goodwill is recognised directly in profit or loss. Non-controlling interests are recognised in equity.

Joint ventures, associates, and other investments

- Joint ventures are joint arrangements whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. The parties are called joint venturers.
- A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (such as PZEM N.V. or any of its subsidiaries) have rights to the assets, and obligations for the liabilities, relating to the arrangement. These parties are called joint operators. In the case of a joint operation, PZEM N.V. recognises a proportion of the assets and liabilities, revenue and expenditure equivalent to its interest in the joint operation; its share in the joint operation's equity is therefore not recognised as a non-current financial asset.
- Associates are entities over which PZEM N.V. exercises significant influence, whether directly or indirectly, but which it does not control. Generally speaking, this is the case if PZEM N.V. can exercise between 20% and 50% of the voting rights.
- Other investments are non-associated investments in which PZEM N.V. has an interest of less than 20%.

The financial statements include an overview of the main joint arrangements and investments.

Valuation of joint ventures, associates, and other investments

Investments in joint ventures and associates are recognised in the consolidated financial statements using the equity method. Under the equity method, the investment is recognised initially at cost, i.e. the fair value of the underlying assets and liabilities, including goodwill. If the fair value exceeds the cost, the positive difference is added to the carrying amount of the investment. The share of profits or losses is recognised in the carrying amount each year and dividend distributions are deducted. If the (cumulative) losses of the joint venture and/or associate lead to a negative book value, then these losses are not recognised, unless PZEM N.V. has an obligation to clear the losses or has made payments to do so.

Movements in other investments are shown within other comprehensive income, unless they involve a permanent impairment, which is then recognised directly in profit or loss. If insufficient information is available, valuation is at cost.

Undistributed profits of joint ventures and associates and direct increases in equity at a joint venture or associate which cannot readily be distributed are added to the statutory reserve.

The accounting policies of joint ventures and investments are adjusted, where necessary, to ensure consistent application of the accounting policies throughout the PZEM group.

Loans to other investees

Loans to investees or third parties are initially measured at fair value and subsequently at amortised cost. Amortised cost is usually equivalent to the face value of the loans because they are short-term. Where necessary, a provision is recognised for bad debts and deducted from this value.

Term deposits and securities – held to maturity

If cash investments in the form of term deposits or securities are intended to be held to maturity, they are initially measured at fair value and subsequently at amortised cost. Receivables with a term to maturity of less than one year are shown within receivables.

Unlisted shares

If unlisted shares constitute part of the trading portfolio, they are measured at fair value, with any value changes recognised directly in profit or loss.

If unlisted shares constitute part of investments in equity instruments, they are measured at fair value, with any value changes recognised directly in profit or loss.

Both PZEM N.V. and N.V. EPZ hold units in an equity/bond fund of an investment institution. PZEM N.V. does so as part of its trading portfolio, whereas N.V. EPZ holds those units on a long-term basis with a view to the nuclear power plant's decommissioning.

4.4 INVENTORIES

Inventories are stated at the lower of cost, based on first-in first-out (FIFO), and net realisable value, less a provision for obsolescence. Impairment losses on inventories are recognised as an expense and disclosed separately.

4.5 RECEIVABLES

Trade receivables are initially stated at fair value and subsequently at amortised cost less impairment losses. Amortised cost is usually equivalent to the face value of the receivables because they are short-term in nature.
Carbon allowances held are intended for the company's own

use and shown as a netted amount (allowances held less allowances necessary for emissions in 2019). They are stated at historical cost on a FIFO basis.

4.6 DERIVATIVES

Information on derivatives accounting is provided in Section 5 Basis of recognition and measurement of financial instruments.

4.7 CASH AND CASH EQUIVALENTS

Cash includes not only cash but also cash equivalents that can be converted into cash with no material risk of impairment. Cash and cash equivalents are stated at nominal value.

4.8 CAPITAL AND SHARES

Changes in shareholders' equity are presented in the statement of changes in equity. The company's authorised capital amounts to EUR 9,080,000, divided into 20,000 shares with a par value of EUR 454. At 31 December 2019, EUR 6,937,120 worth of shares had been issued and paid up. Dividends are recognised as a liability in the period for which they are declared. No changes occurred during the year. None of the shares come with pre-emptive rights or restrictions.

4.9 PROVISIONS

Provisions are recognised for legally enforceable, present obligations relating to operations. Provisions are measured at the present value of expected expenditures less any expected own income. The present value is calculated using a pre-tax discount rate that reflects current market assessments of the time value of money. Expenditures expected to be incurred within one year of the balance-sheet date are shown within current liabilities.

4.10 NON-CURRENT LIABILITIES

Non-current liabilities are measured at amortised cost using the effective interest method. Repayment obligations for non-current liabilities due within one year are shown within current liabilities.

The non-current portion of deferred revenue is classified as a non-current liability. The portion to be released during the next reporting period is shown within current liabilities. The portion relating to the current reporting period is shown within revenue.

5. BASIS OF RECOGNITION AND MEASUREMENT OF FINANCIAL INSTRUMENTS

5.1 FINANCIAL INSTRUMENTS

PZEM uses financial instruments to manage and optimise normal market risks associated with the company's commodities, currency, and interest-rate exposures. PZEM applies IFRS 9 Financial Instruments. Under this standard, derivatives (derivative financial instruments) are measured at fair value and trading contracts are recognised in the income statement at fair value through profit or loss.

Definition
A derivative is a financial instrument or other contract that falls within the scope of IFRS 9. It has the following three features:

- its value changes as a result of movements in a particular interest rate, price of a financial instrument, commodity price, exchange rate, or index of prices, interest rates or other variables, provided that, in the case of non-financial variables, the variable is not specific to a contract party (also known as the 'underlying asset');
- no, or only a minor, net initial investment is required in relation to other types of contract that respond in similar ways to movements in market factors;
- settlement takes place in the future.

5.2 DERIVATIVES

PZEM is involved in gas, electricity, emissions, and currency trading contracts for the current calendar year and the next three years as a maximum. The company considers the markets for these products to be liquid over this time horizon. Reliable prices are available from brokers, markets, and data providers. The fair value of a commodity contract is calculated according to the DCF method using those prices; no in-house valuation models are used. The monthly, quarterly and annual prices published are adjusted only to reconcile them with the relative periods in the trade systems. PZEM uses derivatives, such as interest rate swaps, to hedge its interest rate risk exposure. These swaps allow a floating rate to be exchanged for a fixed rate. The fair value of interest-rate derivatives is calculated according to the DCF method, using a yield curve that is based on data from the European Central Bank (ECB).

In accordance with IFRS 13 Fair Value Measurement, the fair value of interest rate swaps comprises a credit value adjustment (CVA) and debit value adjustment (DVA) to reflect counterparty risk for all parties involved. Value changes in CVA/DVA are reported in the income statement.

Classification and netting
A derivative is classified as a current asset if its fair value represents a gain and as a non-current liability if its fair value represents a loss. Receivables and payables in respect of derivatives for different transactions with the same counterparty are netted if there is a contractual or legally enforceable right of set-off and PZEM also settles the relevant cash flows on a net basis.

Recognition of fair value gains and losses
Under IFRS 9, energy commodity contracts (electricity, gas, emission allowances, and related currency exposures) and interest rate swaps are classified as derivatives. Under IFRS 9 and IFRS 7 Financial Instruments: Disclosures, all derivatives are measured at fair value on initial recognition.

As a general rule, fair value changes in derivatives are recognised through profit or loss. The exceptions to this rule are:

1. Own use. PZEM applies accrual accounting for commodity contracts intended for its own use or production and for sales and purchasing contracts entered into for the purpose of delivering physical commodities to end users. This means that any changes in value are not shown in the income statement. These transactions are recognised as sales or purchase transactions at the prevailing prices at the time of settlement;
2. a. Derivatives used to hedge an own-use contract. Hedge accounting may be applied for these derivatives on certain conditions;
   b. Interest rate derivatives. Hedge accounting may be applied for these derivatives on certain conditions.

Hedge accounting
Hedge accounting allows the impact of fair value changes on profit or loss to be mitigated by taking into account the opposing effects on the profit or loss of fair value changes in the hedges and the hedged items. Fair value gains and losses on derivatives are recognised in equity (through the statement of comprehensive income) until the hedged position/ transaction is settled.

PZEM uses derivatives to hedge price and currency risks arising from energy commodity contracts.

Interest rate swaps are used to hedge the risk of cash-flow volatility due to movements in interest rates. PZEM uses cash-flow hedging, which involves entering into hedges to mitigate its exposure to variability of existing and future cash flows that could ultimately affect profit or loss. The hedges are allocated to a specific risk relating to a balance-sheet item or highly probable forecast transaction.

Criteria for applying hedge accounting
Hedge accounting is subject to strict rules in terms of documentation and effectiveness testing. Hedge accounting is permitted if a derivative meets the following criteria:

1. at the time of entering into the transaction, the derivative is formally classified as a hedge, and the hedging relationship, the objectives of the hedge, and the risk management strategy are documented;
2. in the case of a cash-flow hedge, the forecast transaction that is the subject of the hedge is highly probable and expected to expose the entity to variability in existing or future cash flows that could ultimately affect profit or loss;

3. the effectiveness of the hedge can be reliably measured;
4. the hedge is expected to be highly effective;
5. the hedge is assessed on an ongoing basis and determined to have been highly effective.

Hedge effectiveness testing and recognition of changes

PZEM formally tests whether derivatives used as hedging instruments have been highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged item, both at the inception of the hedge and during its life. PZEM tests and determines whether changes in fair value or cash flows attributable to the hedged item are offset by changes in fair value or cash flows attributable to the hedging instrument.
The effective portion of fair value changes is recognised in equity and shown within the hedge reserve (through the statement of comprehensive income).

The ineffective portion of a hedging relationship, in a fair value hedge, is the extent to which changes in the fair value of the derivative differ from the changes in the fair value of the hedged item or, in a cash flow hedge, the extent to which changes in the fair value of the derivative differ from the fair value change in the expected cash flow. Ineffective hedges, the ineffective portion of a hedge and gains and losses on components of derivatives that are disregarded when testing the effectiveness of a hedge are recognised directly in the income statement.

The cumulative amounts recognised in equity are taken to the income statement in the same period as the hedged transaction.

PZEM discontinues hedge accounting if the hedging relationship is no longer effective or no longer expected to remain effective.

6. ACCOUNTING POLICIES FOR THE INCOME STATEMENT

6.1 REVENUE

Revenue represents income arising directly from the supply of goods and services to third parties, net of any discounts and net of sales taxes such as VAT and energy tax.

Revenue is recognised when the material risks and rewards of ownership of the goods have been transferred to the buyer. Revenue from services is recognised in proportion to the services delivered as at the end of the reporting period.

Recognition of revenue from electricity sales is based on the assumption that power generated by the group's own production facilities (including joint arrangements) and third-party production facilities (including key wind power purchase agreements) is sold to third parties. Electricity supplied to end-users is procured entirely from third parties and therefore also shown within revenue.

For gas and electricity trading contracts that do not involve physical delivery, purchases and sales are netted if this was contractually agreed.

6.2 NET OPERATING EXPENSES

Net operating expenses are measured on the basis of products and services purchased and in accordance with the measurement and depreciation rules set out above. Expenses are allocated to the financial year in which they are incurred. Gains are recognised in the year in which they are realised; losses are recognised in the year in which they are foreseeable.

6.3 NET FINANCE INCOME OR EXPENSE

Finance income or expense is allocated to the period to which it relates, using the effective interest method. Costs of external financing associated with the construction or acquisition of property, plant and equipment (construction period interest) are capitalised as and when appropriate.

7. ACCOUNTING POLICIES FOR THE CASH FLOW STATEMENT

The cash flow statement has been prepared according to the indirect method, based on actual balance-sheet movements. A distinction is made between operating, investing, and financing activities. Although the current portion of non-current liabilities is recognised in the balance sheet as part of other current liabilities, movements in the current portion of non-current liabilities is shown within the cash flow from financing activities in the cash flow statement.

Cash flows relating to minority interests (dividend payments), finance income or expense, and corporate income taxes (tax assessments) are based on actual receipts and payments.

Notes to the consolidated balance sheet

1. INTANGIBLE FIXED ASSETS

(EUR 1,000)	Total	Software	Transmission rights	Customer contracts
2018				
Carrying amount as at 1 January	**2,379**	**557**	**889**	**933**
Investments	-	-	-	
Depreciation	(1,131)	(196)	(889)	(47)
Other movements	-	-	-	
Carrying amount as at 31 December	**1,248**	**362**	**-**	**887**
Accumulated depreciation and impairment	37,053	17,284	19.308	462
ACQUISITION COST AS AT 31 DECEMBER 2018	**38,301**	**17,645**	**19,308**	**1,348**
2019				
Carrying amount as at 1 January	**1,248**	**362**	**-**	**887**
Investments	-	-	-	-
Depreciation	(199)	(152)	-	(48)
Disposals	-	-	-	-
Carrying amount as at 31 December	**1,049**	**210**	**-**	**839**
Accumulated depreciation and impairment	17,944	17,435	(0)	509
ACQUISITION COST AS AT 31 DECEMBER 2019	**18,993**	**17,645**	**(0)**	**1,348**
Depreciation periods in years		5	20	28

Impairment test
In 2019 there were no indications necessitating an impairment test for the intangible fixed asset shown above.

Software
No investments were made in 2019.

Customer contracts
These intangible fixed assets are amortised over the expected useful life of the Sloe power plant. Amortisation began in 2009.

