



EP Energy, a.s.

Consolidated Financial Statements as of and for the year ended 31 December 2012

prepared in accordance with International Financial Reporting Standards
as adopted by the European Union



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

We have audited the accompanying consolidated financial statements of EP Energy, a.s., which comprise the consolidated statement of financial position as of 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and the notes to these consolidated financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is set out in Note 1 to these consolidated financial statements.

Statutory Body's Responsibility for the Consolidated Financial Statements

The statutory body of EP Energy, a.s. is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal controls as the statutory body determines are necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of EP Energy, a.s. as of 31 December 2012, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Prague
3 April 2013

KPMG Česká republika Audit

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Consolidated statement of comprehensive income

For the year ended 31 December 2012

In millions of CZK ("MCZK")

	Note	2012	2011
Sales: Energy	7	39,295	32,701
<i>of which: Electricity</i>		22,431	19,809
Heat		6,859	5,749
Gas		3,711	4,956
Coal		6,294	2,091
Other energy products		-	96
Sales: Other	7	1,770	725
Total sales		41,065	33,426
Cost of sales: Energy	8	(25,276)	(23,188)
Cost of sales: Other	8	(422)	(680)
Total cost of sales		(25,698)	(23,868)
		15,367	9,558
Personnel expenses	9	(3,784)	(2,059)
Depreciation and amortisation	16, 17	(5,211)	(3,447)
Repairs and maintenance		(457)	(392)
Emission rights, net	10	135	157
Negative goodwill	6	3,012	208
Taxes and charges	11	(382)	(481)
Other operating income	12	2,247	669
Other operating expenses	13	(2,252)	(1,292)
Profit/(loss) from operations		8,675	2,921
Finance income	14	509	536
Finance expense	14	(2,013)	(1,915)
Profit/(loss) from derivative financial instruments	14	(98)	(13)
Net finance income/(expense)		(1,602)	(1,392)
Share of profit/(loss) of equity accounted investees, net of tax	19	(9)	15
Gain/(loss) on disposal of subsidiaries, special purpose entities, joint-ventures and associates	6	4,484	-
Profit/(loss) before income tax		11,548	1,544
Income tax expenses	15	(1,021)	(645)
Profit/(loss) for the year		10,527	899
Foreign currency translation differences for foreign operations	15	123	25
Share of the other comprehensive income of associates accounted for using the equity method, net of tax	15	-	(17)
Effective portion of changes in fair value of cash flow hedges, net of tax	15	2	(7)
Other comprehensive income for the year, net of tax		125	1
Total comprehensive income for the year		10,652	900
Profit/(loss) attributable to:			
Owners of the Company		10,547	901
Non-controlling interest	28	(20)	(2)
Profit/(loss) for the year		10,527	899
Total comprehensive income attributable to:			
Owners of the Company		10,673	902
Non-controlling interest	28	(21)	(2)
Total comprehensive income for the year		10,652	900
Basic and diluted earnings per share in CZK	27	0.54	0.05

The notes presented on pages 9 to 102 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2012

In millions of CZK ("MCZK")

	Note	2012	2011
Assets			
Property, plant and equipment	16	41,742	27,484
Intangible assets	17	3,244	796
Goodwill	17	2,622	2,622
Investment property	18	9	9
Participations with significant influence	19	4,043	1,034
Financial instruments and other financial assets	32	435	1,219
<i>of which receivables from the parent company</i>		-	-
Trade receivables and other assets	22	415	352
Deferred tax assets	20	32	32
Total non-current assets		52,542	33,548
Inventories	21	830	605
Extracted minerals and mineral products		105	51
Trade receivables and other assets	22	6,265	4,087
Financial instruments and other financial assets	32	13,672	7,011
<i>of which receivables from the parent company</i>		12,322	6,682
Prepayments and other deferrals		62	56
Tax receivables	24	485	429
Cash and cash equivalents	23	8,173	2,263
Assets/disposal groups held for sale	25	259	11,980
Total current assets		29,851	26,482
Total assets		82,393	60,030
Equity			
Share capital	26	19,420	19,420
Reserves		(5,569)	(7,516)
Retained earnings		15,219	6,558
Total equity attributable to equity holders		29,070	18,462
Non-controlling interest	28	7,137	(6)
Total equity		36,207	18,456
Liabilities			
Loans and borrowings	29	16,436	9,839
<i>of which owed to the parent company</i>		3,186	2
Financial instruments and financial liabilities	32	37	36
Provisions	30	6,050	3,237
Deferred tax liabilities	20	4,881	2,446
Trade payables and other liabilities	33	123	81
Total non-current liabilities		27,527	15,639
Trade payables and other liabilities	33	8,150	18,246
Loans and borrowings	29	9,597	4,287
<i>of which owed to the parent company</i>		9,478	125
Financial instruments and financial liabilities	32	15	738
Provisions	30	300	60
Deferred income	31	441	301
Current income tax liability		111	179
Liabilities from disposal groups held for sale	25	45	2,124
Total current liabilities		18,659	25,935
Total liabilities		46,186	41,574
Total equity and liabilities		82,393	60,030

The notes presented on pages 9 to 102 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2012

In millions of CZK ("MCZK")

	Share capital	Other capital funds from capital contributions	Non-distributable reserves	Translation reserve	Attributable to owners of the Company	Fair value reserve	Retained earnings	Total	Non-controlling interest	Total Equity
Balance at 1 January 2012 (A)	19,420	579	17	26	(8,112)	-	6,558	18,462	(6)	18,456
<i>Total comprehensive income for the year:</i>										
Profit or loss (B)	-	-	-	-	-	-	10,547	10,547	(20)	10,527
<i>Other comprehensive income:</i>										
Foreign currency translation differences for foreign operations	-	-	-	124	-	-	-	124	(1)	123
Effective portion of changes in fair value of cash-flow hedges	-	-	-	-	-	-	-	2	-	2
Total other comprehensive income (C)	-	-	-	124	-	-	-	126	(1)	125
Total comprehensive income for the year (D) = (B + C)	-	-	-	124	-	-	10,547	10,673	(21)	10,652
<i>Transfers within equity:</i>										
Transfer to non-distributable reserves	-	-	1,886	-	-	-	(1,886)	-	-	-
Total transfers within equity (E)	-	-	1,886	-	-	-	(1,886)	-	-	-
<i>Contributions by and distributions to owners:</i>										
Dividends to equity holders	-	-	-	-	-	-	-	-	(1)	(1)
Total contributions by and distributions to owners (F)	-	-	-	-	-	-	-	-	(1)	(1)
<i>Changes in ownership interests in subsidiaries:</i>										
Effect of disposals through step acquisition	-	-	-	(101)	-	-	-	(65)	(173)	(238)
Effects from acquisitions through step acquisition (Note 6)	-	-	-	-	-	-	-	-	7,165	7,165
Effect of changes in shareholdings on non-controlling interests	-	-	-	-	-	-	-	-	173	173
Total changes in ownership interests in subsidiaries (G)	-	-	-	(101)	-	-	-	(65)	7,165	7,100
Total transactions with owners (H) = (F + G)	-	-	-	(101)	-	-	-	(65)	7,164	7,099
Balance at 31 December 2012 (I) = (A + D + E + H)	19,420	579	1,903	49	(8,112)	-	15,219	29,070	7,137	36,207

The notes presented on pages 9 to 102 form an integral part of these consolidated financial statements.

For the year ended 31 December 2011

In millions of CZK ("MCZK")

Balance at 1 January 2011 – Restated ⁽¹⁾ (A)

Total comprehensive income for the year:

Profit or loss (B)

Other comprehensive income:

Foreign currency translation differences for foreign operations

Effective portion of changes in fair value of cash-flow hedges

Share of the other comprehensive income of associates accounted for using the equity method

Total other comprehensive income (C)

Total comprehensive income for the year

(D) = (B + C)

Transfers within equity:

Transfer to non-distributable reserves

Total transfers within equity (E)

Contributions by and distributions to owners:

Dividends to equity holders

Issue of own capital

Pricing differences arising from common control acquisitions

Total contributions by and distributions to owners (F)

Changes in ownership interests in subsidiaries:

Effect of changes in shareholdings on non-controlling interests

Total changes in ownership interests in subsidiaries (G)

Total transactions with owners

(H) = (F + G)

Balance at 31 December 2011

(I) = (A + D + E + H)

	Share capital	Other capital funds from capital contributions	Non-distributable reserves	Attributable to owners of the Company					Total	Non-controlling interest	Total Equity
				Translation reserve	Other capital reserves	Fair value reserve	Hedging reserve	Retained earnings			
Balance at 1 January 2011 – Restated ⁽¹⁾ (A)	18,650	579	11	1	(7,342)	-	(2)	5,642	17,539	4	17,543
<i>Total comprehensive income for the year:</i>	-	-	-	-	-	-	-	901	901	(2)	899
Profit or loss (B)	-	-	-	-	-	-	-	-	-	-	-
<i>Other comprehensive income:</i>	-	-	-	25	-	-	-	-	25	-	25
Foreign currency translation differences for foreign operations	-	-	-	-	-	-	(7)	-	(7)	-	(7)
Effective portion of changes in fair value of cash-flow hedges	-	-	-	-	-	-	(17)	-	(17)	-	(17)
Share of the other comprehensive income of associates accounted for using the equity method	-	-	-	-	-	-	(24)	-	(24)	-	(24)
Total other comprehensive income (C)	-	-	-	25	-	-	(24)	-	1	-	1
Total comprehensive income for the year	-	-	-	25	-	-	(24)	901	902	(2)	900
<i>Transfers within equity:</i>	-	-	6	-	-	-	-	(6)	-	-	-
Transfer to non-distributable reserves	-	-	6	-	-	-	-	(6)	-	-	-
Total transfers within equity (E)	-	-	6	-	-	-	-	(6)	-	-	-
<i>Contributions by and distributions to owners:</i>	-	-	-	-	-	-	-	-	-	(1)	(1)
Dividends to equity holders	770	-	-	-	-	-	-	-	770	-	770
Issue of own capital	-	-	-	-	-	-	-	-	-	-	-
Pricing differences arising from common control acquisitions	-	-	-	-	(770)	-	-	-	(770)	-	(770)
Total contributions by and distributions to owners (F)	770	-	-	-	(770)	-	-	-	-	(1)	(1)
<i>Changes in ownership interests in subsidiaries:</i>	-	-	-	-	-	-	-	21	21	(7)	14
Effect of changes in shareholdings on non-controlling interests	-	-	-	-	-	-	-	-	-	-	-
Total changes in ownership interests in subsidiaries (G)	-	-	-	-	-	-	-	21	21	(7)	14
Total transactions with owners	770	-	6	-	(770)	-	-	15	21	(8)	13
Balance at 31 December 2011	19,420	579	17	26	(8,112)	-	(26)	6,558	18,462	(6)	18,456

(1) Restated already in 2011 consolidated financial statements

The notes presented on pages 9 to 102 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2012

In millions of CZK ("MCZK")

	Note	2012	2011
OPERATING ACTIVITIES			
Profit/(loss) for the year		10,527	899
Adjustments for:			
Income taxes	15	1,021	645
Depreciation and amortisation	16, 17	5,211	3,447
Impairment losses on property, plant and equipment and intangible assets		88	13
Change in fair value of investment property	18	-	-
Loss on disposal of property, plant and equipment, investment property and intangible assets	13	30	34
Gain on disposal of inventories	12	(9)	(5)
Emission rights	10	(135)	(157)
Gain on disposal of subsidiaries, special purpose entities, joint-ventures, associates and non-controlling interests	6	(4,484)	-
Share of profit of equity accounted investees	19	9	(15)
Gain on financial instruments	14	98	13
Net interest expense	14	1,450	1,399
Change in allowance for impairment to trade receivables and other assets, write-offs	13	53	24
Change in provisions	9, 12	(1,532)	(357)
Negative goodwill	6	(3,012)	(208)
Unrealised foreign exchange (gains)/losses, net		328	216
Operating profit before changes in working capital		9,643	5,948
Change in financial instruments at other than fair value		(7,424)	7,094
Change in trade receivables and other assets		(1,317)	(466)
Change in inventories (including proceeds from sale)		(47)	92
Change in extracted minerals and mineral products		(54)	(51)
Change in assets held for sale and related liabilities		(1,927)	599
Change in trade payables and other liabilities		(16,020)	1,422
Cash generated from (used in) operations		(17,146)	14,638
Interest paid		(1,377)	(610)
Income taxes paid		(871)	(967)
Cash flows generated from (used in) operating activities		(19,394)	13,061
INVESTING ACTIVITIES			
Proceeds from sale of financial instruments – derivatives		(35)	5
Acquisition of property, plant and equipment, investment property and intangible assets	16, 17, 18	(1,897)	(1,668)
Purchase of emission rights	17	(451)	(302)
Proceeds from sale of emission rights		621	442
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		14	55
Acquisition of subsidiaries and special purpose entities, net of cash acquired	6	887	(309)
Net cash inflow from disposal of subsidiaries and special purpose entities including received dividends	6	13,219	-
Increase in participation in existing subsidiaries and special purpose entities		-	(58)
Cash flow from contingent consideration		-	-
Interest received		81	103
Cash flows from (used in) investing activities		12,439	(1,732)

Consolidated statement of cash flows (continued)

For the year ended 31 December 2012

In millions of CZK ("MCZK")

	Note	2012	2011
FINANCING ACTIVITIES			
Proceeds from loans received		9,830	915
Repayment of borrowings		(9,211)	(10,946)
Proceeds from bonds issued		12,276	-
Payment of finance lease liabilities		(9)	-
Dividends paid		(1)	(1)
Cash flows from (used in) financing activities		12,885	(10,032)
<i>Net increase (decrease) in cash and cash equivalents</i>		<i>5,930</i>	<i>1,297</i>
Cash and cash equivalents at beginning of the year		2,263	934
Effect of exchange rate fluctuations on cash held		(20)	32
Cash and cash equivalents at end of the year		8,173	2,263

The notes presented on pages 9 to 102 form an integral part of the consolidated financial statements.