2. PROPERTY, PLANT AND EQUIPMENT

(EUR 1,000)	Total	Land and buildings	Plant and equip-ment	Other assets	Assets under con-struction	Lease assets	Third-party con-tributions
2018							
Carrying amount as at 1 January 2018	**493,825**	**110,071**	**334,059**	**40,400**	**10,127**	**-**	**(832)**
Investments	22,642	-	6,785	482	15,375	-	-
Depreciation	(43,772)	(8,147)	(29,206)	(6,613)	-	-	194
Impairment	-	-	-	-	-	-	-
Disposals	(422)	-	-	(422)	-	-	-
Other movements / activated items	-	2,316	13,854	3,259	(19,429)	-	-
Carrying amount as at 31 December 2018	**472,273**	**104,240**	**325,492**	**37,106**	**6,073**	**-**	**(638)**
Carrying amount before deduction of contributions	**472,911**	**104,240**	**325,492**	**37,106**	**6,073**	**-**	
Accumulated depreciation and impairment	755,475	89,024	597,657	68,794	-	-	
ACQUISITION COST AS AT 31 DECEMBER 2018	**1,228,386**	**193,264**	**923,149**	**105,900**	**6,073**	**-**	
2019							
Adjusting balance as at 1 Janauary 2019	**4,010**	**-**	**-**	**-**	**-**	**4,010**	**-**
Carrying amount as at 1 January 2019	**476,283**	**104,240**	**325,492**	**37,106**	**6,073**	**4,010**	**(638)**
Investments	21,059	448	6,348	5,410	3,566	5,287	-
Depreciation	(48,054)	(11,808)	(29,700)	(6,203)	-	(391)	48
Impairment	-	-	-	-	-		-
Disposals	(4,736)	(4,522)	-	(214)	-	-	-
Other movements / activated items	59,362	60,528	(872)	-	-	(297)	-
Carrying amount as at 31 December 2019	**503,912**	**148,885**	**301,268**	**36,100**	**9,639**	**8,610**	**(590)**
Carrying amount before deduction of contributions	**504,502**	**148,885**	**301,268**	**36,100**	**9,639**	**8,610**	
Accumulated depreciation and impairment	803,577	100,832	627,357	74,997	-	391	
ACQUISITION COST AS AT 31 DECEMBER 2019	**1,308,079**	**249,718**	**928,625**	**111,097**	**9,639**	**9,001**	
Depreciation periods in years		0 - 40	7 - 40	5 - 15	n/a		

Other movements in land and buildings comprise the increase in and capitalisation of the decommissioning provision for the nuclear power plant due to a lower discount rate. Disposals comprise the sale of the office premises at Poelendaelesingel.

Investments in plant and equipment (including changes in assets under construction) mainly comprise replacement investments and measures to further increase safety at the EPZ nuclear power plant. They also include major maintenance undertaken at the Sloe power plant.

In 2017 an impairment loss was recognised for the write-down of the capitalised fair value of the increase in our EPZ share interest from 50% to 70% in 2011. No full or partial reversal of the impairment loss occurred in 2019. At 31 December 2019, the impairment loss stood at EUR 175.4 million (2018: EUR 187.9 million).

The opening balance for 2019 was restated due to the introduction of IFRS 16. Lease liabilities previously classified as operating leases according to the criteria in IAS 17 and

IFRIC4 are now presented in the balance sheet. Leased assets and lease liabilities measured at present value (and shown within interest-bearing debt) increased by EUR 4.0 million. The net impact on equity at 1 January 2019 was nil.

The change in valuation policy for leases has led to differences in presentation in the income statement from the previous standard (IAS 17). Costs arising from operational leases were previously accounted for as third-party services and are now included in amortisation and finance expenses. In 2019 these costs totalled EUR 0.6 million.
Leased assets mainly comprised leases on land and offices.

3. INTERESTS IN JOINT VENTURES, INVESTMENTS IN ASSOCIATES AND OTHER INVESTMENTS

(EUR 1,000)	Total	Joint Ventures	Other Invest-ments
Carrying amount as at 1 January 2018	**398,554**	**382,810**	**15,744**
Investments/Disposals	1,931	134	1,797
Dividends received	(34,489)	(34,489)	-
Share of proftis	27,138	26,596	542
Other movements	288	288	-
CARRYING AMOUNT AS AT 31 DECEMBER 2018	**393,422**	**375,339**	**18,083**
Carrying amount as at 1 January 2019	**393,422**	**375,339**	**18,083**
Investments/Disposals	(4,757)	-	(4,757)
Dividends received	(18,071)	(18,050)	(21)
Share of proftis	27,320	25,906	1,414
Other movements	-	-	-
CARRYING AMOUNT AS AT 31 DECEMBER 2019	**397,984**	**383,265**	**14,719**

Disposals in 2019 comprised the sale of two units in Set Fund II.

Dividends received were attributable mainly to water company Evides.

Share of profits refers to the profits achieved by the joint ventures and other investments.

3.1 **JOINT VENTURES**

Summary of the information in the balance sheet and income statement relating to joint ventures (under IFRS, based on a 100% interest).

JOINT VENTURES

EVIDES N.V. (EUR 1,000)	**31-12-2019**	**31-12-2018**
Current assets	68,830	68,851
of which is cash	*10,389*	*14,110*
Non-current assets	1,179,649	1,134,002
Current liabilities	(176,667)	(162,177)
of which are financial liabilities	*105,279*	*84,348*
Non-current liabilities	(539,756)	(522,030)
of which are financial liabilities	*502,289*	*487,405*
	2019	**2018**
Revenue	305,105	303,782
Profit form continuing operations	48,671	40,853
Profit from discontinued operations	-	-
Profit for the year	48,671	40,853
Other comprehensive income	139	575
Total comprehensive income	48,810	41,428
Dividend received by PZEM	17,700	17,700
Depreciation, amortisation and impairment	75,181	76,359
External finance income/expenses	2,193	2,526
Corporate income tax	5,991	6,624
	31-12-2019	**31-12-2018**
Equity	532,056	518,646
PZEM's interest	50%	50%
Goodwill	95,502	95,502
TOTAL CARRYING AMOUNT AS AT	**361,530**	**354,825**

PZEM N.V. owns a 50% share interest in Evides N.V. and has joint control because key decisions (impacting the relevant activities) require a majority of votes of the shareholders. Because PZEM N.V. is only entitled to dividends (and no other output from Evides), Evides N.V. is treated as a joint venture.

OTHER JOINT VENTURES

(EUR 1,000)	31-12-2019	31-12-2018
Profit from continuing operations attributable to PZEM N.V.	1,591	6,170
Profit from discontinued operations attributable to PZEM N.V.	-	-
Other comprehensive income attributable to PZEM N.V.	-	-
Total comprehensive income attributable to PZEM N.V.	1,591	6,170
TOTAL CARRYING AMOUNT AS AT	**21,733**	**20,513**

Other joint ventures in 2019 mainly comprised the share interest in BMC Moerdijk. The share of profits in 2018 also included the share of profits of Elsta B.V. and Co. C.V.

3.2 OTHER INVESTMENTS

All entities presented as other investments are included in the list of non-consolidated companies.

In 2007, as part of the Borssele Agreement, the Sustainable Energy Technology Fund (SET-Fund C.V.) was set up by the former energy companies DELTA (with DELTA Investeringsmaatschappij B.V. acting as limited partner; currently PZEM and PZEM Investeringsmaatschappij B.V, respectively) and Essent (now an RWE company). Both partners owned a 50% interest in the partnership.

In light of the Fund's articles of association and the change in ownership interests in N.V. EPZ, a new fund (SET-Fund II C.V.) was launched on 23 December 2011. PZEM owned a 69.65% interest and Essent (RWE) a 29.85% interest in SET Fund II C.V.'s initial share capital of EUR 10 million. In view of the limited degree of control, the investments in both entities are classified as financial instruments and stated at fair value. At 31 December 2019, PZEM held a 45.24% interest in SET Fund I C.V. (through PZEM Investeringsmaatschappij B.V. acting as limited partner) (31 December 2018: 49.92%) and an 18.83% interest in SET Fund II C.V. (31 December 2018: 18.83%).

3.3 RELATED-PARTY TRANSACTIONS

Related-party transactions are recognised if the value of the related party is material to PZEM's financial information and sales and purchase transactions, receivables and payables, and loans granted involve at least EUR 5 million. Transactions with Elsta B.V. are based on tolling agreements (cost-plus method). Other transactions are at arm's length.

No provision for bad debts is recognised for amounts owed by related parties because there is no need to do so. Although PZEM's shareholders (provincial and municipal authorities) are related parties, no significant transactions are conducted between PZEM and its shareholders. The remuneration paid to the Management Board and Supervisory Board is shown within staff costs and other operating expenses.

RELATED-PARTY TRANSACTIONS

(EUR 1,000)		Sales		Purchases		Trade receivables	
	% Interest	**2019**	**2018**	**2019**	**2018**	**31-12-2019**	**31-12-2018**
BMC Moerdijk B.V.	50.00%	191	163	10,398	6,949	24	44
Elsta B.V & Co C.V. (*)	24.75%	}					
Elsta B.V. (*)	25.00%	-	-	-	17,792	-	-
TOTAL		**191**	**163**	**10,398**	**24,741**	**24**	**44**

(EUR 1,000)		Trade payables		Loans granted		Interest	
	% Interest	**2019**	**2018**	**2019**	**2018**	**31-12-2019**	**31-12-2018**
BMC Moerdijk B.V.	50.00%	322	488	2,681	4,422	260	314
Elsta B.V & Co C.V. (*)	24.75%	} -	-	-	-	-	-
Elsta B.V. (*)	25.00%						
TOTAL		**322**	**488**	**2,681**	**4,422**	**260**	**314**

(*) The C.V. is dissolved as per 7 December 2018 and the B.V. unsubscribed as per 6 May 2019. Recorded percentages are before dissolvement and unsubscription.

4. OTHER FINANCIAL ASSETS

(EUR 1,000)	Total	Loans to joint ventures and associates etc.	Deferred tax asset	Other financial assets
CARRYING AMOUNT AS AT 1 JANUARY 2017 (LONG TERM)	**480,176**	**4,909**	**13,903**	**461,364**
New loans	2,182	-	-	2,182
Results	(6,941)	-	(6,854)	(87)
Repayments	(2,107)	(30)	-	(2,077)
Transferred to equity as hedge reserve	(860)	-	(860)	-
Assets held for sale	121	-	-	121
CARRYING AMOUNT AS AT 31 DECEMBER 2017	**472,571**	**4,879**	**6,189**	**461,503**
ADJUSTED CARRYING AMOUNT AS AT 1 JANUARY 2018	**472,571**	**4,879**	**6,189**	**461,503**
Reversal of current portion	451,366	-	-	451,366
New loans	471,556	-	-	471,556
Results	32,585	-	-	30,818
Repayments	(444,801)	(2,024)	-	(442,777)
Transferred to equity as hedge reserve	(683)	-	-	-
Other movements	(716)	-	1,085	(716)
CARRYING AMOUNT AS AT 31 DECEMBER 2018	**981,880**	**2,855**	**7,274**	**971,751**
Current portion of financial assets	(415,817)	-	-	(415,817)
CARRYING AMOUNT AS AT 31 DECEMBER 2018 (LONG TERM)	**566,063**	**2,855**	**7,274**	**555,934**

4.1 LOANS TO JOINT VENTURES, ASSOCIATES, AND OTHER INVESTMENTS

Loans to joint ventures, associates and other investments comprise two subordinated loans.

In 2019, the weighted average interest rate was 6.9% (2018: 7.0%).

4.2 DEFERRED TAX ASSETS

(EUR 1,000)	31-12-2019	31-12-2018
Financial assets	(39)	(78)
Unutilised tax losses	2,589	860
Hedge reserve pursuant to IAS39/derivatives	4,724	5,407
TOTAL DEFERRED TAX ASSET	**7,274**	**6,189**

Deferred tax assets only comprise EPZ and the Sloe power plant. To be on the safe side, no deferred tax assets of PZEM N.V.'s fiscal unity were recognised due to uncertainty over whether and when they might be utilised.

PZEM N.V.'s deferred tax asset not shown in the balance sheet concerns provisions in the commercial financial statements which are either not recognised or recognised in a different manner for tax purposes. In all cases, these are temporary differences which will be reflected in the effective tax rate in the coming years. Due to differences between tax bases and carrying amounts, EUR 20.3 million in deferred taxes could be recognised. There are also deferred tax assets not shown in the balance sheet for the hedge reserve, in connection with unrealised changes in the value of derivatives and trading contracts under IFRS 9. At 31 December 2019, the hedge reserve would result in a deferred tax asset of EUR 11.9 million.

When preparing the financial statements, an annual assessment is made of the extent to which unused tax losses may result in future tax-savings. If it is likely that the tax losses can be utilised within the statutory period, a deferred tax asset is recognised.

At 31 December 2019, no deferred tax asset was recognised for EUR 226.5 million in tax loss carryforwards due to uncertainty over whether and when the unused tax losses or unused tax credits might be utilised. The amount in unused tax losses is uncertain because PZEM is still in discussion with the Dutch tax authorities regarding a number of valuations for tax purposes. EUR 177.4 million in unused tax losses will expire within 5 years. The remaining losses have a carryforward period of more than 5 years.

4.3 OTHER NON-CURRENT FINANCIAL ASSETS

At 31 December 2019, other non-current financial assets mainly comprised cash invested and collateral provided.

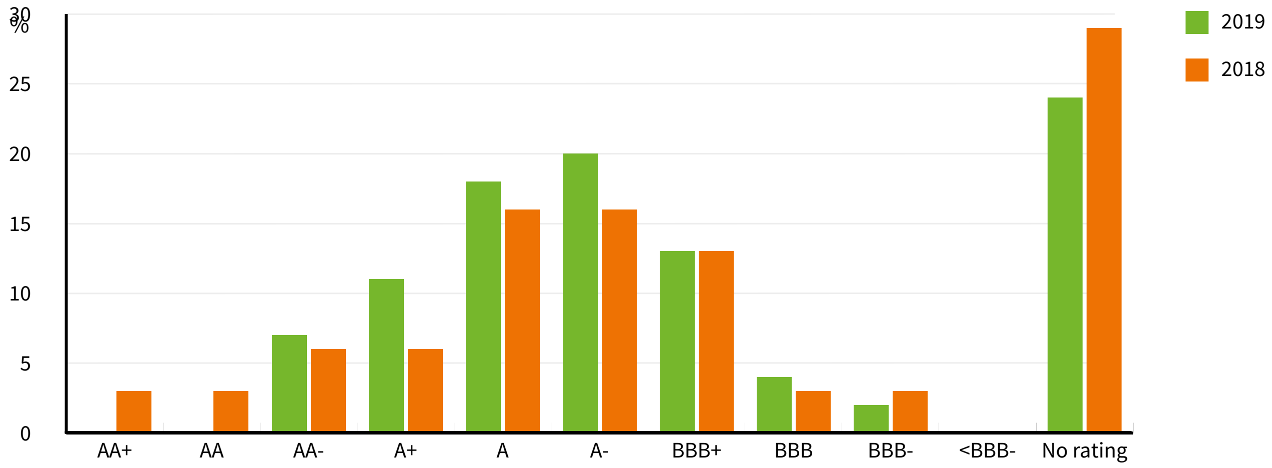
With the introduction of IFRS 9 on 1 January 2018, expected credit losses must already be accounted for on initial recognition of receivables. To estimate these expected losses, PZEM looked at the external ratings of counterparties and elected to use the following percentages for those ratings:

External credit rating	Expected loss percentage
> A-	0.1%
BBB+	0.2%
BBB of BBB-	0.5%
< BBB- or no rating	1%

PZEM elected to apply relatively low percentages because cash invested and collateral provided are relatively short-term in nature (approximately 1.5 years).

The chart below shows the percentage distribution of all cash investments and collateral provided (both long-term and short-term) across the different credit ratings:

SUMMARY OF COUNTERPARTIES CREDIT RATINGS EXPOSURES IN % NUMBER OF COUNTERPARTIES



Summary of counterparty credit ratings and cash investments and collateral provided as a % of the total number

Term deposits and securities

Because of the sale of its grid and retail operations in 2017, PZEM received a significant amount in cash. These funds are used first and foremost for our operating activities. What remains is invested in accordance with the Treasury Charter. At December 2019, these investments mainly comprised term deposits held with banks, bonds, and securities representing a value of EUR 630.6 million (excluding expected loss provision). Of this total sum, EUR 320,9 million has a term to maturity of more than 1 year. An amount of EUR 125.1 million consists of investments made by PZEM in the fund in which EPZ also invests via Stichting Beheer Ontmantelingsgelden Kerncentrale Borssele, At 31 December 2019, a total of EUR 328.4 million (including EPZ's share) was invested in this fund.

Collateral provided

Collateral provided comprises security deposits and bank guarantees. Some of the collateral was provided to counterparties for operating activities including trading activities, driven mainly by the corporate credit rating downgrade in 2017. The downgrade led to the obligation to provide extra collateral to trading parties. Furthermore, guarantees were issued as a result of legal proceedings. At 31 December 2019, EUR 138.2 million in collateral was provided (excluding expected loss provision), EUR 32.1 million of which with a term to maturity of more than 1 year.

Other financial assets also comprise the investments made through Stichting Beheer Ontmantelingsgelden Kerncentrale Borssele to provide security as required by the Nuclear Energy Act, which stipulates that sufficient funds must be available to dismantle the nuclear power plant after its expected closure date. Keeping the money in a separate foundation covers the risk of the available funds becoming part of the permit holder's assets in the event of the company going into liquidation.

5. DERIVATIVES AND RISK MANAGEMENT

PZEM is involved in energy commodity and currency trading contracts for the current calendar year and the next three years. The company considers the markets for these products to be sufficiently liquid over this time horizon. Prices are available from brokers, markets, and data providers. The fair value of commodity contracts is calculated on the basis of those published prices; no in-house valuation models are used. The monthly, quarterly and annual prices published are adjusted only to reconcile them with the relative periods in the trade systems.

PZEM uses derivatives, such as interest rate swaps, to hedge its interest rate risk exposure. These swaps allow a floating rate to be exchanged for a fixed rate.

This section covers the following topics:

5.1 DERIVATIVES

5.1.1 CORRELATION BETWEEN DERIVATIVES IN THE FINANCIAL STATEMENTS 2019

(EUR 1,000)	BALANCE OF DERIVATIVES				MOVEMENTS IN DERIVATIVES	
	Assets 2019	Assets 2018	Liabilities 2019	Liabilities 2018	Movements in assets 2019	Movements in liabilities 2019
DERIVATIVES ON THE BALANCE SHEET (SEE 5.1.2)						
Non-current assets	5,821	22,432			(16,611)	
Current assets	44,688	40,070			4,618	
	50,508	**62,502**			**(11,994)**	
Non-current liabilities			25,745	91,420		(65,675)
Current liabilities			90,213	86,934		3,279
			115,957	**178,354**		**(62,397)**
OTHER BALANCE-SHEET ITEMS RELATING TO DERIVATIVES						
Hedge reserve (see 5.1.3)			(63,874)	(109,955)		46,081
Deferred tax (see 5.1.3)	4,762	5,406	-	-	(644)	
Subtotal	**4,762**	**5,406**	**(63,874)**	**(109,955)**	**(644)**	**46,081**
Cumulative ineffectiveness (Sloe derivatives)			221	310		(89)
Cumulative ineffectiveness (Market-to-Market)			2,966	(801)		3,767
	4,762	**5,406**	**(60,687)**	**(110,446)**	**(644)**	**49,759**
TOTAL	**55,270**	**67,908**	**55,270**	**67,908**	**(12,638)**	**(12,638)**

Of the value changes, a gain of EUR 46.7 million (2018: loss of EUR 50.9 million) was recognised in the hedge reserve.

5.1.2A OFFSETTING FINANCIAL ASSETS

(EUR 1,000)						ASSETS
	Non-current liabilities			Current liabilities		
	Gross amount	Offsetting	Net amount	Gross amount	Offsetting	Net amount
2019						
COMMODITY CONTRACTEN						
Gas	13,839	12,800	1,039	166,439	141,353	25,086
Electricity	34,157	29,404	4,753	139,762	129,035	10,727
Other	952	923	29	16,947	12,884	4,063
OTHER DERIVATIVES						
Foreign exchange contracts				4,812	-	4,812
TOTAL	**48,948**	**43,127**	**5,821**	**327,960**	**283,273**	**44,688**

5.1.2B OFFSETTING FINANCIAL LIABILITIES

(EUR 1,000)						LIABILITIES
	Non-current liabilities			Current liabilities		
	Gross amount	Offsetting	Net amount	Gross amount	Offsetting	Net amount
2019						
COMMODITY CONTRACTS						
Gas	(17,363)	(12,800)	(4,563)	(206,612)	(141,353)	(65,259)
Electricity	(35,361)	(29,404)	(5,957)	(145,386)	(129,035)	(16,350)
Other	(923)	(923)	-	(12,884)	(12,884)	
OTHER DERIVATIVES						
Foreign exchange contracts				(3,081)		(3,081)
Interest rate swaps	(15,226)	-	(15,226)	(5,522)	-	(5,522)
TOTAL	**(68,872)**	**(43,127)**	**(25,745)**	**(373,485)**	**(283,273)**	**(90,213)**

5.1.3 MOVEMENTS IN THE HEDGE RESERVE

Fair value changes in derivatives after tax are shown within the hedge reserve, which is a non-distributable reserve. Movements in the hedge reserve in the past two years are presented on the next page.

MOVEMENTS IN THE HEDGE RESERVE

(EUR 1,000)	COMMODITY CONTRACTEN				SWAPS	
	Gas	Electricity	CO_2	Total	Interest rate swaps	Total
2018						
Hedge reserve at 1-1-2018 (gross)	**17,209**	**(58,112)**	**5,322**	**(35,580)**	**(28,841)**	**(64,421)**
Movements in 2018						
Recognised directly in equity	23,405	(98,476)	11,005	(64,066)	(2,150)	(66,216)
Released to income	(9,097)	19,742	(1,901)	8,743	6,533	15,276
TOTAL MOVEMENTS IN 2018	**14,308**	**(78,734)**	**9,104**	**(55,323)**	**4,383**	**(50,940)**
Hedge reserve at 31-12-2018 (gross)	**31,517**	**(136,846)**	**14,426**	**(90,903)**	**(24,458)**	**(115,361)**
Deferred tax	-	-	-	-	5,406	5,406
HEDGE RESERVE AT 31-12-2018	**31,517**	**(136,846)**	**14,426**	**(90,903)**	**(19,052)**	**(109,955)**
2019						
Hedge reserve at 1-1-2019 (gross)	**31,517**	**(136,845)**	**14,426**	**(90,903)**	**(24,458)**	**(115,361)**
Movements in 2019						
Recognised directly in equity	(51,259)	55,562	(1,692)	2,610	(2,483)	127
Released to income	(18,762)	67,914	(8,528)	40,625	5,973	46,598
TOTAL MOVEMENTS IN 2019	**(70,021)**	**123,476**	**(10,220)**	**43,236**	**3,490**	**46,726**
Hedge reserve at 31-12-2019 (gross)	**(38,504)**	**(13,369)**	**4,205**	**(47,667)**	**(20,968)**	**(68,635)**
Deferred tax	-	-	-	-	4,762	4,762
HEDGE RESERVE AT 31-12-2019	**(38,504)**	**(13,369)**	**4,205**	**(47,667)**	**(16,207)**	**(63,874)**

The composition of the hedge reserve in relation to commodities, on a gross basis, at year-end 2019 is attributable to the years ahead as follows:

COMMODITIES HEDGE RESERVE (GROSS)

(EUR 1,000)	COMMODITIES			
	Gas	Electricity	CO_2	Total
2020	(34,607)	(11,865)	3,868	(42,603)
2021	(3,792)	(2,574)	337	(6,029)
2022	(105)	1,069		964
TOTAL	**(38,504)**	**(13,370)**	**4,205**	**(47,667)**

The release from the commodities hedge reserve to profit or loss is shown within gross operating margin.

The timing of expected cash flows does not always coincide with their recognition in the income statement. This is because some hedges have a 'timing effect.' This is the case, for example, with the majority of gas hedges, in which the gas price for the first quarter of a year can be determined on the basis of the average oil price over the six months preceding that quarter. The value of the swaps used in such a hedging relationship, settlement of which takes place in the six months preceding the quarter in which delivery is made, is recognised in the hedge reserve up to the beginning of the delivery quarter, with the gain or loss being recognised in profit or loss in the first quarter of delivery. The maximum time lag on contracts in a hedging relationship is 9 months.

During the year, no hedging relationships were discontinued on the basis that an expected transaction did not go ahead.

5.1.4 HIERARCHY OF FINANCIAL INSTRUMENTS

Financial instruments are all recurring valuations, measured at fair value, and classified according to the following hierarchy as required by IFRS 13 Fair Value Measurement:

Level 1: Level 1 inputs are (unadjusted) prices quoted on active markets for identical assets or liabilities that the entity can access at the measurement date.

Level 2: Level 2 inputs are inputs other than quoted market prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 2 inputs include:
a) Quoted prices for similar assets or liabilities in active markets;
b) Quoted prices for identical or similar assets or liabilities in markets that are not active;
c) Inputs other than quoted prices that are observable for the asset or liability in question, for example:
    i) interest rates and yield curves that are published on a regular basis;
    ii) implied volatilities; and
    iii) credit spreads (differences in interest rates);
d) Market-corroborated inputs.

Level 3: Level 3 inputs are unobservable inputs for the asset or liability.

ASSETS AND LIABILITIES MEASURED AT FAIR VALUE

(EUR 1,000) — FAIR VALUE HIERARCHY

	Total as at 31 December		Level 1		Level 2		Level 3	
	2019	2018	2019	2018	2019	2018	2019	2018
Assets								
Derivatives	50,508	62,502	-	-	50,508	62,502	-	-
Part of other investments and other financial assets	341,784	268,109	328,373	251,826	-	-	13,411	16,282
TOTAL ASSETS	**392,292**	**330,611**	**328,373**	**251,826**	**50,508**	**62,502**	**13,411**	**16,282**
Liabilities								
Derivatives	115,957	178,354	-	-	115,957	178,354	-	-
TOTAL LIABILITIES	**115,957**	**178,354**	**-**	**-**	**115,957**	**178,354**	**-**	**-**

Movements in 'Part of other investments and other non-current financial assets' in 2019 were EUR 73.7 million, EUR 46.6 million of which related to investments/new receivables, EUR 5.1 million comprised disposals, and EUR 32.2 million comprised a gain.

Other investments included the share interests in SET Fund C.V. and SET Fund II C.V. (see also note 3).
Other non-current financial assets comprised the investments made through Stichting Beheer Ontmantelingsgelden Kerncentrale Borssele - the foundation that manages the funds earmarked for the decommissioning of the nuclear power station - (see also note 4.3), and investments by PZEM in the same fund in which EPZ invests via the foundation.

The fair values are based on:
- measurements in accordance with the International Private Equity and Venture Capital (IPEV) Guidelines issued by IPEV and approved by Invest Europe (formerly the European Private Equity and Venture Capital Association (EVCA));
- specially established asset funds with their own market value per unit.

5.2 RISK MANAGEMENT

5.2.1 RISK CONTROL

PZEM is involved in international gas and electricity trading. Prices on these markets fluctuate strongly. We use financial instruments to manage and mitigate commodity, currency, interest rate, liquidity, and credit risks, subject to the conditions laid down in the Financial Risk Manual and Treasury Charter.

Under the auspices of the Management Board, the Risk Management Committee has put in place general procedures and limits and is responsible for ensuring that PZEM's energy trading and sales activities remain within the defined risk margins.

The following paragraphs describe the different types of risk and the way in which PZEM manages the related exposures.

5.2.2 MARKET RISK

5.2.2.1 COMMODITY PRICE RISK

Market risks arise from price movements in the markets where PZEM buys and sells (commodities, currencies, transmission capacity, imports/exports capacity, etc.). It is company policy to mitigate the impact of price movements in the short term and to track prevailing market prices in the long term. For systematic risk control purposes, asset allocations and positions are determined on the basis of expected price developments. These positions are monitored on a daily basis. Trading risks are mitigated by strictly enforcing a system of limits, the most important of which is calculated using the Value-at-Risk method.

Potential adverse trends in commodity prices, notably falling electricity prices, pose a risk to PZEM's continuity in the coming years. A price fall may have an immediate dampening impact on the profits of our production units. Sales contracts where there is no correlation between electricity market prices and fuel prices would be hit hardest, such as nuclear power and power from poultry litter (share in profit or loss of associate). Revenues would fall whereas costs would remain virtually stable. Each reduction in the selling price would immediately be reflected in profit or loss, unless the output is hedged.

5.2.2.2 VALUE-AT-RISK

Determining Value-at-Risk (VaR) involves using various assumptions regarding possible changes in market conditions. VaR identifies the maximum portfolio losses likely to be incurred as a result of price changes over a three-day period with a confidence level of 95%. VaR is calculated using Monte Carlo simulations based on historical volatilities and correlations. Because portfolios include opposing positions and there is an underlying correlation, the VaR of the total portfolio is smaller than the sum total of individual portfolio VaRs.
VaR is an important tool for PZEM to manage its Trade portfolio and it is therefore calculated and reported on a daily basis. Although the VaRs for the assets and total portfolio are reported on a daily basis, they are not used as a primary management parameter. The assets are hedged on the basis of a predetermined lock-in schedule to achieve the average market value. Variations from the schedule fall within the Trade Books, for which VaR is the key measure of risk. At 31 December 2019, the Trade portfolio's VaR was EUR 0.2 million (2018: EUR 0.3 million), well within the approved limit.

5.2.2.3 CASH FLOW HEDGES

PZEM uses financial instruments to minimise fluctuations in expected cash flows. The company uses derivatives, including forward contracts and swaps, to control the effects of future changes in market prices. These hedging instruments are derivatives of commodities traded by PZEM and they are entered into to mitigate cash flow, price, and currency risks. Hedge accounting is applied to cushion the total change in value of these derivatives.

To the extent permitted, PZEM accounts for these financial instruments and the physical purchase and sale contracts in a cash flow hedge relationship in accordance with IFRS 9. The hedged item is the future purchase transaction (power stations, long-term sourcing) or sales transaction for gas or electricity.