Notes to the consolidated financial statements

1. Background

EP Energy, a.s. (the “Parent Company” or the “Company” or “EPE” or “energy subholding”) is a joint-stock company, with its registered office at Příkop 843/4, 602 00 Brno, Czech Republic. The Company was founded by Energetický a průmyslový holding, a.s. (“EPH”) on 16 December 2010 as a subsidiary that will hold/consolidate investments in entities belonging to the energy segment of Energetický a průmyslový holding, a.s. and its subsidiaries (the “EPH Group”).

The energy subholding was established to separate the strategic energy assets from other business activities of the EPH Group.

The share capital of the Company of CZK 19,420 million was settled by a non-cash consideration in the form of shares in Honor Invest, a.s., AISE, s.r.o., První energetická a.s., Czech Energy Holding, a.s., Plzeňská energetika a.s., ROLLEON a.s., EP Renewables a.s. (previously Czech Wind Holding, a.s.) and HC Fin3 N.V.

The consolidated financial statements of the Company for the year ended 31 December 2012 include the statements of the Parent Company and its subsidiaries and the Group’s interests in associates and joint-ventures (together referred to as the “Group” or the “EPE Group”). The Group entities are listed in Note 38 – Group entities.

The shareholder of the Company as at 31 December 2012 and 31 December 2011 was as follows:

	Interest in share capital		Voting rights	
	MCZK	%		%
Energetický a průmyslový holding, a.s.	19,420	100.00		100.00
Total	19,420	100.00		100.00

The shareholders of Energetický a průmyslový holding, a.s. as at 31 December 2012 and 31 December 2011 were as follows:

	Interest in share capital %		Voting rights %	
	2012	2011	2012	2011
TIMEWORTH HOLDINGS LIMITED (owned by PPF Group N.V. and PPF Partners Limited)	44.44	40.00	44.44	40.00
BIQUES LIMITED (owned by J&T PARTNERS I L.P.)	18.52	20.00	18.52	20.00
MACKAREL ENTERPRISES LIMITED (owned by Daniel Křetínský)	18.52	20.00	18.52	20.00
MILEES LIMITED (owned by J&T PARTNERS II L.P.)	18.52	20.00	18.52	20.00
Total	100.00	100.00	100.00	100.00

The members of the Board of Directors as at 31 December 2012 were:

- JUDr. Daniel Křetínský (Chairman of the Board of Directors)
- Mgr. Marek Spurný (Vice-Chairman of the Board of Directors)
- Ing. Jan Špringl (Member of the Board of Directors)
- Mgr. Pavel Horský (Member of the Board of Directors)

Information relating to the establishment of the parent company Energetický a průmyslový holding, a.s. and its shareholder structure was disclosed in the 2010 consolidated financial statements of Energetický a průmyslový holding, a.s. published on 20 May 2011.

As the Company was established by its parent Energetický a průmyslový holding, a.s. under the common control principle (refer to Note 3 – Significant Accounting Policies), the Company opted to restate its comparatives, i.e. reported the entities contributed to the share capital of the Company as at 16 December 2010 as if contributed by the parent company on the date when the respective entities were acquired by the EPH Group or were contributed to the EPH Group.

Under Czech law the non-cash contribution to the share capital must be valued by an independent valuation specialist. The difference between the value contributed to the statutory share capital as determined by the independent valuation specialist and net book value (after potential fair value adjustments recorded during the Purchase Price Allocation process when acquired by EPH) of the contributed entity as of the date when acquired or contributed by the parent company was presented as a pricing difference in Other capital reserves in Equity.

2. Basis of preparation

(a) Statement of compliance

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

The consolidated financial statements were approved by the Board of Directors on 3 April 2013.

(b) Basis of measurement

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

- investment property
- derivative financial instruments
- available-for-sale financial instruments

Non-current assets and disposal groups held for sale are stated at the lower of their carrying amount and fair value less costs to sell.

The accounting policies described in the following paragraphs have been consistently applied by the Group entities and between accounting periods.

(c) Functional and presentation currency

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

(d) Use of estimates and judgments

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

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

Information about estimates and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Notes 6 and 17 – accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill
- Note 30 – provisions
- Notes 32 and 36 – valuation of financial instruments

(e) Recently issued accounting standards

i. Newly adopted Standards, Amendments to standards and Interpretations effective for the year ended 31 December 2012 that have been applied in preparing the Group's financial statements

The following paragraphs provide a summary of the key requirements of IFRSs that are effective for annual periods beginning on or after 1 January 2012 and that have thus been applied by the Group for the first time.

Amendments to IAS 1 Presentation of Financial Statements: Presentation of Items of Other Comprehensive Income (effective for annual periods beginning on or after 1 July 2012)

The amendments require that an entity present separately the items of other comprehensive income that may be reclassified to profit or loss in the future from those that would never be reclassified to profit or loss. If items of other comprehensive income are presented before related tax effects, then the aggregated tax amount should be allocated between these sections. The amendments also propose to change the title of the Statement of Comprehensive Income to the Statement of Profit or Loss and Other Comprehensive Income; however, use of other titles is also permitted.

The Group decided not to change the title of the Statement of Comprehensive Income.

ii. Standards adopted by the EU but not yet effective

At the date of authorisation of these consolidated financial statements, the following significant Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for the period ended 31 December 2012 and thus have not been adopted by the Group:

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2013)

The amendments contain new disclosure requirements for financial assets and liabilities that are either offset in the statement of financial position, or subject to master netting arrangements or similar agreements. The Group does not expect the amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

IFRS 10 Consolidated Financial Statements and IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014)

This standard is to be applied retrospectively when there is a change in control conclusion.

IFRS 10 provides a single model to be applied in the control analysis for all investees, including entities that are currently SPEs in the scope of SIC-12. IFRS 10 introduces new requirements to assess control that differ from the existing requirements in IAS 27 (2008). Under the new single control model, an investor controls an investee when:

- it is exposed or has rights to variable returns from its involvement with the investee;
- it has the ability to affect those returns through its power over that investee; and
- there is a link between power and returns.

The new standard also includes disclosure requirements and requirements relating to the preparation of consolidated financial statements. These requirements are carried forward from IAS 27 (2008). The Group does not expect the new standard to have any impact on the financial statements, since the assessment of control over its current investees under the new standard is not expected to change previous conclusions regarding the Group's control over its investees.

IFRS 11 Joint Arrangements (effective for annual periods beginning on or after 1 January 2014)

IFRS 11, Joint Arrangements, supersedes and replaces IAS 31, Interest in Joint Ventures. IFRS 11 does not introduce substantive changes to the overall definition of an arrangement subject to joint control, although the definition of control, and therefore indirectly of joint control, has changed due to IFRS 10.

Under the new standard, joint arrangements are divided into two types, each having its own accounting model defined as follows:

- a joint operation is one whereby the jointly controlling parties, known as the joint operators, have rights to the assets, and obligations for the liabilities, relating to the arrangement.
- a joint venture is one whereby the jointly controlling parties, known as joint venturers, have rights to the net assets of the arrangement.

IFRS 11 effectively carves out, from IAS 31, jointly controlled entities those cases in which, although there is a separate vehicle for the joint arrangement, separation is ineffective in certain ways. These arrangements are treated similarly to jointly controlled assets/operations under IAS 31, and are now called joint operations. The remainder of IAS 31 jointly controlled entities, now called joint ventures, are stripped of the free choice of equity accounting or proportionate consolidation; they must now always use the equity method in the consolidated financial statements. The Group does not expect the new standard to have any impact on the financial statements, since the assessment of the joint arrangements under the new standard is not expected to result in a change in the accounting treatment of existing joint arrangements.

IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods beginning on or after 1 January 2014)

IFRS 12 requires additional disclosures relating to significant judgements and assumptions made in determining the nature of interests in an entity or arrangement, interests in subsidiaries, joint arrangements and associates and unconsolidated structured entities. The Group is evaluating the need for additional disclosures.

IFRS 13 Fair Value Measurement (effective prospectively for annual periods beginning on or after 1 January 2013)

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

The Group does not expect IFRS 13 to have a material impact on the financial statements since management considers the methods and assumptions currently used to measure the fair value of assets to be consistent with IFRS 13.

Amendments to IAS 12: Deferred Tax: Recovery of Underlying Assets (effective for annual periods beginning on or after 1 January 2013)

The amendments introduce a rebuttable presumption that the carrying value of investment property measured using the fair value model would be recovered entirely by sale. Management's intention would not be relevant unless the investment property is depreciable and held within a business model whose objective is to consume substantially all of the asset's economic benefits over the life of the asset. This is the only instance in which the presumption can be rebutted.

The Group does not expect the amendments to have any impact on the financial statements, since it does not result in a change in the Group's accounting policy. The measurement of deferred tax assets and liabilities relating to investment properties measured using the fair value model in IAS 40 will not change.

IAS 19 Employee Benefits (effective for annual periods beginning on or after 1 January 2013)

The amendment requires actuarial gains and losses to be recognised immediately in other comprehensive income. The amendment removes the corridor method previously applicable to recognising actuarial gains and losses, and eliminates the ability for entities to recognise all changes in the defined benefit obligation and in plan assets in profit or loss, which currently is allowed under the requirements of IAS 19. The amendment also requires the expected return on plan assets recognised in profit or loss to be calculated based on the rate used to discount the defined benefit obligation. The Group has been evaluating the potential consequences of the change for consolidated financial statements.

IAS 27 (2011) Separate Financial Statements (effective for annual periods beginning on or after 1 January 2014)

IAS 27 (2011) carries forward the existing accounting and disclosure requirements of IAS 27 (2008) for separate financial statements, with some minor clarifications. Also, the existing requirements of IAS 28 (2008) and IAS 31 for separate financial statements have been incorporated into IAS 27 (2011). The standard no longer addresses the principle of control and requirements relating to the preparation of consolidated financial statements; these have been incorporated into IFRS 10, Consolidated Financial Statements.

In consolidated financial statements there is no need to separately disclose the change in IAS 27 since the remaining portion of IAS 27 relates only to separate financial statements and the portion of IAS 27 that relates to the consolidated financial statements should be addressed as part of the IFRS 10 discussion.

IAS 28 (2011) Investments in Associates and Joint Ventures (effective for annual periods beginning on or after 1 January 2014)

Limited amendments are made to IAS 28 (2008):

Associates and joint ventures held for sale. IFRS 5, Non-current Assets Held for Sale and Discontinued Operations, applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale. For any retained portion of the investment that has not been classified as held for sale, the equity method is applied until disposal of the portion held for sale. After disposal, any retained interest is accounted for using the equity method if the retained interest continues to be an associate or a joint venture.

Changes in interests held in associates and joint ventures. Previously, IAS 28 (2008) and IAS 31 specified that the cessation of significant influence or joint control triggered remeasurement of any retained stake in all cases, even if significant influence was succeeded by joint control. IAS 28 (2011) now requires that in such scenarios the retained interest in the investment not be remeasured.

The Group does not expect the amendments to the standard to have a material impact on the financial statements.

Amendments to IAS 32 – Offsetting Financial Assets and Financial Liabilities (effective for annual periods beginning on or after 1 January 2014)

The amendments do not introduce new rules for offsetting financial assets and liabilities; rather they clarify the offsetting criteria to address inconsistencies in their application.

The amendments clarify that an entity currently has a legally enforceable right to set-off if that right is:

- not contingent on a future event; and
- enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

The Group does not expect the amendments to have any impact on the financial statements since it does not apply offsetting to any of its financial assets and financial liabilities and it has not entered into master netting arrangements.

IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine (effective for annual periods beginning on or after 1 January 2013)

The interpretation sets out requirements relating to the recognition of production stripping costs and initial and subsequent measurement of stripping activity assets.

To the extent that benefits from production stripping are realised in the form of inventory produced, the related production stripping costs are accounted for in accordance with IAS 2 Inventories.

Production stripping costs that improve access to ore to be mined in the future are recognised as a non-current asset if, and only if, all of the following criteria are met:

- it is probable that future economic benefits will flow to the entity;
- the entity can identify the component of the ore body for which access has been improved; and
- the costs relating to the stripping activity associated with that component can be measured reliably.

The stripping activity asset shall be accounted for as an addition to, or as an enhancement of, an existing asset.

The stripping activity asset shall initially be recognised at cost while after initial recognition, it shall be carried at either its cost or its revalued amount, less depreciation or amortisation and impairment losses, in the same way as the existing asset of which it is a part.

The interpretation also requires that when the costs of the stripping activity asset and of the inventory produced are not separately identifiable, the entity allocates production stripping costs between the two based on a 'relevant' production measure.

The Group is evaluating the impact of this interpretation on its financial statements. The assessment of the impact has not been completed yet.

iii. Other International Financial Reporting Standards

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

3. Significant Accounting Policies

(a) Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise, so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The consolidated financial statements include the Group's interests in other entities based on the Group's ability to control such entities regardless of whether control is actually exercised or not. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

ii. Associates

Associates are enterprises in which the Group has significant influence, but not control, over the financial and operating policies. Investments in associates are accounted for under the equity method and are initially recognised at cost. The consolidated financial statements include the Group's share of the total profit or loss and other comprehensive income of associates from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and recognition of further losses is

discontinued, except to the extent that the Group has incurred obligations in respect of or has made payments on behalf of the associate.

iii. Joint-ventures

Joint-ventures are enterprises in which the Group has a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. The strategic, financial and operating policy decisions of the joint-venture require the unanimous consent of the parties sharing control. The consolidated financial statements include the Group's share of its interests in joint-ventures using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of joint-ventures are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. Where the Group transacts with its joint-ventures, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint-venture. Joint-ventures are recognised from the date the Group has control over its share of future economic benefits through its share of the assets and liabilities of the venture, until the date that joint control ceases.

iv. Special purpose entities ("SPEs")

The Group has established a number of special purpose entities (SPEs) for trading and investment purposes. An SPE is consolidated if, based on an evaluation of the substance of its relationship with the Group and the SPE's risks and rewards, the Group concludes that it controls the SPE.

v. Accounting for business combinations

The Group acquired its subsidiaries in two ways:

- As a business combination transaction within the scope of IFRS 3, which requires initial measurement of assets and liabilities at fair value.
- As a business combination under common control which is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. Such acquisitions are excluded from the scope of IFRS 3. The assets and liabilities acquired were recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements (i.e. value at cost as at the date of acquisition less accumulated depreciation and/or potential impairment). No new goodwill or negative goodwill was recognised on these acquisitions.

vi. Accounting for acquisition of non-controlling interests

Acquisitions of non-controlling interest are accounted for as transactions with equity holders in their capacity as equity holders and therefore no goodwill and no gain or loss is recognised as a result of such transactions.

vii. Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the enterprise. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

viii. Unification of accounting policies

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

ix. Pricing differences

The Group accounted for pricing differences which arose from the acquisition of subsidiaries from Energetický a průmyslový holding, a.s. or subsidiaries contributed to the share capital of the Company by Energetický a průmyslový holding, a.s. As these acquired or contributed entities and EPE were under common control of Energetický a průmyslový holding, a.s., they were therefore excluded from the scope

of IFRS 3, which defines recognition of goodwill raised from business combination as the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Acquirees under common control are treated under the net book value presented in the consolidated financial statements of Energetický a průmyslový holding, a.s. (i.e. including historical goodwill less potential impairment) as at the date these entities were acquired by Energetický a průmyslový holding, a.s. (acquisition date). The difference between the cost of acquisition and carrying values of net assets of the acquiree and original goodwill carried forward as at the acquisition date were recorded to consolidated equity as pricing differences. Pricing differences are presented in Other capital reserves in Equity. "Note 6 – Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates" summarises the effects of all common control transactions in both periods.

x. Reversal of accumulated amortisation, depreciation and bad debt allowances in common control acquisitions

Accumulated amortisation and depreciation of intangible and tangible assets acquired as part of a common control transaction were reversed against the gross carrying amount of the underlying intangible and tangible assets, i.e. the intangible and tangible assets were recognised at their net book values as at the acquisition date.

Similarly, in acquisitions involving common control transactions, any bad debt allowances were reversed against gross amounts of purchased receivables as at the acquisition date.

xi. Disposal of subsidiaries, associates and special purpose entities

Gain or loss from the sale of investments in subsidiaries and associates is recognised in profit or loss when the significant risks and rewards of ownership have been transferred to the buyer.

If the assets and liabilities are sold by selling the interest in a subsidiary or an associate the profit or loss on sale is recognised in total under Gain/(loss) on disposal of subsidiaries, special purpose entities, joint-ventures and associates in the statement of comprehensive income.

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

(b) Foreign currency

i. Foreign currency transactions

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Czech crowns, which is the Company's functional and presentation currency. Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the foreign exchange rate at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are retranslated to the respective functional currencies of Group entities at the exchange rate at the reporting date; where the functional currency is Czech crowns, at the exchange rate of the Czech National Bank.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated to the respective functional currencies of Group entities at the foreign exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the respective functional currencies at the foreign exchange rates at the dates the fair values are determined.

Foreign exchange differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments (except for impairment in which case foreign currency differences that have been recognised in other comprehensive income are reclassified to profit or loss), a financial liability designated as a hedge of the net investment in a foreign

operation, or qualifying cash flow hedges to the extent that the hedge is effective, in which case foreign exchange differences arising on retranslation are recognised in other comprehensive income.

A summary of the main foreign exchange rates applicable for the reporting period is presented in Note 36 – Risk management policies and disclosures.

ii. Financial statements of foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into Czech crowns at foreign exchange rates at the reporting date. The income and expenses of foreign operations are translated into Czech crowns using the average foreign exchange rates for the reporting period, which approximate the foreign exchange rates at the dates of the transactions. At the end of the accounting period the Group evaluates whether the use of the average foreign exchange rates has a significant impact on the financial statements.

Foreign exchange differences arising on translation are recognised in other comprehensive income and presented in the translation reserve in equity. However, if the foreign operation is a non-wholly owned subsidiary, then the relevant proportion of the translation difference is allocated to non-controlling interests.

(c) Non-derivative financial assets

The Group has the following non-derivative financial instruments: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity assets and available-for sale financial assets.

i. Classification

Financial instruments at fair value through profit or loss are those that the Group principally holds for trading, that is, with the purpose of short-term profit taking. They include investments and contracts that are not designated as hedging instruments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments, not quoted in an active market, which are not classified as available for sale or held to maturity or at fair value through profit or loss. Loans and receivables mainly comprise loans to other than credit institutions (mainly to the parent company) and trade and other receivables.

Held-to-maturity assets are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity.

Available-for-sale financial assets are non-derivative financial assets that are not designated as fair value through profit or loss, loans and receivables, cash and cash equivalents or as held to maturity.

ii. Recognition

Financial assets at fair value through profit or loss and available-for-sale assets are recognised on the date the Group becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets including held-to-maturity assets are initially recognised on the trade date, when the Group becomes a party to the contractual provisions of the instrument.

Loans and receivables are recognised on the day they are originated.

iii. Measurement

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

Subsequent to initial recognition, financial assets are measured at their fair value, except for loans and receivables and held-to-maturity instruments, which are measured at amortised cost, less any impairment loss.

In measuring the amortised cost, any difference between cost and redemption value is recognised in profit or loss over the period of the asset or liability on an effective interest rate basis.

iv. Gains and losses on subsequent measurement

For financial assets at fair value through profit or loss, gains and losses arising from a change in fair value are recognised in profit or loss.

For assets available for sale, changes in fair value, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an available-for-sale asset is derecognised, the cumulative gains and losses in other comprehensive income are transferred to profit or loss. Interest income and expense from available-for-sale securities are recorded in profit or loss by applying the effective interest rate method.

v. Derecognition

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

vi. Offsetting of financial assets and liabilities

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

(d) Non-derivative financial liabilities

The Group has the following non-derivative financial liabilities: loans and borrowings, debt securities issued, bank overdrafts, and trade and other payables. Such financial liabilities are initially recognised at the settlement date at fair value plus any directly attributable transaction costs except for financial liabilities at fair value through profit and loss, where transaction costs are recognised in profit or loss as incurred. Financial liabilities are subsequently measured at amortised cost using the effective interest rate, except for financial liabilities at fair value through profit or loss. For the methods used to estimate fair value, refer to Note 4 – Determination of fair values.

The Group derecognises a financial liability when its contractual obligations are discharged, cancelled or expire.

(e) Derivative financial instruments

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

Derivatives are recognised initially at fair value, with attributable transaction costs recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

Other non-trading derivatives

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

Separable embedded derivatives

Financial and non-financial contracts (where they have not already been measured at fair value through profit or loss) are assessed to determine whether they contain any embedded derivatives.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

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

Cash flow hedges and fair value hedges

The majority of financial derivatives are held for hedging purposes but do not meet the criteria for hedge accounting as stated by IAS 39. These derivatives are designated for trading, and related profit and loss from changes in fair value is recognised in profit and loss.

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

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

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

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

Transactions with emission rights and energy

According to IAS 39, certain contracts for emission rights and energy fall into the scope of the standard. Most purchase and sales contracts entered into by the Group provide for physical delivery of quantities intended for consumption or sale as part of its ordinary business. Such contracts are thus excluded from the scope of IAS 39.

In particular, swaps and forward purchases and sales for physical delivery are considered to fall outside the scope of application of IAS 39, when the contract concerned is considered to have been entered into as part of the Group's normal business activity. This is demonstrated to be the case when all the following conditions are fulfilled:

- a physical delivery takes place under such contracts;
- the volumes purchased or sold under the contracts correspond to the Group's operating requirements; and
- the contract cannot be considered a written option as defined by IAS 39.

The Group thus considers that transactions negotiated with a view to balancing the volumes between emission rights and energy purchases and sale commitments are part of its ordinary business and do not therefore fall under the scope of IAS 39.

Contracts which fall under the scope of IAS 39 are carried at fair value with changes in the fair value recognised in profit or loss. The Group presents revenues and expenses related to emission rights trading net in the line Emission rights, net.

(f) Cash and cash equivalents

Cash and cash equivalents comprise cash balances on hand and in banks, and short-term highly liquid investments with original maturities of three months or less.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses.

Purchased inventory and inventory in transit are initially stated at cost, which includes the purchase price and other directly attributable expenses incurred in acquiring the inventories and bringing them to their

current location and condition. Inventories of a similar nature are valued using the weighted average method except for the energy production segment, where the first-in, first-out principle is used.

Internally manufactured inventory and work in progress are initially stated at production costs. Production costs include direct costs (direct material, direct labour and other direct costs) and part of overhead directly attributable to inventory production (production overhead). The valuation is written down to net realisable value if the net realisable value is lower than production costs.

(h) Impairment

i. Non-financial assets

The carrying amounts of the Group's assets, other than inventories (refer to accounting policy (g) – Inventories), investment properties (refer to accounting policy (k) – Investment property) and deferred tax assets (refer to accounting policy (o) – Income taxes) are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have an indefinite useful life or that are not yet available for use, the recoverable amount is estimated at least each year at the same time.

The recoverable amount of an asset or cash-generating unit (CGU) is the greater of its fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset or CGU.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit", or "CGU"). For the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss.

Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU or CGUs, and then to reduce the carrying amounts of the other assets in the CGU (or group of CGUs) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Goodwill that forms part of the carrying amount of an investment in an associate is not recognised separately, and therefore is not tested for impairment separately. Instead, the entire amount of the investment in an associate is tested for impairment as a single asset when there is objective evidence that the investment in an associate may be impaired.

ii. Financial assets (including trade and other receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair

value below its cost is objective evidence of impairment. IAS 39 does not provide clear guidance on what is significant relative to cost or what is a prolonged decline in the fair value. As such, the Group policy states that impairment should be considered if declines in equity markets have been, and continue to be, severe with many equity global indices down by nearly 50% from their 12-month highs for a period longer than 6 months (impairment criteria).

The recoverable amount of the Group's investment in held-to-maturity securities and receivables carried at amortised cost is calculated as the present value of estimated future cash flows, discounted at the original effective interest rate (i.e. the effective interest rate computed at initial recognition of these financial assets). Receivables with a short duration are not discounted. In determining the recoverable amount for loans and receivables consideration is also given to the credit standing and performance of the borrower and the value of any collateral or third-party guarantee.