CASH FLOW HEDGES FOR ELECTRICITY AND FUELS

(EUR 1,000) **CASH FLOW HEDGES**

	2020	2021	2.022	Total	Average price	Contract value
2019						
Gas forwards	(38,036)	(4,359)	(190)	(42,584)	0,176	(183,455)
Electricity forwards	(7,970)	(3,813)	874	(10,909)	44,418	222,928
CO_2-forwards	-	505		504	23,024	(6,309)
TOTAL	**(46,006)**	**(7,666)**	**684**	**(52,988)**		

	2019	2020	2,021	Total	Average price	Contract value
2018						
Gas forwards	14,671	9,774	1,071	25,515	0,175	(203,785)
Electricity forwards	(59,776)	(50,529)	(16,355)	(126,660)	38,836	187,212
CO_2-forwards	0	4,225	694	4,919	15,622	(7,545)
TOTAL	**(45,105)**	**(36,530)**	**(14,590)**	**(96,226)**		

The hedge reserve comprises value changes in derivatives in the period in which they are included in an effective hedging relationship. Derivatives shown in the analysis of cash flow hedges comprise derivatives that were part of a hedging relationship as at the balance-sheet date.

A mismatch occurs because:
- the analysis of cash flow hedges also includes the ineffective portion of the hedging instrument;
- the gains and losses on the hedging instruments entered into to form a hedging relationship are also included in the analysis of cash flow hedges;
- the hedge reserve also includes the gains and losses on hedging instruments that were part of a hedging relationship in the past but were no longer included in a hedging relationship at the end of the financial year.

The amounts recognised in the hedge reserve take account of the date on which an instrument was designated as part of a hedging relationship, which may be different from the date of the related trade.
In addition, the hedge reserve comprises only the effective portion of the total fair value of hedging instruments recognised in the hedge reserve.

5.2.2.4 Currency risk

Currency risk is the risk that the value of assets changes due to movements in foreign exchange rates. PZEM's risk policy is to hedge currency risks associated with positions denominated in a foreign currency. To hedge this risk, the company uses financial instruments (forward contracts) to minimise fluctuations in expected cash flows.

Currency positions arising from commodity and other contracts are reported directly to the Treasury department and hedged. Any residual risk in the event of currency fluctuations will therefore be negligibly small.
Currency risk limits are set periodically in consultation with the Risk Management Committee and monitored by the Treasury department.

The following exchange rates against the euro were used to convert currency positions as shown in the balance sheet:

RATES

Middle rates	31-12-2019	31-12-2018
US dollar	1.1214	1.1439
Pound sterling	0.8519	0.8972

5.2.2.5 INTEREST RATE RISK

PZEM's interest rate risk policy is to mitigate the impact of interest rate fluctuations on its cash flow. To hedge this risk, the company uses derivatives, including interest rate swaps.

Hedged loans

The Group holds a number of interest rate swaps, all of which were effective at the balance-sheet date. Sensitivity is measured by increasing or reducing the floating spot by 10%.

Several of these interest-rate derivatives can be classified as option contracts, which qualify for the exemption referred to in IFRS 9, paragraph 6.2.4. Changes in fair value are accounted for in the hedge reserve, with changes in the time value being recognised through profit or loss. The table shows the effects of a 10% increase and 10% decrease compared with the carrying amounts as at 31 December 2019. No Value-at-Risk (VaR) is calculated for interest-rate derivatives.

INTEREST RATE RISK SENSITIVITY ANALYSIS

(EUR 1,000)	AT 31 DECEMBER		10% INCREASE VALUE BASED ON YIELD CURVE		INCREASE IN VALUE RELATIVE TO CARRYING AMOUNT		10% DECREASE VALUE BASED ON YIELD CURVE		DECREASE IN VALUE RELATIVE TO CARRYING AMOUNT	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Derivatives										
Derivatives	(20,968)	(24,458)	(20,817)	(23,991)	151	467	(24,305)	(24,305)	(3,337)	153
Deferred tax	4,762	5,371	5,298	5,298	536	(73)	5,359	5,359	597	(12)
TOTAL	**16,206**	**19,087**	**15,679**	**18,301**	**(527)**	**(786)**	**18,946**	**18,946**	**2,740**	**(141)**
Interest rate swaps										
Hedge reserve	16,206	19,087	15,679	18,301	(527)	(786)	18,946	18,946	2,740	(141)
TOTAL	**16,206**	**19,087**	**15,679**	**18,301**	**(527)**	**(786)**	**18,946**	**18,946**	**2,740**	**(141)**
Gains/(losses) on swaps	-	-	-	-	-	-	-	-	-	-

At 31 December 2019, interest-rate derivatives represented a loss. An upward movement in the yield curve will reduce this loss.

The hedge reserve relating to interest-rate swaps as at 31 December 2019 constituted a debit item in equity. An upward movement in the yield curve will reduce the amount of this debit item.

Unhedged loans

The vast majority of loans at 31 December 2019 carried a fixed rate of interest or were hedged. Because the hedges were entered into quite a while ago, actual interest rates are well above current market interest rates.

5.2.3 LIQUIDITY RISK

Liquidity risk is the risk that PZEM has insufficient funds available to meet its short-term liabilities. In light of the revenues generated by the recent sale of some of our business divisions, there is currently no such risk. However, liquidity risk could become an issue in the longer term if, contrary to expectations, market prices were to deteriorate substantially.

PZEM's capital management policy focuses on centralising its cash management and borrowing and repayment operations at the level of the holding company PZEM N.V. as effectively as possible. On the basis of its business plan, the company prepares an annual financing plan to give direction to the activities undertaken by the Treasury department. The financing plan also sets out how surplus cash is to be invested (in accordance with the appropriate policy), taking into account the buffers needed for our operating activities. Cash flows are monitored on an ongoing basis.

A number of PZEM Group companies have their own credit facilities, more specifically:

1. Sloe Centrale B.V. has been financed through project funding. At 31 December 2019, an amount of EUR 135.8 million was outstanding (based on a 50% share interest);
2. N.V. EPZ has no credit lines because it has sufficient cash. If it requires any external funding, this will be arranged on a non-recourse basis.

Standard & Poor's heeft de credit rating van PZEM in In 2017 Standard & Poor's downgraded PZEM's credit rating to BB following the sale of its retail and grid operations. The corporate credit rating downgrade led to the obligation to provide additional collateral to commodity and other trading partners, putting additional pressure on our cash position. At the balance-sheet date, EUR 45 million in collateral had been provided. Our current rating has a stable outlook.

To clarify PZEM's liquidity risk exposure, the following table presents the contractual maturities of the company's financial obligations:

CONTRACTUAL MATURITIES OF FINANCIAL OBLIGATIONS AS AT 31 DECEMBER 2019

(EUR 1,000)	< 1 year	1-5 years	> 5 years	Total
Trade payables	48,116	-	-	48,116
Interest-bearing loans	13,603	63,955	58,228	135,785
Derivatives	90,213	25,745	-	115,957
Provisions	50,778	128,184	386,878	565,840
Other	23,497	1,738	34,384	59,619
TOTAL	**226,207**	**219,621**	**479,490**	**925,318**

CONTRACTUAL MATURITIES OF FINANCIAL OBLIGATIONS AS AT 31 DECEMBER 2018

(EUR 1,000)	< 1 year	1-5 years	> 5 years	Total
Trade payables	52,820	-	-	52,820
Interest-bearing loans	13,125	59,091	75,336	147,552
Derivatives	86,934	91,420	-	178,354
Provisions	44,167	99,936	360,022	504,125
Other	35,647	-	28,011	63,658
TOTAL	**232,693**	**250,447**	**463,369**	**946,509**

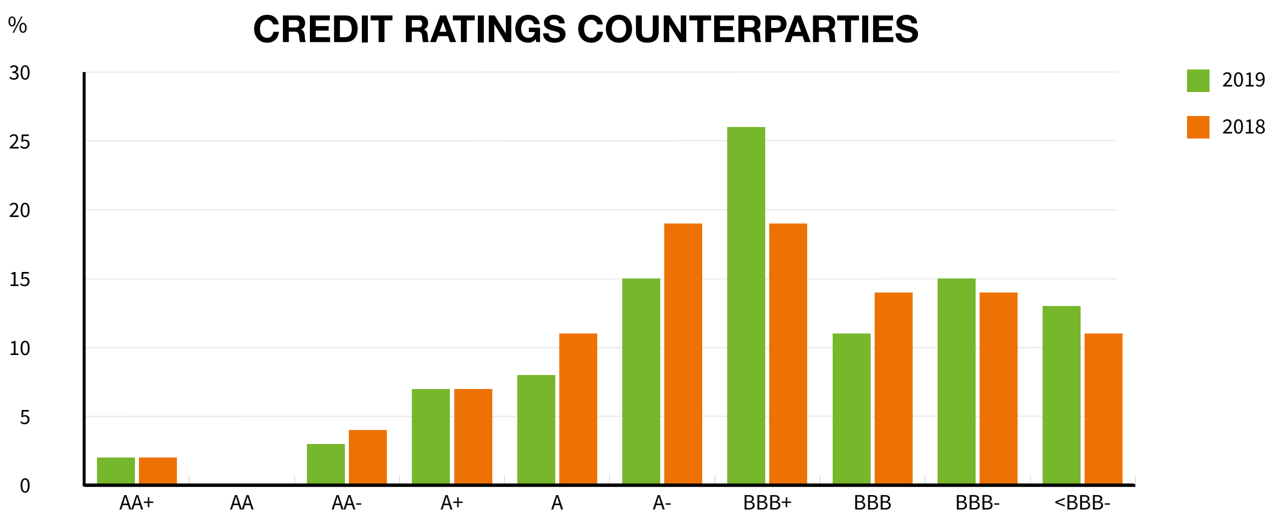
The contractual maturities of financial liabilities reflect the expected outgoing cash flows related to outstanding financial commitments as at the balance-sheet date.

Provisions are shown within contractual obligations because they are largely based on underlying contracts. Because of the nature and extent of the obligations, provisions are presented in the table above.

5.2.4 **CREDIT RISK**

Credit risk is the risk that a counterparty defaults on its contractual obligations. In order to mitigate its credit risk exposure, PZEM has set credit limits for external counterparties. The company's internal rating system sets a credit limit for each external counterparty. The system uses publicly available information about the companies or guarantors concerned (financial statements, credit ratings, etc.). If the external counterparty's or guarantor's credit rating is not, or no longer, investment grade, no additional credit risk will be accepted.

The chart below shows the percentage distribution of PZEM's external counterparties by credit rating class at 31 December 2019:



In addition to credit limits based on credit ratings, PZEM uses various other instruments to mitigate credit risk, including standard contracts and standard terms of business, market trading, end-user diversification, and additional collateral.

The creditworthiness of energy end-users who buy energy from PZEM is determined on the basis of information from external data providers. As regards existing customers, their payment record is also taken into consideration when deciding whether or not to enter into a supply contract. We have hedged our credit risk exposure to some corporate end-users through credit insurance. Additional collateral in the form of a bank guarantee, security deposit or advance payment is requested where necessary.

6. INVENTORIES

(EUR 1,000)	31-12-2019	31-12-2018
Raw materials	74,922	73,361
Consumables	3,937	3,171
Finished products	3,531	3,483
Goods for resale	2,463	4,985
Total	**84,852**	**85,000**
Less: Provision for obsolescence	(1,362)	(1,189)
TOTAL INVENTORIES	**83,490**	**83,811**

At 31 December 2019, raw materials included EUR 38.6 million worth of prepaid nuclear fuel elements. EUR 16.9 million in collateral was received in exchange.

7. RECEIVABLES

(EUR 1,000)	31-12-2019	31-12-2018
Trade receivables	20,683	24,154
Invoices to be send	38,646	34,974
Current tax assets	12,531	16,294
Deposits held with banks and bonds	309,309	341,859
Security interest provided	105,993	108,254
Cash not available on demand	54,271	134,543
CO_2 rights & GoO's	24,097	21,380
Other receivables	33,264	14,044
TOTAL RECEIVABLES (EXCLUDING DERIVATES)	**598,794**	**695,502**

Because of the sale of its grid and retail operations in 2017, PZEM received a significant amount in cash. These funds are used first and foremost for our operating activities. What remains is invested in accordance with the Treasury Charter. At 31 December 2019, these investments mainly comprised term deposits held with banks and bonds representing a value of EUR 630.3 million (excluding expected loss provision). Of this total sum, EUR 309.3 million (excluding expected loss provision) had a term to maturity of less than 1 year.

Collateral provided comprises security deposits and bank guarantees. Some of the collateral was provided to counterparties for operating activities including trading activities, driven mainly by the corporate credit rating downgrade in 2017. The downgrade led to the obligation to provide extra collateral to trading parties. Furthermore, guarantees were issued as a result of legal proceedings. At 31 December 2019, EUR 138.2 million in collateral was provided (excluding expected loss provision), EUR 106.1 million of which (excluding expected loss provision) with a term to maturity of less than 1 year.

Cash not available on demand comprises deposits relating to market trading activities. At 31 December 2018, these showed a strong increase driven by rising market prices. In 2019 these funds were released in part as a large portion of the relevant trading transactions were settled in 2019 and prices moved slightly opposite to 2018.

A provision for possible bad debts totalling EUR 0.4 million (2018: EUR 0.6 million) was recognised for receivables.

The carbon allowances that we expect to need to cover electricity production at the Sloe power plant in 2020 were already purchased at 31 December 2019. This was done in the same way for 2019 at 31 December 2018.

The other receivables increased as exchange settlements received in advance at 31 December 2018 changed to prepaid exchange settlements at 31 December 2019.

MOVEMENTS IN DEPOSITS, SECURITIES AND CASH NOT AVAILABLE ON DEMAND

(EUR 1,000)	2019	2018
Adjusted balance as at 1 January	**584,656**	**577,175**
Movement deposits and securities	(115,295)	7,544
Movement expected credit loss IFRS 9	213	(63)
Balance as at 31 December	**469,573**	**584,656**
Devided in:		
Deposits held with banks and bonds	309,309	341,859
Security interest provided	105,993	108,254
Cash not available on demand	54,271	134,543
TOTAL	**469,573**	**584,656**

MOVEMENTS IN BAD DEBT PROVISION

(EUR 1,000)	2019	2018
Provisions as at 1 January	**606**	**8,551**
Adjusted balance as at 1 January		164
Provisions as at 1 January	**606**	**8,387**
Bad debts written off		(7,379)
Added/released	(215)	(402)
Balance as at 31 December	**391**	**606**

The expected loss percentages used for each age bucket are shown in the table below. These percentages are low because credit insurance has been taken out for some of the receivables. We do not apply any percentages in excess of 75% because PZEM can also claim a refund of some of the energy tax and VAT if a debtor fails to pay. If a debtor defaults or is involved in debt collection proceedings, a provision is recognised for 75% of all outstanding amounts (regardless of how long payment has been overdue).