An impairment loss in respect of a held-to-maturity security or receivable carried at amortised cost is reversed if the subsequent increase in recoverable amount can be related objectively to an event occurring after the impairment loss was recognised.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is reclassified from equity to profit or loss and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in cumulative impairment losses attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(i) Property, plant and equipment

i. Owned assets

Items of property, plant and equipment are stated at cost less accumulated depreciation (see below) and impairment losses (refer to accounting policy (h) – Impairment). Opening balances are presented at net book values, which include adjustment from revaluation within the Purchase Price Allocation process.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and capitalised borrowing costs (refer to accounting policy (n) – Finance income and costs). The cost also includes costs of dismantling and removing the items and restoring the site on which they are located.

Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at fair value until construction or development is complete, at which time it is reclassified as investment property.

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

ii. Leased assets

Leases in terms of which the Group assumes substantially all of the risks and rewards of ownership are classified as finance leases. Under finance leases, leased assets are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation (see below) and impairment losses (see accounting policy (h) – Impairment).

Minimum lease payments for finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Other leases are operating leases and, except for investment property, the leased assets are not recognised in the Group's statement of financial position.

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease.

In identifying lease agreements, the Group also considers the additional criteria defined in IFRIC 4 – Determining Whether an Arrangement Contains a Lease, as to whether an agreement that conveys a right to use an asset meets the definition of a lease. Certain purchase and supply contracts in the energy business (electricity and gas) may be classified as leases if the criteria are met.

iii. Subsequent costs

Subsequent costs are capitalised only if it is probable that the future economic benefits embodied in an item of property, plant and equipment will flow to the Group and its cost can be measured reliably. All other expenditures, including the costs of the day-to-day servicing of property, plant and equipment, are recognised in profit or loss as incurred.

iv. Depreciation

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of items of property, plant and equipment. Land is not depreciated. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term.

The estimated useful lives are as follows:

• Power plant buildings and structures	50 – 100 years
• Buildings and structures	20 – 50 years
• Machinery, electric generators, gas producers, turbines and drums	20 – 30 years
• Distribution network	10 – 30 years
• Machinery and equipment	4 – 20 years
• Fixtures, fittings and others	3 – 20 years

Depreciation methods and useful lives, as well as residual values, are reassessed annually at the reporting date. For companies acquired under IFRS 3 for which a purchase price allocation was prepared, the useful lives are reassessed based on the purchase price allocation process.

(j) Intangible assets

i. Goodwill and intangible assets acquired in a business combination

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate/joint-venture at the date of acquisition. Goodwill on acquisitions of subsidiaries/joint-ventures is included under intangible assets. Goodwill on acquisitions of associates is included in the carrying amount of investments in associates.

If the Group's share in the fair value of identifiable assets and liabilities of a subsidiary, associate or joint-venture as at the acquisition date exceeds the acquisition cost, the Group shall reconsider identification and measurement of identifiable assets and liabilities, and the acquisition cost. Any excess arising on the remeasurement (negative goodwill) is recognised in profit and loss account in the period of acquisition.

Upon acquisition of non-controlling interests, no goodwill is recognised.

Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses (refer to accounting policy (h) – Impairment) and is tested annually for impairment.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

ii. Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognised in profit or loss as incurred.

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

In 2012 and 2011, expenditures incurred by the Group did not meet these recognition criteria. Development expenditure has thus been recognised in profit or loss.

iii. Emission rights

Emission rights held under national and international emission-rights systems for the settlement of obligations are reported as intangible assets. Emission rights are initially recognised at fair value at the date of allocation as determined with reference to an active market, the “European Energy Exchange” with a corresponding deferred income amount representing the value of government grant.

Purchased emission rights are recognised at acquisition price as the acquisition of other intangible assets and under payables due to the seller.

The consumption of emission rights is recognised as an expense in profit or loss on a continuous basis based on the actual production of emissions with a corresponding credit entry to intangible assets.

Companies are allocated emission rights by a state authority and these are granted free of charge. The gift tax from the emission rights (applicable for Czech investments only) is recorded as an expense for the current accounting period.

The grant is initially recognised as deferred income and recognised in profit on a systematic basis over the compliance period, which is the relevant calendar year, regardless of whether the allowance received continues to be held by the entity.

If there are shortages of emission rights, a provision is recognised at the market value of the emission rights needed at the reporting date. At the end of the reporting period, the EPE Group reports a provision which is attributable only to the shortage of emission rights.

If emission rights granted free of charge are sold, the corresponding amount is debited to other operating costs and credited to other intangible assets. Following the accrual principle, the agreed price is credited to revenues from sale of assets and debited to receivables due from the purchaser. The excess of income from emission rights over the amount of consumed emission rights presented in expenses represents a gain from selling granted emission rights on the open market.

If purchased emission rights are sold, the corresponding amount is debited to costs of sale of assets and credited to other intangible assets and, on an accrual basis, the agreed prices are credited to revenues from sale of assets and debited to receivables due from the purchaser.

iv. Software and other intangible assets

Software and other intangible assets acquired by the Group that have finite useful lives are stated at cost less accumulated amortisation (see below) and impairment losses (refer to accounting policy (h) – Impairment).

Intangible assets that have an indefinite useful life are not amortised and are instead tested annually for impairment. Their useful life is reviewed at each period-end to assess whether events and circumstances continue to support an indefinite useful life.

v. Amortisation

Amortisation is recognised in profit or loss on a straight-line basis over the estimated useful lives of intangible assets other than goodwill, from the date the asset is available for use. The estimated useful lives are as follows:

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

Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

(k) Investment property

Investment property is property held by the Group either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes.

Investment property is measured at fair value, as determined by an independent registered valuer. Fair value is assessed based on current prices in an active market for similar properties in the same location and condition, or where not available, by applying generally applicable valuation methodologies. Any gain or loss arising from a change in fair value is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Rental income from investment property is accounted for as described in the accounting policy (m) – Revenue.

(l) Provisions

A provision is recognised in the statement of financial position when the Group has a present legal or constructive obligation as a result of a past event, when it is probable that an outflow of economic benefits will be required to settle the obligation and when a reliable estimate of the amount can be made.

Provisions are recognised at the expected settlement amount. Long-term obligations are reported as liabilities at the present value of their expected settlement amounts, if the effect of discount is material, using as a discount rate the pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The periodic unwinding of the discount is recognised in profit or loss in finance costs.

The effects of changes in interest rates, inflation rates and other factors are recognised in profit or loss in operating income or expenses. Changes in estimates of provisions can arise in particular from deviations from originally estimated costs, from changes in the settlement date or in the scope of the relevant obligation. Changes in estimates are generally recognised in profit or loss at the date of the change in estimate (see below).

i. Employee benefits

Long-term employee benefits

The Group's net obligation in respect of long-term service benefits, other than pension plans, is the amount of future benefits that employees have earned in return for their service in the current and prior periods. The obligation is calculated using the projected unit credit method and is discounted to its present value. The discount rate is the yield at the reporting date in high quality bonds that have maturity dates approximating the terms of the Group's obligations.

Pension plans

In accordance with IAS 19.54, the projected unit credit method is the only permitted actuarial method. The benchmark (target value) applied to measure defined benefit pension obligations is the present value

of vested pension rights of active and former employees and beneficiaries (present value of the defined benefit obligation). It must in general be assumed that each partial benefit of the pension commitment is earned evenly from commencement of service until the respective due date.

If specific plan assets are established to cover the pension payments, these plan assets can be netted against the pension obligations and only the net liability is shown. The valuation of existing plan assets is based on the fair value at the balance sheet date in accordance with IAS 19.102.

Assets used to cover pension obligations that do not fully meet the requirement of plan assets have to be carried as assets on the balance sheet. Any netting off against the liability to be covered will not apply in this respect.

The Group recognises all actuarial gains and losses arising from benefit plans immediately in other comprehensive income and all expenses related to the defined benefit plan in profit or loss.

The Group recognises gains and losses on the curtailment or settlement of a benefit plan when the curtailment or settlement occurs. The gain or loss on curtailment or settlement comprises any resulting change in the fair value of plan assets, any change in the present value of the defined benefit obligation, any related actuarial gains and losses, and past service costs that had not been previously recognised.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

ii. Warranties

A provision for warranties is recognised when the underlying products or services are sold. The provision is based on historical warranty data and weighting of all possible outcomes against associated probabilities.

iii. Provision for lawsuits and litigations

Settlement of a lawsuit represents an individual potential obligation. Determining the best estimate either involves expected value calculations, where possible outcomes, stated based on a legal study, are weighted by their likely probabilities or it is the single most likely outcome, adjusted as appropriate to consider risk and uncertainty.

iv. Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring either has commenced or has been announced publicly. Future operating costs are not provided for.

v. Asset retirement obligation and provision for environmental remediation

Obligations arising from the decommissioning or dismantling of property, plant and equipment are recognised in connection with the initial recognition of the related assets, provided that the obligation can be reliably estimated. The carrying amounts of the related items of property, plant and equipment are increased by the same amount that is subsequently amortised as part of the depreciation process of the related assets.

A change in the estimate of a provision for the decommissioning and restoration of property, plant and equipment is generally recognised against a corresponding adjustment to the related assets, with no effect on profit or loss. If the related items of property, plant and equipment have already been fully depreciated, changes in the estimate are recognised in profit or loss.

No provisions are recognised for contingent asset retirement obligations where the type, scope, timing and associated probabilities cannot be determined reliably.

Provisions for environmental remediation in respect of contaminated sites are recognised when the site is contaminated and when there is a legal or constructive obligation to remediate the related site.

Rehabilitation provisions are recognised for the following restoration activities:

- dismantling and removing structures;
- rehabilitating mines and tailings dams;
- dismantling operating facilities;
- closure of plant and waste sites; and
- restoration and reclamation of affected areas.

The entity records the present value of the provision in the period in which the obligation is incurred. The obligation generally arises when the asset is installed or the environment is disturbed at the production location. When the liability is initially recognised, the present value of the estimated costs is capitalised by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased to reflect the change in the present value based on the discount rates that reflect current market assessments and the risks specific to the liability. The periodic unwinding of the discount is recognised in profit or loss as a finance cost.

vi. Onerous contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable costs of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

(m) Revenue

i. Revenues from own products and goods sold and services rendered

Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably.

Revenue from the sale of own products and goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Discounts are recognised as a reduction of revenue as the sales are recognised, if it is probable that discounts will be granted and the amount can be measured reliably.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the reporting date. The stage of completion is assessed by reference to surveys of work performed. No revenue is recognised if there are significant uncertainties regarding the recovery of the consideration due, associated costs or the possible return of goods.

Revenues from the sale of energy comprise mainly revenues relating to production and sale of electricity, heat energy and its distribution and sale of gas and coal.

Other revenues represent revenues from non-energy activities.

Revenues from sale of electricity, heat and gas

Revenues from sales of electricity, heat and gas to retail customers are recognised at the time the electricity, heat or gas is supplied on the basis of periodic meter readings and also include an estimate of the value of electricity and consumption after the date of the last meter reading of the year. Revenues between the date of the meter reading and the end of the year are based on estimates of the daily consumption record, adjusted to take account of weather conditions and other factors that may affect estimated consumption.

Revenues from sale of coal

Sales of coal measured at the fair value of the consideration received, excluding any applicable taxes, excise duties, charges, discounts and rebates. Most of the sales are priced as carriage paid to (CPT),

delivered at place (DAP) or delivered duty paid (DDP). The Group has concluded that it is acting as a principal in all of its sales arrangements, delivering complete supplies to specified places including responsibility for transportation, handling and potentially solving duty tax issues and insurance. A significant proportion of Group production is sold under long-term contracts, which contain automatic price escalation formulae and/or are updated from time to time by amendments specifying pricing for the next period. However, the sales revenue is only recognised on an individual sale when all of the following criteria are met:

- the significant risks and rewards of ownership of the product have been transferred to the customer;
- the Group has retained neither continuing managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the sale will flow to the Group; and
- the costs incurred or to be incurred in respect of the sale can be measured reliably.

All these conditions are generally satisfied when the product is delivered to the destination specified by the customer and as such, the title passes to the customer. Sales revenue is commonly subject to adjustments based on an inspection of the product by the customer. Where there are agreed differences in volume or quality of delivered products, this is reflected as reduction or increase (usually for better qualities of coal) in sales revenue recognised on the sale transaction.

Energy trading

Revenues from energy trading comprise both realised (settled) and unrealised (change in fair value) net gains and losses from trading in physical and financial energy contracts.

ii. Government grants

Government grants are recognised initially at fair value as deferred income when there is reasonable assurance that they will be received and that the Company will comply with the conditions associated with the grant. Grants that compensate the Company for expenses incurred are recognised in profit or loss on a systematic basis in the same periods in which the expenses the grant is intended to compensate are recognised. Grants that compensate the Company for the cost of an asset are recognised in profit or loss on a systematic basis over the useful life of the asset.

iii. Rental income

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

(n) Finance income and costs

i. Finance income

Finance income comprises interest income on funds invested, dividend income, changes in the fair value of financial assets at fair value through profit or loss, foreign currency gains, gains on sale of investments in securities and gains on hedging instruments that are recognised in profit or loss. Interest income is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

ii. Finance costs

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, foreign currency losses, changes in the fair value of financial assets at fair value through profit or loss, fees and commissions expense for payment transactions and guarantees, impairment losses recognised on financial assets, and losses on hedging instruments that are recognised in profit or loss.

iii. Borrowing costs

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset, from the time of acquisition or from the beginning of construction or production until entry into

service, are capitalised and subsequently amortised alongside the related asset. In the case of a specific financing arrangement, the respective borrowing costs for that arrangement are used. For non-specific financing arrangements, borrowing costs to be capitalised are determined based on a weighted average of the borrowing costs.

(o) Income taxes

Income taxes comprise current and deferred tax. Income taxes are recognised in profit or loss, except to the extent that they relate to a business combination or to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the reporting period, using tax rates enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is measured using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. No deferred tax is recognised on the following temporary differences: temporary differences arising from the initial recognition of assets or liabilities that is not a business combination and that affects neither accounting nor taxable profit or loss, and temporary differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. No deferred tax is recognised on the initial recognition of goodwill.

The amount of deferred tax is based on the expected manner of realisation or settlement of the temporary differences, using tax rates enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but there is an intention to settle current tax liabilities and assets on a net basis, or the tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses, tax credits and deductible temporary differences can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(p) Dividends

Dividends are recognised as distributions within equity upon approval by the Company's shareholders.

(q) Non-current assets held for sale and disposal groups

Non-current assets (or disposal groups comprising assets and liabilities) which are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (and all assets and liabilities in a disposal group) are re-measured in accordance with the Group's relevant accounting policies. Then, on initial classification as held for sale, non-current assets and disposal groups are recognised at the lower of their carrying amount and fair value less costs to sell.

Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, and investment property, which continue to be measured in accordance with the Group's accounting policies.

Impairment losses on initial classification as held for sale are included in profit or loss. The same applies to gains and losses on subsequent remeasurement. Gains are not recognised in excess of any cumulative impairment loss.

Any gain or loss on the re-measurement of a non-current asset (or disposal group) classified as held for sale that does not meet the definition of a discontinued operation is included in profit or loss from continuing operations.

(r) Segment reporting

Due to the fact that the Company issued debentures (Senior Secured Notes) in 2012 which were listed on the Irish Stock Exchange, the Company reports segmental information in accordance with IFRS 8.

Segment results that are reported to the Group's Board of Directors (the chief operating decision maker) include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. The support is provided by four executive committees: Strategic committee, Investment committee, Risk management committee and Compliance committee.

4. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Property, plant and equipment

The fair value of property, plant and equipment recognised as a result of a business combination is based on market values or the income approach method. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly. The income approach method determines the value of property based on its ability to generate desired economic benefit for the owners. The key objective of the income based method is to determine the property value as a function of the economic benefit.

(b) Intangible assets

The fair value of intangible assets recognised as a result of a business combination is based on the discounted cash flows expected to be derived from the use or eventual sale of the assets.

(c) Investment property

The fair value of investment property is determined by an independent registered valuer. The fair value is assessed based on current prices in an active market for similar properties in the same location and condition, or where not available, by applying generally applicable valuation methodologies that consider the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation (discounting).

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

(d) Inventories

The fair value of inventories acquired in a business combination is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(e) Non-derivative financial assets

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

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the reporting date for an instrument with similar terms and conditions. Where pricing models are used, inputs are based on market-related measures at the reporting date.

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

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

(f) Non-derivative financial liabilities

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

(g) Derivatives

The fair value of forward electricity contracts is based on their listed market price, if available. If a listed market price is not available, then fair value is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds).

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

The fair value of other derivatives (exchange rate, commodity, foreign CPI indices) embedded in a contract is estimated by discounting the difference between the forward values and the current values for the residual maturity of the contract using a risk-free interest rate (based on zero coupon).

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty when appropriate.

5. Operating segments

The Group operates in five reportable segments: Mining, Heat and Power, Renewables, Energy Supply and Trading and Other. Mining and Heat and Power are the core segments of the Group.

- (i) The Mining segment, represented mainly by Mitteldeutsche Braunkohlengesellschaft GmbH (MIBRAG), produces brown coal, which it supplies to power plants under long-term supply agreements. The two biggest customers – the Lippendorf and Schkopau-power plants – are highly efficient, state-of-the-art power plants operating in base load and are well positioned in the German power merit order.
- (ii) The Heat and Power segment owns and operates four large-scale combined heat and power plants (CHPs) in the Czech Republic operated in highly efficient cogeneration mode and represented primarily by: Elektrárny Opatovice, a.s., United Energy, a.s., Plzeňská energetika a.s. and Pražská teplárenská a.s., which is operating the largest district heating system in the Czech Republic, supplying heat to the City of Prague. The heat generated in its cogeneration power plants is supplied mainly to retail customers through well maintained and robust district heating systems that the EPE Group owns in most of the cases. The segment also includes Saale Energie GmbH purchased in 2012, which owns 41.9% of the Schkopau-power plant representing a beneficial use right over 400MW of the plant's total capacity of 900MW.
- (iii) The Renewables segment owns and operates three solar power plants and holds a minority interest in an additional solar power plant and a majority interest in one wind farm in the Czech Republic. The Group also owns one wind farm in Germany at MIBRAG, two solar power plants in Slovakia, and a biogas facility in Slovakia.
- (iv) The Energy Supply and Trading segment consists of an Energy Supply division and a Trading division. The Energy Supply division supplies power and natural gas to end-consumers in the Czech Republic and Slovakia. The Trading division purchases and sells in the wholesale market power generated by the Heat and Power segment and purchases electricity and natural gas to supply customers through the Energy Supply division.
- (v) The Other segment mainly represents EP Energy, a.s. The segment profit therefore primarily represent dividends received from its subsidiaries and results from acquisition accounting.

Profit or loss

For the year ended 31 December 2012

In millions of CZK

	Mining	Heat and Power	Trading and supply	Renewables	Other	Total segments	Inter-segment eliminations	Consolidated Financial Information
Sales: Energy	7,156	16,401	21,253	131	-	44,941	(5,646)	39,295
external revenues	7,156	12,402	19,615	122	-	39,295	-	39,295
inter-segment revenues	-	3,999	1,638	9	-	5,646	(5,646)	-
Sales: Other	1,275	375	651	17	114	2,432	(662)	1,770
external revenues	1,275	374	2	17	102	1,770	-	1,770
inter-segment revenues	-	1	649	-	12	662	(662)	-
Cost of sales: Energy	(986)	(9,162)	(20,747)	(2)	-	(30,897)	5,621	(25,276)
external cost of sales	(986)	(7,546)	(16,742)	(2)	-	(25,276)	-	(25,276)
inter-segment cost of sales	-	(1,616)	(4,005)	-	-	(5,621)	5,621	-
Cost of sales: Other	(82)	(317)	(652)	(1)	(19)	(1,071)	649	(422)
external cost of sales	(82)	331	(652)	-	(19)	(422)	-	(422)
inter-segment cost of sales	-	(648)	-	(1)	-	(649)	649	-
Personnel expenses	(2,464)	(1,184)	(58)	(5)	(73)	(3,784)	-	(3,784)
Depreciation and amortisation	(2,153)	(2,978)	(8)	(71)	(1)	(5,211)	-	(5,211)
Repairs and maintenance	(148)	(303)	(3)	(3)	-	(457)	-	(457)
Emission rights, net	(319)	454	-	-	-	135	-	135
Negative goodwill	2,540	472	-	-	-	3,012	-	3,012
Taxes and charges	(141)	(229)	(1)	(11)	-	(382)	-	(382)
Other operating income	2,007	200	43	15	-	2,265	(18)	2,247
Other operating expenses	(1,487)	(531)	(109)	(32)	(151)	(2,310)	58	(2,252)
Finance income	67	158	11	29	*2,602	*2,867	*(2,358)	509
external finance revenues	66	56	2	29	356	509	-	509
inter-segment finance revenues	1	102	9	-	*2,246	*2,358	*(2,358)	-
Finance expense	(797)	(1,283)	(66)	(138)	(746)	(3,030)	1,017	(2,013)
Profit/(loss) from derivative financial instruments	(4)	84	(204)	(3)	29	(98)	-	(98)
Share of profit/(loss) of equity accounted investees, net of tax	16	(25)	-	-	-	(9)	-	(9)
Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	2,590	-	-	1,894	4,484	-	4,484
Profit/(loss) before income tax	4,480	4,722	110	(74)	*3,649	*12,887	*(1,339)	11,548
Income tax expenses	(327)	(559)	(28)	(2)	(105)	(1,021)	-	(1,021)
Profit/(loss) for the year	4,153	4,163	82	(76)	3,544	11,866	(1,339)	10,527

*CZK 1,341 million is attributable to inter-group dividends primarily recognised by EP Energy, a.s.

For the year ended 31 December 2011

In millions of CZK

	Mining	Heat and Power	Trading and Supply	Renewables	Other	Total segments	Inter-segment eliminations	Consolidated Financial Information
Sales: Energy	2,283	13,430	20,683	87	-	36,483	(3,782)	32,701
<i>external revenues</i>	2,283	10,765	19,566	87	-	32,701	-	32,701
<i>inter-segment revenues</i>	-	2,665	1,117	-	-	3,782	(3,782)	-
Sales: Other	439	260	-	17	74	790	(65)	725
<i>external revenues</i>	439	200	-	16	70	725	-	725
<i>inter-segment revenues</i>	-	60	-	1	4	65	(65)	-
Cost of sales - Energy	-	(6,385)	(20,555)	(1)	-	(26,941)	3,753	(23,188)
<i>external cost of sales</i>	-	(5,299)	(17,889)	-	-	(23,188)	-	(23,188)
<i>inter-segment cost of sales</i>	-	(1,086)	(2,666)	(1)	-	(3,753)	3,753	-
Cost of sales - Other	(356)	(358)	(1)	(1)	(14)	(730)	50	(680)
<i>external cost of sales</i>	(356)	(309)	(1)	-	(14)	(680)	-	(680)
<i>inter-segment cost of sales</i>	-	(49)	-	(1)	-	(50)	50	-
Personnel expenses	(810)	(1,161)	(42)	(2)	(44)	(2,059)	-	(2,059)
Depreciation and amortisation	(587)	(2,812)	(1)	(46)	(1)	(3,447)	-	(3,447)
Repairs and maintenance	(50)	(339)	(1)	(2)	-	(392)	-	(392)
Emission rights, net	(139)	296	-	-	-	157	-	157
Negative goodwill	208	-	-	-	-	208	-	208
Taxes and charges	(62)	(408)	-	(11)	-	(481)	-	(481)
Other operating income	494	158	18	4	-	674	(5)	669
Other operating expenses	(580)	(606)	(80)	(13)	(48)	(1,327)	35	(1,292)
Finance income	50	142	27	31	*10,355	*10,605	*(10,069)	536
<i>external finance revenues</i>	50	33	15	31	407	536	-	536
<i>inter-segment finance revenues</i>	-	109	12	-	*9,948	*10,069	*(10,069)	-
Finance expense	(170)	(1,447)	(55)	(115)	(689)	(2,476)	561	(1,915)
Profit/(loss) from derivative financial instruments	-	(226)	216	(1)	(2)	(13)	-	(13)
Share of profit/(loss) of equity accounted investees, net of tax	12	3	-	-	-	15	-	15
Profit/(loss) before income tax	732	547	209	(53)	*9,631	*11,066	*(9,522)	1,544
Income tax expenses	(101)	(469)	(38)	(7)	(30)	(645)	-	(645)
Profit/(loss) for the year	631	78	171	(60)	9,601	10,421	(9,522)	899

*CZK 9,508 million is attributable to inter-group dividends primarily recognised by EP Energy, a.s.

Non-current assets and liabilities

For the year ended 31 December 2012

In millions of CZK

	Mining	Heat and Power	Trading and Supply	Renewables	Other	Total segments	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	23,112	45,015	4,284	2,208	36,878	111,497	(29,104)	82,393
Reportable segment liabilities	(16,717)	(26,431)	(3,488)	(2,223)	(26,430)	(75,289)	29,103	(46,186)
Additions to tangible and intangible assets	1,006	2,457	14	61	2	3,540	-	3,540
Equity accounted investees	768	3,275	-	-	-	4,043	-	4,043

For the year ended 31 December 2011

In millions of CZK

	Mining	Heat and Power	Trading and Supply	Renewables	Other	Total segments	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	11,054	39,556	3,836	2,039	11,637	68,122	(8,092)	60,030
Reportable segment liabilities	(9,619)	(32,011)	(3,192)	(2,025)	(2,806)	(49,653)	8,079	(41,574)
Additions to tangible and intangible assets	650	2,940	10	373	2	3,975	-	3,975
Equity accounted investees	304	730	-	-	-	1,034	-	1,034

Information about geographical areas

In presenting information on the basis of geography, segment revenue is based on the geographical location of customers and segment assets are based on the geographical location of the assets.