AGED ANALYSIS OF TRADE RECEIVABLES

(EUR 1,000) Age (in days)	Expected credit loss percentage	31-12-2019	31-12-2018
Not yet due	0.1%	39	38
< 30	0.1%	15	17
31-60	1%	52	16
61-90	15%	14	87
91-120	50%	8	40
> 120	75%	82	184
determined individually	75%	181	224
TOTAL		**391**	**606**

AGED ANALYSIS OF TRADE RECEIVABLES

(EUR 1,000) Age (in days)	31-12-2019	31-12-2018
Not yet due	38,646	34,974
< 30	15,461	18,772
31-60	5,187	4,773
61-90	94	510
91-120	15	79
> 120	315	626
TOTAL	**59,720**	**59,734**
Bad debt provision	(391)	(606)
TOTAL TRADE RECEIVABLES	**59,329**	**59,128**

8. CASH

(EUR 1,000)	31-12-2019	31-12-2018
Cash / Bank	84,859	54,891
TOTAL CASH	**84,859**	**54,891**

These comprise not only cash but also cash equivalents that can be converted into cash with no material risk of impairment.

9. PROVISIONS

(EUR 1,000)	Total	Onerous contracts	Employee benefits	Dismantling costs	Other provisions
CARRYING AMOUNT AS AT 1 JANUARY 2018	**476,439**	**87,299**	**7,246**	**290,812**	**91,081**
Reversal of current portion of provision	63,433	25,509	6,375	7,180	24,369
Added	18,984	5,699	791	1,141	11,353
Interest added	11,743	1,990	10	9,743	-
Released	(34,161)	(29,184)	(3,706)	(1,271)	-
Utilised	(32,312)	-	(1,944)	(5,744)	(24,624)
Other movements	-	-	-	-	-
Carrying amount as at 31 December 2018	**504,125**	**91,313**	**8,772**	**301,861**	**102,179**
Current portion of provisions	(44,168)	(11,476)	(5,250)	(10,443)	(16,999)
CARRYING AMOUNT AS AT 31 DECEMBER 2018	**459,957**	**79,837**	**3,522**	**291,418**	**85,180**
Reversal of current portion of provision	44,167	11,476	5,249	10,443	16,999
Added	85,507	-	1,497	60,199	23,811
Interest added	8,819	1,714	11	8,136	(1,041)
Released	(13,486)	(11,869)	(1,618)	-	-
Utilised	(18,253)	-	(2,165)	(2,229)	(13,859)
Other movements	(872)	-	-	(872)	-
Carrying amount as at 31 December 2018	**565,839**	**81,158**	**6,497**	**367,095**	**111,089**
Current portion of provisions	(50,777)	(11,896)	(3,169)	(7,629)	(28,083)
CARRYING AMOUNT AS AT 31 DECEMBER 2019	**515,062**	**69,262**	**3,327**	**359,466**	**83,007**

The release of provisions scheduled within one year involved an amount of EUR 50.8 million (2018: EUR 44.2 million) and is shown within current liabilities.

Use of inflation expectations
Provisions are measured using an expected annual inflation rate of 2%. The ECB's policy is to achieve an annual inflation rate of 2% or just under 2%.

Use of discount rates
The description of provisions specifies the discount rate used for each type of provision.
The discount rates used are based on IAS 37, which, with regard to the measurement of discounted provisions, stipulates that a pre-tax discount rate should be used that reflects the current market assessments of the time value of money and the risks specific to the liability.
The discount rate should not factor in risks which are already factored into the estimated future cash flows.

The discount rate is based on market interest rates (from different sources), plus a mark-up that depends on the nature, duration, amount, and profile of the provision and related cash flows.

Provisions with a term in excess of 10 years are discounted at a rate of 2.5% and provisions with a short maturity (less than 10 years) at a rate of 1.0%. In 2018, the discount rate was 3.5% for provisions with a term in excess of 10 years and 2.0% for provisions with a short maturity (less than 10 years).

Provisions in excess of EUR 5 million are clarified below.

Onerous contracts
A provision was recognised in the past for the negative value of a number of long-term gas contracts. The cost of transmission and storage capacity is based on long-term contractual arrangements. The optimisation returns on transmission and storage contracts are based on historical returns, combined with previously contracted positions at the balance-sheet date and estimated future returns.

No provision is necessary for the tolling contract with the Sloe power plant in the light of trends in electricity and fuel prices based on independent price curves.

Nor does a provision have to be recognised for the tolling contract with the nuclear power plant. The review was conducted on the basis of the existing tolling contract, the operational and investment plan for the nuclear plant until 2033, the positions locked in at the balance-sheet date, and the current electricity price curve. Forward prices at the balance-sheet date are used for the next three years because those prices are formed in liquid markets and PZEM is actively trading on those markets.

Anticipated movements in electricity, gas and carbon prices constitute the main uncertainty affecting the provision for onerous contracts. The future price curves used were obtained from an independent firm and involved Q4 2019 forecasts. The source used by PZEM to obtain independent price curves is a leading firm that publishes solid quarterly reports on various price curve trends that are frequently used by companies within the industry. Current models anticipate a market recovery (in the sense that profits can be made) in the medium-term, meaning that margins are expected to remain under pressure and cash outflows to continue in the coming years, driven by obligations arising from gas contracts and existing tolling obligations.

The independent firm always issues three scenarios, i.e. a Central, High, and Low scenario. An internal analyses performed by PZEM shows that the Central price set has been the most effective on average over the last few years. At 31 December 2018, to be on the safe side, we still applied an actuarial weighted average of 75% of the Central price curve and 25% of the Low price curve. At 31 December 2019, we were of the opinion that the Central price curve was the best estimate of prices for the years in which there was no liquid market. As of 2019, provisions are measured according the Central scenario only. This revised weighting has not, however, had an impact on the outcome in terms of whether or not to recognise a provision.

Other gas-related operations comprise the sale of gas to end-users. The review showed that there was no need to recognise a provision for onerous contracts for any of these (combined) operations.

Volatility in the electricity and gas markets creates uncertainty for our financial position going forward, both in terms of our profits, cash flows, the level of the provision, and the need to recognise provisions for other production assets. Strong movements in prices may lead to significant changes having to be made to the provision for onerous contracts in the future.

We applied a discount rate of 2.5% to long-term provisions and 1.0% to provisions with a short maturity (less than 10 years). In 2018, the discount rate was 3.5% for provisions with a term in excess of 10 years and 2.0% for provisions with a short maturity (less than 10 years).

Employee benefits
These provisions are recognised so as to be able to meet existing and future financial obligations.
- Under the terms of the collective agreement, employees are paid long-service benefits. From the start date of employment, a provision is recognised for these benefits, based on past years of service, expected price and pay rises, probability of retention, and invalidity and mortality rates.
- On the basis of the "own-risk bearer" principle, a liability is recognised for unemployment benefits that are already in payment.
- The provision also covers the obligation to continue to pay the salaries of employees who, at the balance-sheet date, were expected to remain partly or fully unfit for work due to illness or disability.

The discount rate is 1.0% (2018: 2.0%).

In 2016, a reorganisation provision was recognised for the GAMMA2 programme to cover our liabilities to those of our employees who would be leaving the PZEM Group as a result. These liabilities are measured taking into account the arrangements set out in the Social Plan and the employee's years of service within the industry, his or her age, various pay components, and estimates in terms of his or her ability to find other employment. In 2019, as in 2018, several of our employees covered by the provision at 31 December 2016 left the company, which led to the provision being utilised.

The provision also covers liabilities relating to staff redundancies in connection with the closure of EPZ's conventional power station on 31 December 2015. It covers the expected costs of terminating the employment contracts, support and coaching expenses, and direct reorganisation costs.

A discount rate of 1.0% (2018: 2.0%) was applied to both reorganisation provisions.

Dismantling of energy generation units
This provision covers the costs of future dismantling of units once they stop operating. The expected ultimate dismantling costs are based on the findings of periodic studies, allowing for price developments, recent insights, and estimated potential environmental impacts.

The provision for the decommissioning and dismantling of the nuclear power plant is structured in such a way that decommissioning work on the power plant can start as soon as it stops operating in 2034, in accordance with the arrangements made with central government under the Borssele Nuclear Power Station Agreement. The provisions are discounted at a rate of 2.5% (2018: 3.5%), except for the coal-fired power plant, which will go out of operation within 10 years and is subject to a discount rate of 1.0% (2018: 2.0%).

OTHER PROVISIONS

Other provisions comprise:

Provision for costs of processing and storing nuclear fuels
This provision covers existing obligations. It is calculated as the present value of the estimated future processing and storage costs, less the estimated present value of the residual products released in future and the net value of the amounts payable and receivable. The discount rate is 1.0% (2018: 2.0%).

Pension liabilities
Virtually all PZEM employees are members of the ABP pension fund (Stichting Pensioenfonds ABP). The ABP plan is a multi-employer plan. The members bear nearly all of the actuarial and investment risks in the plan. Employers taking part in this plan have no obligation to make supplementary contributions in the event of a funding shortfall.
Our obligations are limited to paying contributions as determined by the fund. The ABP's board determines this contribution annually, based on its own data and subject to the parameters and requirements imposed by the Dutch Central Bank (De Nederlandsche Bank), which is the regulatory authority. The obligation to pay contributions ensues from PZEM's participation in the fund during the year and not from its participation in previous years. For reporting purposes, the ABP plan is classified as a defined contribution plan. The contributions are therefore recognised as an expense and no further explanatory notes are required.

At 31 December 2019, the ABP's funding ratio was 97.8%. Its average funding ratio in 2019 was 95.8%.

10. MOVEMENTS IN LONG-TERM DEBT

(EUR 1,000)	31-12-2019	31-12-2018
Carrying amount as at 1 January	**134,427**	**147,271**
Reversal of current portion of loans	13,125	12,171
Value as of 1 January	**147,552**	**159,442**
Repayments	(13,125)	(12,171)
Release of capitalized costs	259	281
Value as of 1 January	**134,686**	**147,552**
Current portion	(13,602)	(13,125)
Long-term debt	**121,084**	**134,427**

Long-term debt comprises amounts owed to credit institutions, EUR 57,8 million of which falling due after more than five years. In 2019, the average rate of interest paid was 0.3% (2018: 0.3%). All assets of Sloecentrale B.V. were used as security for the non-recourse funding obtained for the Sloe power plant, including a pledge over the shares and rights arising from the insurance policies for those assets.

(EUR 1,000)	Interest-bearing loans	Other financial liabilities	Total
1 january 2018	**147,552**	**-**	**147,552**
Financing cash flows	(13,125)	-	(13,125)
Changes arising from obtaining or losing control of subsidiaries or other businesses			
Effect of changes in exchange rates			
Changes in fair values			
Non-cash changes	-	-	-
Other changes	259	-	259
31 DECEMBER 2018	**134,686**	**-**	**134,686**

11. NON-CURRENT LIABILITIES

11.1 DEFERRED TAX LIABILITIES

(EUR 1,000)	31-12-2019	31-12-2018
Deferred tax liabilities	15,820	8,978
Other non-current liabilities	29,445	28,011
Lease liabilities	6,677	-
TOTAL OTHER NON-CURRENT LIABILITIES	**51,942**	**36,989**

Deferred tax liabilities
Deferred tax liabilities comprise valuation differences between the commercial balance sheet and tax balance sheet.

In 2019, as in 2018, deferred tax liabilities related to EPZ and the Sloe power plant.

The increase in deferred tax liabilities was driven by the return on investments within the framework of the decommissioning of the Borssele nuclear power plant.

The deferred tax liabilities arise from:

(EUR 1,000)	31-12-2019	31-12-2018
Property, plant and equipment	15,612	14,569
Other	208	(5,591)
TOTAL	**15,820**	**8,978**

Other non-current liabilities
Other non-current liabilities comprise the accrual of costs for N.V. EPZ in connection with the final nuclear fuel load that will be left in the reactor core when the nuclear power station comes to the end of its lifespan.

The accrual shown is based on the known nuclear fuel costs for the final fuel load as at 31 December 2019, measured as the present value (at a discount rate of 2.5%) of the estimated future value of the remaining core, including reprocessing and storage costs.

The opening balance for 2019 was restated due to the introduction of IFRS 16. Lease liabilities previously classified as operating leases according to the criteria in IAS 17 and IFRIC4 are now presented in the balance sheet. Leased assets (property, plant and equipment) and lease liabilities measured at present value (and shown within interest-bearing debt) increased by EUR 4.0 million. The net impact on equity at 1 January 2019 was nil.

The change in valuation policy for leases has led to differences in presentation in the income statement from the previous standard (IAS 17). Costs arising from operational leases were previously accounted for as third-party services and are now included in amortisation and finance expenses. In 2019 these costs totalled EUR 0.6 million.

11.2 MOVEMENTS IN OTHER NON-CURRENT LIABILITIES

(EUR 1,000)	2019	2018
Balance as at 1 January	**36,989**	**40,843**
Adjusting balance as at 1 January	4,014	-
Adjusted balance as at 1 January	**41,003**	**40,843**
Release of deferred tax liabililty	6,842	(5,142)
Other movements	4,097	1,288
BALACE AS AT 31 DECEMBER	**51,942**	**36,989**

12. **CURRENT LIABILITIES**

(EUR 1,000)	31-12-2019	31-12-2018
Trade payables	48,116	52,820
Other current tax liabilities	12,084	9,870
Current portion of provision	50,778	44,168
Current portion of long-term debt	13,602	13,125
Accruals and deferred income	11,414	25,777
TOTAL CURRENT LIABILITIES (EXCLUDING DERIVATIVES)	**135,993**	**145,760**

Other current tax liabilities mainly comprise VAT payable. Current tax liabilities also comprise corporation tax, wage tax and social security contributions, and energy taxes payable. Current liabilities also include the repayments on long-term loans and withdrawals from provisions scheduled for 2020. Accruals and deferred income fell as exchange settlements received in advance at 31 December 2018 changed to prepaid exchange settlements at 31 December 2019.

OFF-BALANCE SHEET ASSETS AND LIABILITIES

A summary of off-balance sheet assets and liabilities is given below, to the extent that they have an estimated potential impact on profit or loss in excess of EUR 5 million.

A. OPERATIONAL

Energy, energy production and commodity contracts

PZEM's risk management policy aims to actively control the risk exposures arising from its production assets and long-term procurement contracts. Positions arising from trading activities are controlled through a strictly enforced system of limits, using both financial and energy derivatives, including swaps and forwards.

Sales contracts included in the portfolio comprise energy supplies to end-users and trading partners and related financial instruments. At the balance-sheet date, sales contracts were worth EUR 323 million (2018: EUR 410 million).

Procurement contracts included in the portfolio comprise production and purchase contracts with trading partners and related contracts for financial instruments. At the balance-sheet date, procurement contracts were worth EUR 2,919 million (2018: EUR 3,221 million).