For the year ended 31 December 2012

In millions of CZK

	Czech Republic	Slovakia	Cyprus	Germany	Other	Total segments	Consolidated Financial Information
Property, plant and equipment	21,660	508	-	19,574	-	41,742	41,742
Intangible assets	3,626	32	-	2,207	1	5,866	5,866
Investment property	9	-	-	-	-	9	9
Total	25,295	540	-	21,781	1	47,617	47,617

In millions of CZK

	Czech Republic	Slovakia	Cyprus	Germany	Other	Total segments	Consolidated Financial Information
Sales: Electricity	9,591	9,109	1,012	2,598	121	22,431	22,431
Sales: Heat	6,727	-	-	132	-	6,859	6,859
Sales: Gas	3,680	31	-	-	-	3,711	3,711
Sales: Coal	342	2	-	5,896	54	6,294	6,294
Sales: Other	483	12	-	1,275	-	1,770	1,770
Total	20,823	9,154	1,012	9,901	175	41,065	41,065

The geographical area Other comprises income items primarily from Poland, Hungary, Switzerland and Austria.

For the year ended 31 December 2011

In millions of CZK

	Czech Republic	Slovakia	Cyprus	Germany	Other	Total segments	Consolidated financial information
Property, plant and equipment	18,449	498	-	8,537	-	27,484	27,484
Intangible assets	3,143	32	-	242	1	3,418	3,418
Investment property	9	-	-	-	-	9	9
Total	21,601	530	-	8,779	1	30,911	30,911

In millions of CZK

	Czech Republic	Slovakia	Cyprus	Germany	Other	Total segments	Consolidated financial information
Sales: Electricity	8,792	7,716	752	1,647	902	19,809	19,809
Sales: Heat	5,717	-	-	32	-	5,749	5,749
Sales: Gas	4,306	7	-	-	643	4,956	4,956
Sales: Coal	88	-	-	1,971	32	2,091	2,091
Sales: Other energy products	96	-	-	-	-	96	96
Sales: Other	262	22	-	440	1	725	725
Total	19,261	7,745	752	4,090	1,578	33,426	33,426

The geographical area Other comprises income items primarily from Poland, Hungary, Switzerland and Austria.

6. Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates

As described in the Note 1 Background, the Company was established on 16 December 2010 by a common control contribution of shares in entities owned by the parent company Energetický a průmyslový holding, a.s. and the Company, as a part of its accounting policy on common control transactions, opted to restate its comparatives. For the purpose of preparation of these consolidated financial statements, the contributions by the parent company are presented using one of the following two methods:

1. If the contributed entities were previously acquired by the parent company Energetický a průmyslový holding, a.s. under the scope of IFRS 3, the Company presents the contributed entities in its consolidated financial statements under the scope of IFRS 3 from the original date of acquisition by the parent company Energetický a průmyslový holding, a.s. From the view of the EPE Group consolidated financial statements, these transactions are reflected as if carried out directly by the Company, including all goodwill or negative goodwill impacts. The difference between the value contributed to the statutory share capital of the Company as determined by the independent valuation specialist, and net book value (including fair value adjustments as part of the net book value in EPH's consolidated financial statements) of the contributed entity in EPH's consolidated financial statement as at the date when acquired by the parent company, was presented as a pricing difference in Other capital reserves in Equity. This approach relates to the following entities:
 - a. AISE, s.r.o. (acquired by EPH on 8 October 2009)
 - b. PT Holding Investment B.V. and its associates (acquired by EPH on 20 September 2010)
 - c. Plzeňská energetika a.s. (acquired by EPH on 6 October 2009)
 - d. EP Renewables a.s. and its subsidiaries (acquired by EPH on 1 September 2010)
 - e. ROLLEON a.s. and its subsidiary (acquired by EPH on 6 October 2009)
 - f. HC Fin3 N.V. (acquired by EPH on 16 March 2010) including:
 - (a) EAST BOHEMIA ENERGY HOLDING LIMITED and its subsidiaries (acquired by EPH on 31 December 2010)
 - (b) LIGNITE INVESTMENTS 1 LIMITED and its joint-venture (acquired by EPH on 28 June 2011)
2. If the contributed entities were previously acquired by the parent company Energetický a průmyslový holding, a.s. in a transaction under common control, the Company presents the contributed entities in its consolidated financial statements as common control acquisition from the original date of acquisition by the parent company Energetický a průmyslový holding, a.s. The difference between the value contributed to the statutory share capital of the Company as determined by the independent valuation specialist and the net book value of the contributed entity as at the date when contributed to the parent company was presented as a pricing difference in Other capital reserves in Equity. This approach relates to the following entities:
 - a. Czech Energy Holding, a.s. and its subsidiaries and associate (acquired by EPH on 6 October 2009)
 - b. Honor Invest, a.s. and its associate Pražská energetika, a.s. (acquired by EPH on 10 August 2009)
 - c. První energetická a.s. (acquired by EPH on 6 October 2009)

(a) Acquisitions and step-acquisitions

i. 31 December 2012

<i>In millions of CZK</i>	Date of acquisition	Purchase price	Cash paid	Other consideration⁽¹⁾	Equity interest acquired %	Equity interest after acquisition %
New subsidiaries						
JTSD Braunkohlebergbau GmbH and its subsidiaries and associates	29/06/2012	686	(686)	3,226	⁽²⁾ 100	100
Pražská teplárenská a.s. and its subsidiaries and associates	29/06/2012	-	-	18,977	⁽²⁾ 73.26	73.26
Saale Energie GmbH and its associates	17/07/2012	2,308	(2,308)	-	100	100
Total		2,994	(2,994)	22,203	-	-

(1) Fair value of interest already held as at the date of step acquisition.

(2) Percentages presented in the table are equity interests after step acquisitions.

<i>In millions of CZK</i>	Date of acquisition	Purchase price	Cash paid	Equity interest acquired %	Equity interest after acquisition %
New associates					
COOP ENERGY, a.s.	15/06/2012	1	(1)	40	40
Total		1	(1)	-	-

On 17 July 2012 the Group acquired a 41.9% share in the German power plant Kraftwerk Schkopau GbR and a 44.4% share in Kraftwerk Schkopau Betriebsgesellschaft GmbH through the acquisition of a 100% share in Saale Energie GmbH (SEG) by EP Germany GmbH from NRG Energy, Inc. for a consideration of EUR 141 million (CZK 3,570 million). The purchase price was reduced by an acquired loan of EUR 50 million (CZK 1,262 million) and the remaining part was paid at the date of acquisition. EP Germany GmbH was acquired by EP Energy, a.s. in 2011 but was not consolidated until 31 December 2012 as it was acquired only as a shell company.

Step acquisitions

On 29 June 2012 LIGNITE INVESTMENTS 1 LIMITED acquired the remaining 50% share in JTSD Braunkohlebergbau GmbH for EUR 27 million (CZK 686 million). The total share in JTSD Braunkohlebergbau GmbH, thus increased to 100% and EPE Group obtained control of this entity.

On 29 June 2012 Pražská teplárenská Holding a.s. and PT Holding Investment B.V. signed a new shareholders' agreement. As a result of this contract, the EPE Group obtained control of Pražská teplárenská a.s. which resulted in full consolidation from 29 June 2012 (with respective non-controlling interest) as opposed to proportionate consolidation until 28 June 2012. The total share in Pražská teplárenská a.s. remained unchanged (73.26%).

ii. 31 December 2011

<i>In millions of CZK</i>	Date of acquisition	Shares issued	Cost borne by EPH	Cash paid	Equity interest acquired %	Equity interest after acquisition %
New subsidiaries and fully consolidated SPEs						
LIGNITE INVESTMENTS 1 LIMITED						
	⁽¹⁾ 28/06/2011	⁽²⁾ 770	681	(681)	100	100
ČKD Blansko Wind, a.s.	01/08/2011	N/A	N/A	-	100	100
Total		770	681	(681)	-	-
New joint-ventures						
JTSD Braunkohlebergbau GmbH⁽³⁾						
	28/06/2011	-	-	-	50.00	50.00
Total		-	-	-	-	-

- (1) Entity was originally acquired by EPH; in line with the above, the same date was used as the acquisition date by the Company
- (2) Shares represents the value of shares issued in exchange for the contribution by the parent company Energetický a průmyslový holding, a.s. for the shares of HC Fin3 N.V.
- (3) Cost for acquisition of JTSD Braunkohlebergbau GmbH is included in the consideration for LIGNITE INVESTMENTS 1 LIMITED

LIGNITE INVESTMENTS 1 LIMITED was acquired by HC Fin3 N.V. for CZK 681 million. Subsequently, HC Fin3 N.V. was contributed to EP Energy, a.s. For the purposes of the contribution HC Fin3 N.V. was revaluated by an independent valuation specialist. The total value of HC Fin3 N.V. was stated as CZK 1,703 million, of which CZK 770 million was assigned to LIGNITE INVESTMENTS 1 LIMITED; the remaining value of CZK 933 million was assigned to EAST BOHEMIA ENERGY HOLDING LIMITED.

On 1 August 2011 EP Renewables a.s. acquired a 100% share in ČKD Blansko Wind, a.s. for CZK 1.

Step acquisitions

On 16 June 2011 NPTH, a.s. acquired a 0.28% share in Pražská teplárenská a.s. for CZK 48 million. The total share in Pražská teplárenská a.s. increased to 73.26%.

On 23 May 2011 the Company acquired an additional 29% share in AISE, s.r.o. for CZK 10 million. The EPE Group's total share in AISE, a.s. increased to 80%.

(b) Effect of acquisitions

i. 31 December 2012

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the step acquisition date of JTSD Braunkohlebergbau GmbH and Pražská teplárenská a.s. and acquisition date of Saale Energie GmbH are provided in the following table.

<i>In millions of CZK</i>	Carrying amount⁽¹⁾	Fair value adjustment⁽¹⁾	2012 Total⁽¹⁾
Property, plant, equipment, land, buildings	25,654	5,949	31,603
Intangible assets	515	2,323	2,838
Participations with significant influence	2,610	812	3,422
Inventories	402	-	402
Trade receivables and other assets	3,916	-	3,916
Financial instruments – assets	12,467	-	12,467
Assets held for sale, net	164	64	228
Cash and cash equivalents	10,735	-	10,735
Provisions	(6,307)	(1,487)	(7,794)
Deferred tax liabilities	(1,399)	(1,739)	(3,138)
Loans and borrowings	(8,200)	-	(8,200)
Trade payables and other liabilities	(10,572)	(533)	(11,105)
Net identifiable assets and liabilities	29,985	5,389	35,374
Non-controlling interest			(7,165)
Goodwill on acquisition and step acquisition of subsidiaries			-
Negative goodwill on acquisition and step acquisition of subsidiaries			(3,012)
Pricing differences in equity			-
Cost of acquisition			25,197
Consideration paid, satisfied in cash (A)			2,994
Consideration, other			22,203
Total consideration transferred			25,197
Less: Cash acquired ⁽²⁾ (B)			10,735
Net cash inflow (outflow) (C) = (B – A)			7,741

(1) Represents values at 100% share.

(2) Of which CZK 6,854 million was already recognised in the consolidation before acquisition of the remaining 50% share in JTSD Braunkohlebergbau GmbH and gaining control in Pražská teplárenská a.s. (both companies were consolidated using a proportionate consolidation method), as such, net cash inflow is CZK 887 million.

The intangible assets recognised during the Purchase Price Allocation process are represented by two customer contracts of Saale Energie GmbH. The first contract is a long-term energy supply agreement in which the electricity price is calculated on a cost-plus basis and is on better than market terms. The second one stipulates a right to use a power-plant of Kraftwerk Schkopau GbR (an associate of Saale Energie GmbH) under better than market terms.

In 2012, the EPE Group also acquired a 40% share in COOP ENERGY, a.s., for which it paid CZK 1 million. This is not included in the effect of acquisition presented above.

Consideration paid represents cost paid by the direct parent company LIGNITE INVESTMENTS 1 LIMITED for the acquisition of the remaining 50% share in JTSD Braunkohlebergbau GmbH and costs paid by EP Germany GmbH for Saale Energie GmbH. No consideration was paid to obtain control of Pražská teplárenská a.s.

ii. 31 December 2011 – LIGNITE INVESTMENTS I LIMITED

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date are provided in the following table.

<i>In millions of CZK</i>	Carrying amount	Fair value adjustment	2011 Total
Property, plant, equipment, land, buildings	4,450	3,861	8,311
Mine property	657	(657)	-
Intangible assets	2,520	(2,352)	168
Participations with significant influence	156	147	303
Deferred tax assets	-	-	-
Inventories	101	-	101
Trade receivables and other assets	525	-	525
Financial instruments – assets	1,646	-	1,646
Cash and cash equivalents	372	-	372
Provisions	(1,631)	(1,579)	(3,210)
Deferred tax liabilities	(181)	24	(157)
Loans and borrowings	(5,521)	-	(5,521)
Trade payables and other liabilities	(653)	(996)	(1,649)
Net identifiable assets and liabilities	2,441	(1,552)	889
Non-controlling interest	-	-	-
Goodwill on acquisition of new subsidiaries	-	-	-
Negative goodwill on acquisition of new subsidiaries	(208)	-	(208)
Cost of acquisition	2,233	(1,552)	681
Consideration paid, satisfied in cash	-	-	681
Consideration, other	-	-	-
Consideration, contingent	-	-	-
Total consideration transferred	-	-	681
Less: Cash acquired	-	-	372
Net cash inflow (outflow)	-	-	(309)

The effect of the acquisition above involves all incoming subsidiaries (from the subsidiary's group perspective) acquired in 2011.

Consideration paid represents cost paid by the direct parent company HC Fin3 N.V.

In 2011, the EPE Group also acquired a 100% share in ČKD Blansko Wind, a.s., for which it paid CZK 1. Net assets acquired totalled negative CZK 8 million. The transaction resulted in goodwill of CZK 8 million.

iii. Rationale for acquisitions

The Group strategic rationale for realised acquisitions comprised several factors, including:

- The subsidiaries' businesses are complementary to EPE's portfolio;
- Potential for synergic effects;
- The subsidiaries have an advantageous position within the market;
- Subject industries are expected to grow in the future.
- Further vertical integration of the Heat and Power segment with the Mining segment, i.e. securing coal supplies for own coal heating plants.

As further expansion in energy sectors of the countries in which the Group currently has operations is one of the strategic aims of the Group, EPE is investing both in energy companies and in companies supplying the energy industry. The Group's current aim is to further strengthen its position, and become an important participant in the energy market.

The Group's view is that there is long-term strategic value in these investments due to development of the market and this resulted in initial goodwill from 2010 and 2011 in a total amount of CZK 2,622 million; in 2012 no goodwill was recognised.

Negative goodwill arose upon the step acquisition of JTSD Braunkohlebergbau GmbH and acquisition of Saale Energie GmbH totalling CZK 3,012 million (31 December 2011: CZK 208 million from the acquisition of LIGNITE INVESTMENTS 1 LIMITED). The Group reconsidered the identification and measurement of all identified assets and liabilities acquired in these business combinations; consistent results were obtained in respect of negative goodwill.

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

<i>In millions of CZK</i>	2012
	Total
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	15,297
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	2,653

<i>In millions of CZK</i>	2011
	Total
Revenue of the acquirees recognised since the acquisition date (subsidiaries and joint-ventures)*	3,036
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries and joint-ventures)*	406

The following table provides information on the estimated revenues and profit or loss that would have been included in the consolidated statement of comprehensive income, if the acquisition had occurred at the beginning of the reporting period (i.e. as at 1 January 2011 or as at 1 January 2012); this financial information was derived from the statutory or IFRS financial statements of the acquired entities.

<i>In millions of CZK</i>	2012
	Total
Revenue of the acquirees recognised in the year ended 31 December 2012 (subsidiaries)*	24,922
Profit (loss) of the acquirees recognised in the year ended 31 December 2012 (subsidiaries)*	5,981

<i>In millions of CZK</i>	2011
	Total
Revenue of the acquirees recognised in the year ended 31 December 2011 (subsidiaries and joint-ventures)*	6,282
Profit (loss) of the acquirees recognised in the year ended 31 December 2011 (subsidiaries and joint-ventures)*	1,022

** before intercompany eliminations*

For details on major acquisitions please refer also to Appendix 1.

(c) Business combinations – acquisition accounting 2012 and 2011

The acquiree's identifiable assets, liabilities and contingent liabilities were recognised and measured at their fair values at the acquisition date by the parent company Energetický a průmyslový holding, a.s. (except for acquisitions under common control, which are carried in net book values); in line with the above, the established fair values were subsequently reported in the consolidated financial statements of the Company. Allocation of the total purchase price among the net assets acquired for financial statement reporting purposes was performed with the support of professional advisors.

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

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

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

Fair value adjustments resulting from business combinations in 2012 are presented in the following table.

<i>In millions of CZK</i>	Intangible assets	Property, plant and equipment (including mine property)	Other	Deferred tax asset/ (liability)	Total net effect on financial position
Subsidiary					
JTSD Braunkohlebergbau GmbH	(25)	4,669	(1,888)	(700)	2,056
Pražská teplárenská a.s.	85	1,280	94	(277)	1,182
Saale Energie GmbH	2,263	-	650	(762)	2,151
Total	2,323	5,949	(1,144)	(1,739)	5,389

Fair value adjustments resulting from business combinations in 2011 are presented in the following table.

<i>In millions of CZK</i>	Intangible assets	Property, plant and equipment (including mine property)	Other	Deferred tax asset/ (liability)	Total net effect on financial position
Subsidiary and joint-venture					
LIGNITE INVESTMENTS 1 LIMITED	-	-	(985)	-	(985)
JTSD Braunkohlebergbau GmbH	(2,352)	3,204	(1,443)	24	(567)
Total	(2,352)	3,204	(2,428)	24	(1,552)

(d) Disposal of investments in 2012 and 2011

In 2012 the Group disposed of its investment in Energotrans, a.s. (a former subsidiary of Pražská teplárenská a.s.), which was classified as Assets/disposal groups held for sale as at 31 December 2011. The effects of the disposals are provided in the following table:

<i>In millions of CZK</i>	Net assets sold in 2012
Assets/disposal groups held for sale ⁽¹⁾	12,713
Liabilities from assets/disposal groups held for sale ⁽¹⁾	(2,084)
Net identifiable assets and liabilities⁽¹⁾	10,629
Sales price ⁽¹⁾	13,219
Gain (loss) on disposal⁽¹⁾	2,590
Consideration received, satisfied in cash ⁽¹⁾	13,219
Less: Cash disposed ⁽¹⁾	-
Net cash inflow (all in cash)⁽¹⁾	13,219

(1) Represents values at a 73.26% share.

On 29 June 2012 the Group accounted for a disposal of its 50% investment in JTSD Braunkohlebergbau GmbH and its 73.26% investment in Pražská teplárenská a.s. as part of the step acquisition process. The effects of the disposals are provided in the following table:

<i>In millions of CZK</i>	Net assets disposed in 2012
Property, plant, equipment, land, buildings	15,066
Intangible assets	299
Participations with significant influence	316
Deferred tax assets	-
Inventories	235
Trade receivables and other assets	2,328
Financial instruments – assets	8,295
Cash and cash equivalents	6,854
Provisions	(3,170)
Deferred tax liabilities	(913)
Loans and borrowings	(4,100)
Trade payables and other liabilities	(4,848)
Assets held for sale, net	120
Non-controlling interests	(173)
Net identifiable assets and liabilities disposed at carrying value	20,309
Fair value of disposed net identifiable assets and liabilities	22,203
Gain (loss) on disposal	1,894

Net identifiable assets and liabilities disposed at carrying value are attributable to JTSD Braunkohlebergbau GmbH in the amount of CZK 2,198 million, and to Pražská teplárenská a.s. in the amount of CZK 18,111 million. The fair values of disposed net identifiable assets and liabilities attributable to JTSD Braunkohlebergbau GmbH is CZK 3,226 million and Pražská teplárenská a.s. are CZK 3,226 million and CZK 18,977 million, respectively.

In 2011 the Group did not dispose of any investments.

7. Sales

<i>In millions of CZK</i>	2012	2011
Sales: Energy		
<i>Electricity</i>	22,431	19,809
<i>Heat</i>	6,859	5,749
<i>Coal</i>	6,294	2,091
<i>Gas</i>	3,711	4,956
<i>Other energy products</i>	-	96
Total Energy	39,295	32,701
Sales: Other	1,770	725
Total	41,065	33,426
Domestic revenues	20,823	19,261
Foreign sales	20,242	14,165
Total	41,065	33,426

Other sales are represented mainly by sales of lignite dust, briquettes, gypsum, reimbursements of transportation and disposal costs, sewage sludge incineration and restoration services to third parties.

8. Cost of sales

<i>In millions of CZK</i>	2012	2011
Cost of Sales: Energy		
<i>Cost of sold electricity</i>	13,882	13,404
<i>Cost of sold gas and other energy products</i>	3,790	4,897
<i>Consumption of coal and other material</i>	5,608	3,757
<i>Consumption of energy</i>	1,317	552
<i>Other cost of sales</i>	679	578
Total Energy	25,276	23,188
Cost of Sales: Other		
<i>Cost of goods sold</i>	225	331
<i>Consumption of material</i>	153	320
<i>Consumption of energy</i>	32	25
<i>Changes in WIP, semi-finished products and finished goods</i>	3	-
<i>Other cost of sales</i>	9	4
Total Other	422	680
Total	25,698	23,868

Cost of sales presented in the above table contains only cost of purchased energy and purchased materials consumed in producing energy output, it does not contain directly attributable overhead (particularly personnel expenses, depreciation and amortisation, repairs and maintenance, emission rights, taxes and charges etc.).

9. Personnel expenses

<i>In millions of CZK</i>	2012	2011
Wages and salaries	2,564	1,364
Compulsory social security contributions	798	463
Board members' remuneration (including boards of subsidiaries, associates and joint-ventures)	367	162
Expenses and revenues related to employee benefits (IAS 19)	24	23
Creation and reversal of provisions for personnel costs	(6)	6
Other social expenses	37	41
Total	3,784	2,059

The average number of employees during 2012 was 4,057 (2011: 2,837), of which 107 (2011: 92) were executives.

10. Emission rights

<i>In millions of CZK</i>	2012	2011
Deferred income (grant) released to profit and loss	1,192	2,332
Profit from sale of emission rights	240	200
Consumption of emission rights	(1,297)	(2,375)
Total	135	157

The Ministries of the Environment of the Czech Republic and Germany set a limit on the amount of a pollutant that can be emitted. Companies are granted emission allowances and are required to hold an equivalent number of allowances which represent the right to emit a specific amount of pollutant. The total amount of allowances and credits cannot exceed the cap, limiting total emissions to that level. Companies that need to increase their emission allowance must buy credits from those who pollute less or from other market participants. The transfer of allowances is referred to as a trade.

In case of shortages of emission rights, a provision to cover the difference between estimated pollutant emissions in the current year and the current amount of emission allowances held at the reporting date is recognised, and this is valued at the market value prevailing at the reporting date (refer to Note 30 – Provisions).

The companies that participate in the emission rights programme are United Energy, a.s., Plzeňská energetika a.s., Pražská teplotárenská a.s., JTSD Braunkohlebergbau GmbH and Elektrárny Opatovice, a.s.

11. Taxes and charges

<i>In millions of CZK</i>	2012	2011
Gift tax on emission rights	204	375
Electricity tax	154	65
Property and real estate transfer tax	101	10
Other taxes and charges	(77)	31
Total	382	481

A gift tax (32 %) on emission rights has been applicable in the Czech Republic since 2011. From 2013 this tax will not be applicable any more.

The increase in property and real estate transfer tax expense relates to the real estate transfer tax obligation that was triggered by the second step of the acquisition of JTSD Braunkohlebergbau GmbH by LIGNITE INVESTMENTS 1 LIMITED in June 2012.

12. Other operating income

<i>In millions of CZK</i>	2012	2011
Change in provisions, net	1,526	363
Own work capitalised to fixed assets ⁽¹⁾	182	-
Compensation from insurance companies	170	80
Ecological tax reimbursement	116	47
Rental income	73	46
Consulting fees	32	11
Contractual penalties	29	18
Inventories surplus	22	14
Profit from sale of material	9	5
Other	88	85
Total	2,247	669

(1) Primarily relates to own work capitalised in mines (primarily labor cost).

13. Other operating expenses

<i>In millions of CZK</i>	2012	2011
Transport expenses	450	157
Office equipment and other material	394	132
Outsourcing and other administration fees	346	296
Consulting expenses	288	108
Rent expenses	192	112
Impairment losses	88	23
Loss from receivables written-off	62	1
Advertising expenses	57	40
Insurance expenses	57	37
Gifts and sponsorship	55	40
Net loss on disposal of property, plant and equipment, investment property and intangible assets	30	34
Information technology costs	29	33
Training, courses, conferences	27	14
Communication expenses	14	8
Shortages and damages	13	1
Contractual penalties	9	20
Investment property income	1	2
Other	140	234
Total	2,252	1,292

The increase in other operating expenses was caused primarily by the acquisition of the remaining 50% share in JTSD Braunkohlebergbau GmbH.

No research and development expenses were recognised in profit and loss for the year ended 31 December 2012 and 31 December 2011.