Financial instruments are measured on the basis of market values, having regard to transactions entered into for purposes of physical commodities trading. Major contracts involve existing tolling liabilities for power stations, related fuel purchases, and gas transmission and storage capacity in the Netherlands. Loss-making liabilities with regard to transport and storage capacity already provided for in the balance sheet at 31 December are not included in the liabilities referred to in this section.

A number of trading contracts entail the obligation to provide additional collateral if the company's credit rating is downgraded to non-investment grade.

SPECIFICATION OF SALES AND PROCUREMENT CONTRACTS AT 31 DECEMBER 2019

(EURm)	Sales contracts	Procurement contracts
Tolling agreement (EPZ's nuclear power plant, BMC, Sloecentrale)	-	2,919
Electricity (customers)	257	-
Gas (customers and sourcing, respectively)	66	-
TOTAL	**323**	**2,919**

Tolling liabilities for the nuclear power plant comprise EPZ's own fuel obligations. EPZ has entered into long-term purchasing contracts to meet its fuel requirements. The bulk of those requirements, in terms of both value and volume, are covered by contracts that run until the end of the unit's useful life.
The itemisation presented above does not include (net) liabilities arising from the gas storage and transmission contracts. These are recognised in the balance sheet within the provision for onerous contracts. Underlying gross (nominal) liabilities were EUR 120.4 million (2018: EUR 150.0 million) for the gas contracts (tolling charges, transmission, and storage costs).

Investment commitments

At 31 December 2019, financial commitments relating to investments still to be carried out were approximately EUR 9.2 million (2018: EUR 7.0 million). In 2019, EPZ entered into an agreement with a third party for the exchange of a plot of land. The transfer to EPZ took place in 2019, with no value set-off. The transfer back will take place after the balance-sheet date.

BORSSELE AGREEMENT

IIn 2006, an agreement was reached with central government to extend the service life of the nuclear power station until 2033. As part of the agreement, arrangements were also made in terms of the efforts which PZEM (and Essent) were to make to embrace and provide technical and financial support for new renewable energy developments. In 2011, in addition to the interest held in Sustainable Energy Technology (SET) Fund C.V., an interest was also acquired in Sustainable Energy Technology (SET) Fund II C.V.
At the balance-sheet date, the remaining commitment to SET Fund and SET Fund II was EUR 2.5 million (2018: EUR 3.0 million).

STRANDED COSTS

On 1 January 2001, the Transitional Act for the Electricity Generation Industry (Overgangswet elektriciteitsproductiesector) came into force. Under Section 2 of the Act, Dutch power generation companies are jointly liable for the costs arising from, inter alia, contracts for gas and electricity imports entered into by NEA (formerly SEP). These stranded costs are allocated to the various companies according to a formula adopted by the Herkströter Commission. For EPZ, this comes down to a sizeable 28.5% share. In recent years, these stranded costs have largely been settled by commuting import contracts for the supply of electricity. Taking into account NEA's remaining shareholders' equity, the decision was made to continue current policy and not to recognise a provision for stranded costs.

B. COLLATERAL AND GUARANTEES

PZEM has issued and received financial collateral as security for transactions it has entered into:

Collateral granted — Term in years

(EUR 1,000)	< 1 year	1 – 5 years	> 5 years	Total
Collateral granted for associates and joint ventures	-	-	-	-
Other collateral granted	675	24,600	7,776	33,051
TOTAL COLLATERAL GRANTED	**675**	**24,600**	**7,776**	**33,051**

Collateral granted — Term in years

(EUR 1,000)	< 1 year	1 – 5 years	> 5 years	Total
Collateral received for associates and joint ventures	-	-	-	-
Other collateral received	16,870	49,688	132,697	199,254
TOTAL COLLATERAL RECEIVED	**16,870**	**49,688**	**132,697**	**199,254**

MAIN COLLATERAL GRANTED

PZEM has issued EUR 24.6 million worth of guarantees to the Zuid-Holland provincial authorities for the costs of capping the Derde Merwedehaven landfill site in Dordrecht (2018: EUR 24.6 million). Similar security was provided to the Zeeland provincial authorities for the (former) landfill sites "Noord-en Midden Zeeland" and "Koegorspolder" in the amount of EUR 7.8 million (2018: EUR 7.8 million). These guarantees are expected to be taken over by KatoenNatie, the buyer of the shares in Indaver. PZEM has received a counter guarantee from the buyer.

MAIN COLLATERAL RECEIVED

Collateral received comprises EUR 182.4 million (2018: EUR 140.3 million) in bank and other guarantees received, mainly in connection with PZEM's trading activities.
EPZ received 16.9 million (70% share) in collateral, mainly in connection with advance fuel payments (2018: EUR 16.3 million/70% share).

C. LAWSUITS AND CLAIMS

For a number of years now, PZEM has been involved in a lawsuit filed by a former solar power business partner. Following an interim decision by the Court of Appeal, the case was put before the Supreme Court, which referred the case back to the Hague Court of Appeal for a final decision. On 15 January 2019, the Court of Appeal found fully in favour of PZEM. The claimant has lodged an appeal with the Supreme Court, which is expected to hand down its decision in the second half of 2020. Given the earlier judgment, PZEM looks forward to the outcome with confidence. Security was previously provided to the claimant. This security interest is recognised in the balance sheet within short-term receivables.

In 2018, PZEM Energy B.V. became involved in legal proceedings over the exclusive electricity purchase contract which it had entered into with the owners of the Gemini wind farm.

The trustee in the bankruptcies of the bio diesel entities that were PZEM group companies until 2010 was unable to complete the administration of those bankruptcies during the year. PZEM still has a substantial claim against the estate in connection with a loan previously granted to the bankrupt company.

D. OTHER

PZEM's activities are subject to the EU's REMIT (Regulation on Wholesale Energy Market Integrity and Transparency) rules. Under REMIT PZEM is required, amongst other things, to publish the planned and unplanned unavailability of its facilities and any changes in availability. We do so on the EEX website.

In 2017, the Dutch Consumer and Markets Authority (ACM) launched an investigation into possible violations of the Regulation. In 2019, the ACM conducted a follow-up investigation. The investigation is still ongoing at this point. We have again fleshed out and implemented further improvements to the publication process so as to publish the planned and unplanned unavailability of our facilities even more effectively.

At the time of preparing these financial statements, we were unable to reliably estimate the amount of any potential fine.

Notes to the consolidated income statement

13. REVENUE

(EUR 1,000)	2019	2018
Electricity supply	494,161	495,898
Gas supply	80,083	105,868
TOTAL REVENUE	**574,244**	**601,766**

Revenue from electricity supply services and trading remained virtually the same. However, we saw a decline in revenue from gas supply services and trading. All revenue was generated in the Netherlands.

14. **COST OF SALES**

PZEM buys part of its electricity requirement from BMC Moerdijk and (until September 2018) ELSTA, both of which are related parties in which PZEM owns a share interest (and recognised as joint arrangements for reporting purposes).
Cost of sales is adjusted for movements in gains or losses on the provisions for onerous contracts.

15. **OTHER OPERATING INCOME**

Other operating income comprises payments received from third parties for services rendered, proceeds from the sale of assets, and various other income.

16. **FAIR VALUE GAINS OR LOSSES ON THE TRADING PORTFOLIO**

PZEM uses derivatives to hedge price and currency risks arising from energy commodity contracts (electricity, gas, carbon emission allowances) and exchange rates. More specifically, the company applies cash-flow hedging, which involves entering into hedges to mitigate its exposure to variability of existing and future cash flows that could ultimately affect profit or loss.

The hedges are allocated to a specific risk relating to a balance-sheet item or highly probable forecast transaction. The effective portion of fair value changes is recognised in equity and shown within the hedge reserve. The cumulative amounts recognised in equity are taken to the income statement in the same period as the hedged transaction.
Movements in the value of the contract portfolio that are not hedged (non-effective hedges) is recognised as a fair value change in profit or loss.

In 2019, movements in energy prices led to an increase in the fair value of the contract portfolio of EUR 47.0 million, EUR 3.8 million of which was recognised in income and EUR 43.2 million in equity.

17. THIRD-PARTY SERVICES, MATERIALS, AND OTHER EXTERNAL EXPENSES

(EUR 1,000)	2019	2018
Third-party work and services	38,113	38,334
Consumption of materials	4,305	5,238
Other external charges	6,413	7,372
TOTAL	**48,831**	**50,944**

Third-party work and services mainly comprise costs associated with electricity and gas infrastructure. They also comprise ICT costs. A large portion of external expenses relate to the operating activities of EPZ and the Sloe power plant. In 2019, costs of materials used by EPZ and the Sloe power plant were EUR 4.3 million (2018: EUR 4.7 million), costs for third-party services came to EUR 22.6 million (2018: EUR 23.0 million), and other external expenses totalled EUR 6.1 million (2018: EUR 6.1 million).

18. **STAFF COSTS**

(EUR 1,000)	2019	2018
Salaries	29,940	33,968
Social securities contributions	4,020	3,804
Pension charges	4,573	4,619
Addition to staff provisions	(568)	(2,915)
Other staff costs	1,794	1,661
Staff costs	**39,759**	**41,137**
Capitalised staff costs	-	-
TOTAL	**39,759**	**41,137**
Number of employees (FTEs) as at 31 December	400	401
Average number of FTEs (related to the above total staff costs)	400	413
FTE AVERAGE: SEGMENT		
Energy	117	124
Corporate	19	23
EPZ	264	266
TOTAL	**400**	**413**
FTE AVERAGE: GEOGRAPHICAL		
The Netherlands	399	413
Foreign	1	-
TOTAL	**400**	**413**

The Group employed a total of 532 FTEs on permanent contracts (2018: 537), including all FTEs under joint arrangements (N.V. EPZ and Sloe Centrale B.V.).

PZEM is “own-risk bearer” in terms of its financial obligations under the Dutch Unemployment Benefit Act (Werkloosheidswet; WW). This means that it remits no unemployment benefit contributions to the UWV social security payment agency, and that any unemployment benefits paid to former employees will be claimed back from PZEM.

IFRS does not allow a general provision to be recognised for these liabilities. Instead, PZEM determines for each entity whether current recourse obligations as at the balance-sheet date provide a reason for recognising a separate provision.

Remuneration of PZEM N.V.'s Management Board members in accordance with registration with Chamber of Commerce

The General Meeting of Shareholders adopted a new remuneration policy on 13 December 2017. With effect from 1 January 2018, board pay will generally be based on the rules set out in the Dutch Act on the Standardisation of Public and Semi-Public Sector Executive Pay. Board remuneration is capped at an average of 50% of the WNT maximum and 50% of the executive pay benchmark. The latter benchmark uses a Q3 level where 25% of peer positions at comparable companies are paid more and 75% are paid less. Existing contracts will not be affected.

No variable pay arrangements have been made with Management Board members. Management Board members are covered by the same pension plan as all other employees (ABP pension fund).

Of the current Management Board members, Mr Verhagen has a permanent employment contract and a term of office of four years. The employment contract was drafted accordingly and, in addition to a minimum 6-month notice period to be observed by the employer, provides for severance pay amounting to a maximum of one year's salary in line with the Dutch Corporate Governance Code.
On 26 June 2018, Mr Unger was appointed as PZEM N.V.'s COO under a four-year fixed-term contract.

REMUNERATION EXECUTIVE BOARD PZEM N.V.

2018	G. Uytdewilligen CEO	F. Verhagen CEO	N. Unger COO
(EUR)	In office till 1-7-2018	till 1-7-2018 CFO	in office 26-6-2018
Remuneration	199,998	338,304	94,769
Expense allowance	6,244	8,741	4,514
Pension cost allowance	30,000	58,940	8,636
ABP pension contributions	13,225	24,472	10,495
TOTAL	**249,467**	**430,457**	**118,415**

2019	F. Verhagen CEO	N. Unger COO
(EUR)		
Remuneration	344,058	187,453
Expense allowance	8,704	8,704
Pension cost allowance	62,057	17,217
ABP pension contributions	27,285	21,423
TOTAL	**442,103**	**234,797**

Mr Verhagen's company car expenses were EUR 14,135 (2018: EUR 16,745) and Mr Unger's company car expenses were EUR 18,632 (2018: EUR 7,712).

19. DEPRECIATION, AMORTISATION AND IMPAIRMENT

(EUR 1,000)	2019	2018
Intangible assets		
Amortisation	199	1,131
Property, plant and equipment		
Depreciation	48,102	43,966
Third-party contributions released	(48)	(194)
TOTAL	**48,253**	**44,903**

20. OTHER OPERATING EXPENSES

(EUR 1,000)	2019	2018
Added to provision for bad debts / expected credit loss	(365)	(402)
Other operating expenses	1,703	1,683
Added to other provisions	4,659	(1,037)
TOTAL OTHER OPERATING EXPENSES	**5,997**	**244**

Other operating expenses include the remuneration paid to members of the company's Supervisory Board.

The addition to other provisions mainly comprised the addition to EPZ's provision for the costs of processing and storing nuclear fuels.

Remuneration of the Supervisory Board in 2019

Effective 6 June 2019, the Supervisory Board consists of a chairperson and two members. On the same date, changes were made to the remuneration for new appointments. The arrangements made with existing members will remain unchanged until expiry of their term of office.

The remuneration is based on the pay policy adopted.
The remuneration paid to existing Supervisory Board members was not index-linked in 2019. The total remuneration paid to Supervisory Board members was EUR 88,300 in 2019 (2018: EUR 122,338), The reduction in the total amount paid was due mainly to the reduced number of Supervisory Board members.

21. SHARE OF PROFIT OR LOSS IN JOINT VENTURES AND ASSOCIATES

This comprises PZEM's share of the profits or losses made by joint ventures and associates.

22. NET FINANCE INCOME OR EXPENSE

(EUR 1,000)	2019	2018
External finance income	31,172	625
External finance expense	(8,816)	(8,968)
Interest added to provisions	(8,819)	(11,743)
Other finance income (expense)	(881)	(3,320)
TOTAL FINANCE INCOME (EXPENSE)	**12,657**	**(23,406)**

Finance income includes the return on investments made for the decommissioning of the Borssele nuclear power plant, and the return achieved on the same fund by PZEM.

Finance income as shown comprises interest received on cash investments and interest included in sales. Finance expense comprises interest paid on the non-recourse loan for the Sloe power plant.

23. CORPORATE INCOME TAX

(EUR 1,000)	2019	2018
Corporate income tax recognized in profit or loss		
Current income tax charge	(3,129)	(1,403)
Deferred tax	(5,062)	(763)
Income tax expense	**(8,191)**	**(2,166)**
Relating to discontinued operations	-	-
INCOME TAX EXPENSE REPORTED IN THE STATEMENT OF PROFIT OR LOSS	**(8,191)**	**(2,166)**
Current income tax charge		

Reconciliation of the tax base and the accounting profit resulting in the current income tax:

Accounting profit before tax (including discontinued operations)	28,004	(51,474)
Participation exemption	(27,320)	(21,988)
Temporary differences relating to the valuation of assets	(13,980)	(4,274)
Temporary differences relating to the valuation of provisions	(21,354)	(11,106)
Other non-deductible expenses and differences	490	854
Tax loss carry forward	3,533	(26,953)
Unvalued tax loss carry forward	43,169	120,582
DOMESTIC TAX BASE	**12,542**	**5,640**
Current corporate tax rate for profitable amount under € 200,000	19.00%	20.00%
Current corporate tax rate for profitable amount over € 200,000	25.00%	25.00%
Tax expense current year	(3,129)	(1,403)
Differences in respect to prior years		-
CURRENT INCOME TAX CHARGE	**(3,129)**	**(1,403)**
Movement in deferred tax assets and liabilities		

The deferred tax results from differences between the accounting value and the bookvalue for tax purposes as well as from the valuation and usage of tax loss carry forward.

MOVEMENT IN DEFERRED TAX ASSETS AND LIABILITIES	**(5,062)**	**(763)**

RECONCILIATION OF STATUTORY TAX TO EFFECTIVE TAX

(EUR 1,000)	2019	2018
Tax expense using statutory rate	(7,001)	12,869
Net profit before taxes	28,004	(51,474)
Statutory tax rate (NL)	25%	25%
Effect of the participation exemption	6,830	5,497
Effect of lower rate for profitable amount up to € 200,000	6	5
"Effect of non taxable revenues and non tax deductible expenses (amongs other goodwill)"	(122)	(213)
Effect on non-rated deferred tax assets	(2,842)	(19,560)
Effect on deferred tax assets	(5,062)	(771)
Effects from prior periods	-	9
Other increases or decreases	-	-
Tax expense using effective rate	**(8,191)**	**(2,166)**

Notes to the consolidated cash flow statement

The cash flow statement has been prepared according to the indirect method. Given that a number of items in the income statement and balance sheet generate no direct cash-flow effects, cash flows for these items have been neutralised. This essentially concerns three items:

- **Treatment of derivatives**
  Fair value gains and losses on the trading portfolio lead to current and non-current movements in assets and liabilities in the balance sheet. Some of these gains and losses are also partly included in the operating profit or loss, and some in the hedge reserve as part of group equity.

  However, none of these changes generate a direct cash flow. This is why all changes are recognised in the cash flow from operating activities so that positive and negative changes cancel each other out.

- **Share of profit or loss in joint ventures and associates**
  The share of profits in joint ventures and associates is only partly distributed as a dividend. The undistributed portion leads to an increase in the entity's shareholders' equity and, accordingly, to a movement in non-current financial assets in PZEM's balance sheet. As a result, only the actual dividends received are recognised in the cash flow.

- **Corporate income tax**
  Net profit or loss takes into account not only corporate income tax payable on the pre-tax profit, but also deferred tax assets and liabilities arising from unused tax losses and the agreement with the Dutch Tax and Customs Administration regarding the opening balance sheet for tax purposes in 1998. Because they generate no actual cash flows, movements in deferred tax assets and liabilities are eliminated from the cash flow.

PZEM's cash flows were significantly better in 2019 than in 2018, driven mainly by higher operating profit and the release of working capital.

Net cash inflow from operating activities during the year was EUR 77.6 million (2018: net cash outflow of EUR 113.4 million). In addition to a robust increase in EBITDA, we also in particular saw an improvement in working capital in 2019. The largest difference can be explained by the release of collateral which had been posted in the second half of 2018.
Receivables and payables remained stable in 2019.

At EUR 9.9. million, net cash outflow from investing activities improved on the previous year (net cash outflow of EUR 54.8 million), driven mainly by maintenance and replacement costs for EPZ and the Sloe power station, and a payment made by EPZ into the fund set up for the decommissioning of the nuclear power plant. EPZ had made an extra payment in 2018.

In 2019, the SET Fund disposed of two of its units. As a result, PZEM received an amount in the order of EUR 5 million.

The energy production and trading operations saw a net cash inflow, as did EPZ. Our subsidiary Evides contributed positively to the cash flow through the payment of dividends.

POST-BALANCE-SHEET EVENTS

Developments in the financial markets resulting from the corona crisis have had only a limited impact on PZEM's ample cash position. All cash investments with a term of less than two years are deposits and, to a small extent, bonds. Although the fair value of bonds can vary from day to day, this will have no impact as long as there is no reason to convert them into cash prematurely. The construction and spread of our cash and other investments currently do not provide a reason for us to sell them prematurely. A sufficient quantity of cash investments is released on a monthly basis and so our cash position is very well manageable. Manageability will also increase by not reinvesting the funds released or reinvesting them for a very short term only.

The effects on long-term investments (investments in funds) have been twofold. The immediate short-term effects have had an impact on fair value. The decline in fair value at the end of the first quarter more or less equalled the unrealised gain achieved in 2019. However, as we do not need those funds to manage our cash position, the current developments have had no immediate impact. Long-term investments are monitored and, if necessary, adjusted on a daily basis. Although there is uncertainty in markets about the short term (months), there is confidence in the long term (years) that the corona virus will be overcome and long-term objectives can be achieved effectively.

The corona crisis will have a material impact on PZEM but we believe that we can control and mitigate the impact and so we have no indication of any material uncertainty as regards the going concern assumption.

CONSOLIDATED COMPANIES

	Main activity	Head-quarters	Share interest 31-12-2019	Share interest 31-12-2018	Voting rights
PZEM Com B.V.	Energy	Middelburg	100%	100%	100%
PZEM Energy B.V.	Energy	Middelburg	100%	100%	100%
PZEM Ficus Holding B.V.	Energy	Middelburg	100%	100%	100%
PZEM Pipe B.V.	Energy	Middelburg	100%	100%	100%
Deltius B.V.	Energy	Ritthem	100%	100%	100%
PZEM Tolling Sloe B.V.	Energy	Middelburg	100%	100%	100%
DELTA Saefthinge N.V.	Energy	Doel, België	99.9%	99.9%	99.9%
Limo Energie Nederland B.V.	Energy	Middelburg	100%	100%	100%
PZEM Investerings Maatschappij B.V.	Other	Middelburg	100%	100%	100%
PZEM Development & Water B.V.	Other	Middelburg	100%	100%	100%
Triqua B.V.		Wageningen	0%	100%	100%
DELTA Biovalue B.V. (in staat van faillissement)		Eemshaven	100%	100%	100%
DELTA Biovalue Nederland B.V. (in staat van faillissement)		Eemshaven	100%	100%	100%
DELTA Biopat B.V. (in staat van faillissement)		Eemshaven	100%	100%	100%
Sunergy Investco B.V.	Other	Middelburg	100%	100%	100%
PZEM Middelburg B.V.	Other	Middelburg	100%	100%	100%
JOINT ARRANGEMENTS					
Joint Operations (partly consolidated)					
PZEM Energy B.V.					
N.V. EPZ	Energy	Borssele	70%	70%	70%
Sloe Centrale Holding B.V.	Energy	Borssele	100%	100%	100%
Sloe Centrale B.V.	Energy	Vlissingen	50%	50%	50%
Sloe Centrale B.V.	Energy	Vlissingen	100%	100%	100%

The parent company's share interest is shown.

Despite its 70% share interest in N.V. EPZ, PZEM Energy B.V. has joint control because key decisions (impacting the relevant activities) require unanimity by the shareholders. Because PZEM Energy B.V. is entitled to 70% of N.V. EPZ's (electricity) output, N.V. EPZ is treated as a joint operation and partially consolidated.

With its 50% share interest in Sloecentrale Holding B.V., PZEM Energy B.V. has joint control because key decisions (impacting the relevant activities) require a majority of votes of the shareholders. Because PZEM Energy B.V. is entitled to (the availability of) one of the Sloe power station's two units, Sloecentrale Holding B.V. is treated as a joint operation and partially consolidated.

NON-CONSOLIDATED COMPANIES

	Main activity	Headquarters	Share interest 31-12-2019	Share interest 31-12-2018	Voting rights
JOINT ARRANGEMENTS					
PZEM Energy B.V.					
BMC Moerdijk B.V.	Energy	Moerdijk	50.00%	50.00%	50.00%
NPG Willebroek N.V.	Energy	Antwerpen, België	50.00%	50.00%	50.00%
PZEM N.V.					
Evides N.V.	Water	Rotterdam	50.00%	50.00%	50.00%
Elsta B.V.	Energy	Middelburg	0.00%	25.00%	25.00%
Elsta B.V. & Co C.V.	Energy	Middelburg	0.00%	24.75%	24.75%
OTHER COMPANIES					
PZEM N.V.:					
PZEM Investerings Maatschappij B.V.					
Sustainable Energy Technology Fund C.V.	Other	Amsterdam	45.24%	49.93%	45.24%
Sustainable Energy Technology Fund II C.V.	Other	Amsterdam	18.83%	18.83%	18.83%
Zeeland Airport B.V.	Other	Arnemuiden	0.00%	10.73%	0.00%
PZEM Middelburg B.V.	Other	Middelburg			
Synergia Capital B.V. (in liquidatie)	Other	Veenendaal	5.10%	5.10%	5.10%
N.V. EPZ:					
B.V. NEA	Energy	Arnhem	28.50%	28.50%	28.50%
KSG Kraftwerks-Simulator-Gesellschaft mbH	Energy	Duitsland	2.05%	2.05%	2.05%
GfS Gesellschaft für Simulatorschulung mbH	Energy	Duitsland	2.05%	2.05%	2.05%

The parent company's share interest is shown.

Company financial statements 2019

COMPANY BALANCE SHEET AS AT 31 DECEMBER 2019 (BEFORE PROFIT APPROPRIATION)

(EUR 1,000)	Ref. no.	31-12-2019	31-12-2018
NON-CURRENT ASSETS			
Property, plant and equipment	**1**	**6,717**	**6,828**
Investments in subsidiaries	2	71,816	35,594
Other investments	2	361,531	355,148
Receivables from subsidiaries	2	144,596	29,192
Other Loans	2	342,243	275,410
Financial assets		**920,186**	**695,344**
Total non-current assets		**926,904**	**702,172**
Receivables from subsidiaries		36	103,048
Other receivables	4	410,759	444,038
Current assets		**410,794**	**547,086**
Cash		**29,879**	**50,159**
TOTAL ASSETS		**1,367,577**	**1,299,417**
Shareholders' equity	5	1,326,809	1,334,373
Profit for the year	5	19,812	(53,640)
Shareholders' equity		**1,346,621**	**1,280,733**
Provisions	6	292	236
Payables to subsidiaries		11,830	11,830
		2,555	-
Non-current liabilities		**14,677**	**12,066**
Payables to subsidiaries		-	85
Other payables	7	6,280	6,533
Current liabilities		**6,280**	**6,618**
Total liabilities		**20,956**	**18,684**
TOTAL EQUITY AND LIABILITIES		**1,367,577**	**1,299,417**

COMPANY INCOME STATEMENT

(EUR 1,000)	2019	2018
Profit/(loss) on parent company's activities	5,811	(1,539)
Share of profit/(loss) in subsidiaries, joint ventures, and associates	14,001	(52,101)
PROFIT/(LOSS)	**19,812**	**(53,640)**

NOTES TO THE COMPANY FINANCIAL STATEMENTS

PZEM N.V. is the Dutch-based holding company of a number of group companies involved in generating, transmitting, and supplying energy. PZEM N.V.'s functional currency is the euro. PZEM N.V. used the option available under Title 9, Book 2, of the Dutch Civil Code to prepare the company financial statements in accordance with the International Financial Reporting Standards applied to the consolidated financial statements, with the exception of equity-accounted group companies and investments. The company income statement is presented in abridged form in accordance with Section 402, Title 9, Book 2, of the Dutch Civil Code.

Accounting policies

Associates and joint ventures are measured according to the equity method and stated at net asset value (in accordance with the IFRSs applied to the consolidated financial statements), adjusted for goodwill paid on acquisition and less any impairment losses on goodwill.

For the other accounting policies, please refer to the notes to the consolidated financial statements.

NOTES TO THE COMPANY BALANCE SHEET

1. PROPERTY, PLANT AND EQUIPMENT

(EUR 1,000)	Total	Land and buildings	Other assets	Assets under construction
2018				
Carrying amount as at 1 January 2018	**7,283**	**6,487**	**796**	**-**
Investments	-			
Depreciation	(453)	(399)	(54)	
Impairment	-			
Disposals	(2)		(2)	
Other movements / activated items	-			
Carrying amount as at 31 December 2018	**6,828**	**6,088**	**740**	**-**
Carrying amount before deduction of contributions	**6,828**	**6,088**	**740**	**-**
Accumulated depreciation and impairment	21,479	19,246	2,233	-
ACQUISITION COST AS AT 31 DECEMBER 2018	**28,307**	**25,334**	**2,973**	**-**
2019				
Carrying amount as at 1 January 2019	**6,828**	**6,088**	**740**	**-**
Investments	4,962	4,442	-	520
Depreciation	(495)	(444)	(51)	-
Impairment	-	-	-	-
Disposals	(4,723)	(4,522)	(201)	-
Other movements / activated items	146	146	-	-
Carrying amount as at 31 December 2019	**6,717**	**5,708**	**488**	**520**
Carrying amount before deduction of contributions	**6,717**	**5,708**	**488**	**520**
Accumulated depreciation and impairment	21,974	19,690	2,284	-
ACQUISITION COST AS AT 31 DECEMBER 2019	**28,691**	**25,399**	**2,772**	**520**
Depreciation periods in years		0 - 40	5 - 15	nvt

2. NON-CURRENT FINANCIAL ASSETS
(EXCLUDING TAX ASSETS)

(EUR 1,000)	Total	Investments in subsidiaries	Other investments	Receivables from other investments	Other receivables
CARRYING AMOUNT AS AT 31 DECEMBER 2017	**805,532**	**149,959**	**349,962**	**-**	**305,611**
Adjustment opening balance as at 1 January 2018	13,129		13,484		(355)
Adjusted carrying amount as at 1 January 2018	**818,661**	**149,959**	**363,446**	**-**	**305,256**
Acquidition/grant of loans	254,836	-	-	29,192	225,644
Share of profit/(loss)	(52,101)	(77,731)	25,630	-	-
Share premium payment	19,838	19,838	-	-	-
Disposals/repayment/dividends	(34,217)	-	(34,217)	-	-
Movements in hedge reserve	(52,747)	(52,747)	-	-	-
Movement expected credit loss IFRS 9	121	-	-	-	121
Other movements	(3,437)	(3,725)	288	-	-
Current portion of financial assets	(255,611)	-	-	-	(255,611)
CARRYING AMOUNT AS AT 31 DECEMBER 2018	**695,344**	**35,594**	**355,148**	**29,192**	**275,410**
Reversal of current portion	443,407				443,407
Acquidition/grant of loans	22,029				22,029
Share of profit/(loss)	25,214	(10,335)	24,336		11,213
Disposals/repayment/dividends	(17,300)	543	(17,843)		
Movements in hedge reserve	46,150	46,081	70		
Movement expected credit loss IFRS 9	(58)				(58)
Other movements	115,158	(67)	(179)	115,404	(0)
Current portion of financial assets	(409,757)	-	-	-	(409,757)
CARRYING AMOUNT AS AT 31 DECEMBER 2019	**920,186**	**71,816**	**361,531**	**144,596**	**342,243**

At 31 December 2019, other receivables mainly comprised cash invested and collateral provided. The investments are relatively short-term in nature (approx. 1.5 years).

To estimate expected losses, PZEM looked at the external ratings of counterparties and elected to use the following percentages for those ratings:

External credit rating	Expected loss percentage
> A-	0.1%
BBB+	0.2%
BBB of BBB-	0.5%
< BBB- or no rating	1%

PZEM has chosen to apply relatively low percentages because cash invested and collateral provided are relatively short-term in nature (approximately 1.5 years).

The hedge reserve showed a positive trend during 2019.

Term deposits and securities

Because of the sale of its grid and retail operations, PZEM received a significant amount in cash. These funds are used first and foremost for our operating activities. What remains is invested in accordance with the Treasury Charter. At 31 December 2019, these investments mainly comprised term deposits held with banks and bonds representing a value of EUR 630.6 million (2018: EUR 596.4 million) (excluding expected loss provision). Of this total sum, EUR 320.9 million (2018: EUR 254.0 million) (excluding expected loss provision) had a term to maturity of more than 1 year.

An amount of EUR 125.1 million (2018: EUR 78.8 million) concerns funds invested by PZEM in the same fund in which EPZ has invested through Stichting Beheer Ontmantelingsgelden Kerncentrale Borssele (the foundation that manages funds for the decommissioning of the nuclear power plant).

Collateral provided

Collateral provided comprises security deposits and bank guarantees. Some of the collateral was provided to counterparties for operating activities including trading activities, driven mainly by the corporate credit rating downgrade. The downgrade led to the obligation to provide extra collateral to trading parties. Furthermore, guarantees were issued as a result of legal proceedings. At 31 December 2019, EUR 121.7 million (2018: EUR 142.5 million) in collateral was provided (excluding expected loss provision), EUR 21.6 million (2018: EUR 34.1 million) of which (excluding expected loss provision) with a term to maturity of more than 1 year.

2.1 RELATED-PARTY TRANSACTIONS

PZEM N.V. has no transactions with related parties the value of which is of material importance to its financial statements.

3. DEFERRED TAX ASSETS

To be on the safe side, no deferred tax assets were recognised in the balance sheet at 31 December 2019 due to uncertainty over whether and when they might be utilised.

4. SHORT-TERM RECEIVABLES

(EUR 1,000)	31-12-2019	31-12-2018
Trade receivables	234	938
Current tax assets	566	163
Deposits held with banks and bonds	309,309	341,859
Security interest provided	100,065	100,919
Other receivables	620	159
TOTAL SHORT-TERM RECEIVABLES	**410,794**	**444,038**

Non-current financial assets comprise receivables relating to term deposits and securities, on the one hand, and collateral provided on the other. The current portions of these assets amounted to EUR 309.7 million and EUR 100.1 million, respectively (excluding expected loss provision).

5. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR 1,000)	Total	Paid-up capital	Statutory reserve	Hedge reserve	Other non-distributable reserves	Other reserves	Unappropriated profit
ADJUSTED CARRYING AMOUNT AS AT 1 JANUARY 2018	**1,386,829**	**6,937**	**143,098**	**(57,211)**	**323**	**981,052**	**312,630**
Profit appropriation for 2017	-	-	-	-	-	312,630	(312,630)
Payment of dividend	-	-	-	-	-	-	-
Other changes	0	-	(4,538)	-	(91)	4,630	-
Total comprehensive income	(106,096)	-	288	(52,744)	-	-	(53,640)
CARRYING AMOUNT AS AT 31 DECEMBER 2018	**1,280,733**	**6,937**	**138,848**	**(109,955)**	**232**	**1,298,312**	**(53,640)**
Profit appropriation for 2018	-	-	-	-	-	(53,640)	53,640
Payment of dividend	-	-	-	-	-	-	-
Other changes	(74)	-	21,777	-	(90)	(21,762)	-
Total comprehensive income	65,962	-	70	46,080	-	-	19,812
CARRYING AMOUNT AS AT 31 DECEMBER 2019	**1,346,621**	**6,937**	**160,694**	**(63,875)**	**143**	**1,222,910**	**19,812**

The statutory reserve comprises undistributed profits of associates and is therefore not freely distributable. This also applies to the hedge reserve, which should be seen in relation to unrealised income from fair value changes in derivatives used for hedging purposes.

Other movements comprise changes in equity of non-consolidated associates.

For an explanation of changes in equity, please refer to the consolidated financial statements.

PROPOSED APPROPRIATION OF RESULTS

(EUR 1,000)	2019	2018
Profit/(loss) on parent company's activities	19,812	(53,640)
PROPOSED DIVIDEND TO SHAREHOLDERS	-	-
Addition/ withdrawal to other reserves	19,812	(53,640)

Because the underlying result, adjusted for substantial finance income, was negative in 2019 and, on the basis of the business plan for 2020, we do not expect any positive results or cash flows for the coming year, we propose adding the profit fully to the other reserves. The profit for 2019 includes our share of the profit of Evides in the amount of EUR 24.3 million.

6. **PROVISIONS**

(EUR 1,000)	Total	Employee benefits
CARRYING AMOUNT AS AT 1 JANUARY 2018	**1,339**	**1,339**
Reversal of current portion of provision	6,375	6,375
Added	-	-
Interest added	10	10
Released	(3,706)	(3,706)
Utilised	(150)	(150)
Other movements	-	-
Carrying amount as at 31 December 2018	**3,868**	**3,868**
Current portion of provisions	(3,632)	(3,632)
CARRYING AMOUNT AS AT 31 DECEMBER 2018	**236**	**236**
Reversal of current portion of provision	3,632	3,632
Added	450	450
Interest added	11	11
Released	(1,618)	(1,618)
Utilised	(311)	(311)
Other movements	-	-
Carrying amount as at 31 December 2018	**2,400**	**2,400**
Current portion of provisions	(2,108)	(2,108)
CARRYING AMOUNT AS AT 31 DECEMBER 2019	**292**	**292**

At 31 December 2019 and 2018, long-term provisions only comprised employee benefits.

In 2016, a reorganisation provision was recognised for the GAMMA2 programme to cover our liabilities to those of our employees who were expected to leave the PZEM Group as a result. These liabilities are measured taking into account the arrangements set out in the Social Plan and the employee's years of service within the industry, his or her age, various pay components, and estimates in terms of his or her ability to find other employment. In 2019, as in 2018, several of our employees covered by the provision at 31 December 2016 left the company, which led to the provision being utilised. A discount rate of 1.0% (2018: 2.0%) was applied to the reorganisation provision.

Under the terms of the collective agreement, PZEM pays its employees long-service benefits. From the start date of employment, a provision is recognised for these benefits, based on past years of service, expected price and pay rises (at an average rate of 2%), and dismissal, invalidity, and mortality rates. The discount rate applied was 2.5% (2018: 3.5%).

7. CURRENT LIABILITIES (EXCLUDING GROUP COMPANIES)

(EUR 1,000)	31-12-2019	31-12-2018
Trade payables	1,575	569
Other current tax liabilities	688	1,179
Current portion of provision	2,108	3,632
Accruals and deferred income	1,909	1,153
TOTAL CURRENT LIABILITIES	**6,280**	**6,533**

Other payables include, amongst other things, the current portion of the provisions and outstanding supplier accounts. Current tax liabilities include wage tax and social insurance contributions payable.

OFF-BALANCE SHEET LIABILITIES

A summary of off-balance sheet liabilities is given below, to the extent that they have an estimated potential impact on profit or loss in excess of EUR 5 million.

Main collateral granted

PZEM has issued EUR 24.6 million worth of guarantees to the Zuid-Holland provincial authorities for the costs of capping the Derde Merwedehaven landfill site in Dordrecht (2018: EUR 24.6 million). Similar security was provided to the Zeeland provincial authorities for the (former) landfill sites “Noord- en Midden Zeeland” and “Koegorspolder” in the amount of EUR 7.8 million (2018: EUR 7.8 million). These guarantees are expected to be taken over by KatoenNatie. PZEM has received a counter guarantee from the buyer.

Lawsuits and claims

For a number of years now, PZEM has been involved in a lawsuit filed by a former solar power business partner. Following an interim decision by the Court of Appeal, the case was put before the Supreme Court, which referred the case back to the Hague Court of Appeal for a final decision. On 15 January 2019, the Court of Appeal found fully in favour of PZEM. The claimant has lodged an appeal with the Supreme Court, which is expected to hand down its decision in the second half of 2020. Given the earlier judgment, PZEM looks forward to the outcome with confidence. Security was previously provided to the claimant. This security interest is recognised in the balance sheet within short-term receivables.

The trustee in the bankruptcies of the bio diesel entities that were PZEM group companies until 2010 was unable to complete the administration of those bankruptcies during the year. PZEM still has a substantial claim against the estate in connection with a loan previously granted to the bankrupt company.

403 Declarations

PZEM N.V. filed a statement with the Chamber of Commerce as required under Section 2:403 of the Dutch Civil Code, assuming joint and several liability for debts arising from legally binding transactions entered into by the following subsidiaries as at the balance-sheet date:

- PZEM Energy B.V.
- PZEM Ficus Holding B.V.
- PZEM Pipe B.V.
- PZEM Tolling Sloe B.V.
- DELTIUS B.V.
- LIMO Energie Nederland B.V.
- PZEM Com B.V.

On that basis, and on the grounds of annual authorisation statements from the shareholders filed with the Chamber of Commerce, these companies are exempt from the prescribed financial statements publication requirements.

Fiscal unity

PZEM N.V. heads a fiscal unity for VAT purposes. PZEM N.V. and its subsidiaries that are members of the fiscal unity are jointly and severally liable for the fiscal unity’s tax debt.

NOTES TO THE COMPANY INCOME STATEMENT

At 31 December 2019, PZEM N.V. employed 112 FTEs (2018: 114 FTEs).

For details of the remuneration of PZEM N.V.'s Management Board members, please refer to note 18 (Staff costs) to the consolidated financial statements.

For details of the remuneration of PZEM N.V.'s Supervisory Board members, please refer to note 20 (Other operating expenses) to the consolidated financial statements.

Auditors' fees

In 2019, PZEM N.V. paid the following fees for its consolidated companies:

(EUR 1,000)	Accountants		Other members of accountants network		Total	
	2019	2018	2019	2018	2019	2018
Total fee for auditing PZEM Group's financial statements	269	405	-	-	269	405
Fee for related audit services	15	27	-	-	15	27
Tax advisory services	-	-	-	-	-	-
Other non-audit related services	-	28	4	-	4	28
TOTAL	**285**	**460**	**4**	**-**	**289**	**460**

In 2018 the financial statements of PZEM N.V., N.V. EPZ, and Sloecentrale Holding B.V. were audited by Deloitte Accountants B.V. As of 2019, PZEM will use the services of KPMG. The amounts for 2019 shown in the summary above are the amounts paid to KPMG Accountants N.V. (and the KPMG network) for PZEM N.V., and 70% and 50%, respectively, of the fees paid to Deloitte Accountants B.V. (and the Deloitte network) for N.V. EPZ and Sloecentrale Holding B.V.

No performance-related fees were paid.

Signed for approval:

Management Board:

F. Verhagen

N.C. Unger

Supervisory Board[4]:

G.A.F. van Harten

W.J.N. van Uchelen

Signed,

Middelburg, The Netherlands, 15 April 2020

[4] We intend to have a new Supervisory Board member appointed at the next General Meeting of Shareholders so as to bring the number of Supervisory Board members back into line with the statutorily required minimum of three.

2019
Other information

OTHER INFORMATION

Profit appropriation according to the Articles of Association

Article 41 of the Articles of Association provides for the appropriation of profit or loss as follows.

1. Any loss reported in the income statement, as included in the adopted financial statements, shall be taken to the general reserves. If those reserves hold insufficient funds to cover such loss, the remainder of the loss shall be charged to any profits achieved in future years.

2. If the income statement, as included in the adopted financial statements, reports any profit, the Supervisory Board may use such profit to add funds to the general reserves. Any profit remaining shall be at the disposal of the General Meeting of Shareholders.

3. The General Meeting may declare one or more interim dividends and/or make other interim distributions, provided that the requirements of Section 2:105 (2) of the Dutch Civil Code are satisfied, as evidenced by an interim financial statement as referred to in Section 2:105 (4) of the Dutch Civil Code.

For the independent auditor’s report see the Dutch version of the annual report 2019.

STATEMENT

Code of Conduct Compliance Statement for Suppliers, including metering companies for which they are responsible, regarding the use of meters that can be read remotely and which are installed at the premises of consumers and small businesses.

Name of legal entity:
PZEM Energy B.V.

Place of registered office:
Middelburg, The Netherlands

Period:
1 January 2019 until 31 December 2019

To ensure the proper delivery of its services, PZEM Energy B.V. uses data obtained from meters that can be read remotely and which are installed at the premises of consumers and small businesses. In addition to compliance with the Dutch Data Protection Act (Wet bescherming persoonsgegevens), Dutch energy suppliers and the metering companies for which they are responsible have drawn up a code of conduct for the use, registration, sharing, and storage of data obtained from such meters.

PZEM N.V., duly represented by its director F. Verhagen, and acting in its capacity as a director of PZEM Com B.V., based in Middelburg, The Netherlands – PZEM Com B.V. acting in its capacity as a shareholder of PZEM Energy B.V. – hereby declares that, to the best of their knowledge, PZEM Energy B.V. was in compliance with the rules and obligations set out in the 2012 Code of Conduct for Suppliers of Smart Meters during the period stated above.

Middelburg, The Netherlands, 15 April 2020

Signed

F. Verhagen
The Management Board of PZEM N.V.

PZEM

Postal address
Postbus 51
4330 AB Middelburg
The Netherlands

Visiting adress
Poelendaelesingel 10
4335 JA Middelburg
The Netherlands

Contact
T 088 1346 000
info@pzem.nl

PZEM.nl