Fees payable to statutory auditors

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

14. Finance income and expense, profit/loss from financial instruments

Recognised in profit or loss

<i>In millions of CZK</i>	2012	2011
Interest income	508	494
Net foreign exchange gain	-	41
Other finance income	1	1
Finance income	509	536
Interest expense	(1,958)	(1,893)
Fees and commissions expense for guarantees	(12)	(13)
Fees and commissions expense for payment transactions	(8)	(7)
Net foreign exchange loss	(6)	-
Other services	(29)	(2)
Finance costs	(2,013)	(1,915)
Profit (loss) from currency derivatives for trading	188	(42)
Profit (loss) from other derivatives for trading	4	(30)
Profit (loss) from hedging activities	(2)	(54)
(Loss) from interest rate derivatives for trading	(30)	(80)
Profit (loss) from commodity derivatives for trading	(258)	193
Profit (loss) from financial instruments	(98)	(13)
Net finance income (expense) recognised in profit or loss	(1,602)	(1,392)

15. Income tax expenses

Income taxes recognised in profit or loss

<i>In millions of CZK</i>	2012	2011
<i>Current taxes:</i>		
Current year	(943)	(994)
Adjustment for prior periods	177	(6)
Withholding tax	-	-
Total current taxes	(766)	(1,000)
<i>Deferred taxes:</i>		
Origination and reversal of temporary differences	(255)	355
Total deferred taxes	(255)	355
Total income taxes (expense)/benefit recognised in profit or loss	(1,021)	(645)

Deferred taxes are calculated using currently enacted tax rates expected to apply when the asset is realised or the liability settled. According to Czech legislation the corporate income tax rate is 19% for fiscal years ended in 2012 and 2011. The German federal income tax rate for 2012 and 2011 is 26.98%.

Income tax recognised in other comprehensive income

<i>In millions of CZK</i>	2012		Net of income tax
	Gross	Income tax	tax
Foreign currency translation differences from foreign operations	123	-	123
Effective portion of changes in fair value of cash-flow hedges	2	-	2
Share of the other comprehensive income of associates accounted for using the equity method	-	-	-
Total	125	-	125

The foreign currency translation differences from foreign operations also include the share of non-controlling interest.

In millions of CZK

	Gross	2011 Income tax	Net of income tax
Foreign currency translation differences from foreign operations	25	-	25
Effective portion of changes in fair value of cash-flow hedges	(9)	2	(7)
Share of the other comprehensive income of associates accounted for using the equity method	(20)	3	(17)
Total	(4)	5	1

Reconciliation of the effective tax rate

In millions of CZK

		2012		2011
	%		%	
Profit before tax		11,548		1,544
Income tax using the Company's domestic rate	19.00%	2,194	19.00%	293
Effect of tax rates in foreign jurisdictions	3.18%	367	2.20%	34
Non-deductible expenses	0.93%	107	32.83%	507
Other non-taxable income	(14.21%)	⁽¹⁾ (1,640)	(13.44%)	(207)
Tax incentives, tax credits	(0.05%)	(6)	0.38%	6
Recognition of previously unrecognised tax losses	(0.04%)	(5)	(0.25%)	(4)
Current year losses for which no deferred tax asset was recognised	0.81%	94	1.65%	26
Withholding tax, income tax adjustments for prior periods	(0.57%)	(66)	-	-
Change in unrecognised temporary differences	(0.21%)	(24)	(0.64%)	(10)
Income taxes recognised in profit or loss	8.84%	1,021	41.74%	645

(1) The basis consists mainly of negative goodwill of CZK 3,012 million and gain on disposal of subsidiaries, special purpose entities, joint-ventures and associates of CZK 4,484 million.

16. Property, plant and equipment

In millions of CZK

	Land and buildings	Technical equipment, plant and machinery	Other equipment, fixtures and fittings	Under construction	Total
Cost					
Balance at 1 January 2012	12,254	18,229	27	1,351	31,861
Effects of movements in foreign exchange rates	(22)	(386)	(8)	(43)	(459)
Additions	330	899	-	622	1,851
Disposals	(22)	(49)	(2)	-	(73)
Additions through step acquisitions ⁽¹⁾	10,699	19,866	46	992	31,603
Disposals through step acquisitions ⁽¹⁾	(7,430)	(9,902)	(9)	(509)	(17,850)
Transfer to assets held for sale	(110)	(89)	-	-	(199)
Transfer from assets held for sale	1,158	142	-	-	1,300
Transfers	271	477	(38)	(710)	-
Balance at 31 December 2012	17,128	29,187	16	1,703	48,034
Depreciation and impairment losses					
Balance at 1 January 2012	(1,634)	(2,725)	(18)	-	(4,377)
Effects of movements in foreign exchange rates	-	13	12	-	25
Depreciation charge for the year	(1,320)	(3,458)	(4)	-	(4,782)
Disposals	8	21	-	-	29
Disposals through step acquisitions ⁽¹⁾	974	1,805	5	-	2,784
Impairment losses recognised in profit or loss	(26)	-	-	-	(26)
Transfer to/from assets held for sale	17	38	-	-	55
Balance at 31 December 2012	(1,981)	(4,306)	(5)	-	(6,292)
Carrying amounts					
At 1 January 2012	10,620	15,504	9	1,351	27,484
At 31 December 2012	15,147	24,881	11	1,703	41,742

(1) Additional purchase of 50% in JTSD Braunkohlebergbau GmbH and the gaining of control of Pražská teplárenská a.s.

In millions of CZK

	Land and buildings	Technical equipment, plant and machinery	Other equipment, fixtures and fittings	Under construction	Total
Cost					
Balance at 1 January 2011	11,099	9,955	28	412	21,494
Effects of movements in foreign exchange rates	50	433	-	36	519
Additions	217	374	2	1,026	1,619
Acquisitions through business combinations ⁽¹⁾	842	7,189	-	280	8,311
Step acquisition ⁽²⁾	20	8	-	-	28
Disposals	(32)	(59)	(5)	(14)	(110)
Transfers	58	329	2	(389)	-
Balance at 31 December 2011	12,254	18,229	27	1,351	31,861
Depreciation and impairment losses					
Balance at 1 January 2011	(329)	(699)	(18)	-	(1,046)
Effects of movements in foreign exchange rates	(1)	(24)	-	-	(25)
Depreciation charge for the year	(1,295)	(2,017)	(2)	-	(3,314)
Disposals	5	15	2	-	22
Step acquisition ⁽²⁾	(1)	-	-	-	(1)
Impairment losses recognised in profit or loss	(13)	-	-	-	(13)
Reversal of impairment losses recognised in profit or loss	-	-	-	-	-
Transfers	-	-	-	-	-
Balance at 31 December 2011	(1,634)	(2,725)	(18)	-	(4,377)
Carrying amounts					
At 1 January 2011	10,770	9,256	10	412	20,448
At 31 December 2011	10,620	15,504	9	1,351	27,484

(1) The amount is not reconcilable to Note 6 – Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates because the effects of the acquisition of ČKD Blansko Wind, a.s. are not included in Note 6 – Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates as they are immaterial.

(2) Additional purchase of shares in Pražská teplárenská a.s. (proportional consolidation)

Idle assets

As at 31 December 2012 and also as at 31 December 2011 the Group had no significant idle assets.

Finance lease liabilities

As at 31 December 2012 and also as at 31 December 2011 the Group had no significant finance lease liabilities.

Security

At 31 December 2012 property, plant and equipment with a carrying value of CZK 8,577 million (2011: CZK 7,290 million) is subject to pledges to secure bank loans.

Insurance of property, plant and equipment

As at 31 December 2012 the following items of property, plant and equipment were insured against the risks presented in the table below:

In millions of CZK

Description of property	Carrying amount of property	Natural disaster	Amounts insured		Other risks
			General machine risks	Liability for damage	
Land	2,783	-	-	-	-
Buildings	12,364	23,094	219	1,303	47
Machinery and equipment	24,881	24,014	3,086	97	1,480
Fixtures and fittings	9	111	1,212	-	-
Other long-term tangible assets	2	-	-	-	-
Long-term tangible assets under construction	1,703	120	-	-	-
Investment property	9	-	-	-	-
Total	41,751	47,339	4,517	1,400	1,527

As at 31 December 2011 the following items of property, plant and equipment were insured against the risks presented in the table below:

In millions of CZK

Description of property	Carrying amount of property	Natural disaster	Amounts insured		Other risks
			General machine risks	Liability for damage	
Land	1,940	-	-	-	-
Buildings	8,680	2,736	219	46	38
Machinery and equipment	15,504	6,654	508	21	4
Other long-term tangible assets	9	-	-	-	-
Long-term tangible assets under construction	1,351	-	-	-	-
Investment property	-	-	-	-	-
Total	27,484	9,390	727	67	42

17. Intangible assets (including goodwill)

In millions of CZK

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2012	2,622	239	391	329	21	3,602
Effect of movements in foreign exchange rates	-	(29)	19	19	-	9
Additions	-	42	1,643	-	4	1,689
Acquisitions through business combinations ⁽²⁾	-	30	-	2,233	-	2,263
Disposals	-	-	(1,297)	-	-	(1,297)
Additions through step acquisitions ⁽¹⁾	-	214	356	-	5	575
Disposals through step acquisitions ⁽¹⁾	-	(163)	(234)	-	(5)	(402)
Transfers	-	9	-	-	(9)	-
Balance at 31 December 2012	2,622	342	878	2,581	16	6,439
Amortisation and impairment losses						
Balance at 1 January 2012	-	(123)	-	(59)	(2)	(184)
Effect of movements in foreign exchange rates	-	(1)	-	-	-	-
Amortisation for the year	-	(97)	-	(331)	(1)	(429)
Disposal through step acquisitions ⁽¹⁾	-	102	-	-	1	103
Impairment losses recognised in profit or loss	-	-	-	(62)	-	(62)
Balance at 31 December 2012	-	(119)	-	(452)	(2)	(573)
Carrying amount						
At 1 January 2012	2,622	116	391	270	19	3,418
At 31 December 2012	2,622	223	878	2,129	14	5,866

(1) Additional purchase of 50% in JTSD Braunkohlebergbau GmbH and the gaining of control of Pražská teplárenská a.s.

(2) Acquisition of Saale Energie GmbH.

<i>In millions of CZK</i>	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2011	2,686	166	273	-	360	3,485
Additions	-	35	2,312	-	9	2,356
Acquisitions through business combinations ⁽¹⁾	8	17	151	-	-	176
Disposals	(72)	-	(2,375)	-	-	(2,447)
Transfers	-	20	-	329	(349)	-
Effect of movements in foreign exchange rates	-	1	30	-	1	32
Balance at 31 December 2011	2,622	239	391	329	21	3,602
Amortisation and impairment losses						
Balance at 1 January 2011	-	(25)	-	-	(26)	(51)
Amortisation for the year	-	(98)	-	-	(35)	(133)
Transfer	-	-	-	(59)	59	-
Balance at 31 December 2011	-	(123)	-	(59)	(2)	(184)
Carrying amount						
At 1 January 2011	2,686	141	273	-	334	3,434
At 31 December 2011	2,622	116	391	270	19	3,418

(1) The amount is not reconcilable to Note 6 – Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates because the effects of the acquisition of ČKD Blansko Wind, a.s. are not included in Note 6 – Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates as they are immaterial.

In 2012, the EPE Group purchased emission allowances of CZK 451 million (2011: CZK 302 million). The remaining part of CZK 1,192 million (2011: CZK 2,010 million) was allocated to the Group by the Ministry of the Environment of the Czech Republic.

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

Other intangible assets comprise valuable rights.

All intangible assets, excluding goodwill, were recognised as assets with definite useful life.

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's cash-generating units which represent the lowest level within the Group at which goodwill is monitored for internal management purposes.

The aggregate carrying amounts of goodwill allocated to single cash generating units are as follows (no intangible assets with indefinite useful lives were identified):

<i>In millions of CZK</i>	31 December 2012
EAST BOHEMIA ENERGY HOLDING LIMITED	2,321
POWERSUN a.s.	215
Plzeňská energetika a.s.	72
ČKD Blansko Wind, a.s.	8
ARISUN, s.r.o.	4
VTE Moldava, a.s.	2
Total goodwill	2,622

<i>In millions of CZK</i>	31 December 2011
EAST BOHEMIA ENERGY HOLDING LIMITED	2,321
POWERSUN a.s.	215
Plzeňská energetika a.s.	72
ČKD Blansko Wind, a.s.	8
ARISUN, s.r.o.	4
VTE Moldava, a.s.	2
Total goodwill	2,622

Goodwill and impairment testing

In compliance with IAS 36, the Group annually conducts impairment testing of goodwill arising from a business combination during the current period and impairment testing of goodwill already recognised in prior years, at the year end. The Group also conducts impairment testing of other intangible assets with indefinite useful lives, and of cash generating units (CGUs) where a trigger for impairment testing is identified. As at the acquisition date goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies. Impairment is determined by assessing the recoverable amount of the CGU, to which the goodwill relates, on the basis of a value in use that reflects estimated future discounted cash flows. Value in use is derived from management forecasts of future cash flows updated since the date of acquisition. The discount rates applied to the cash flow projections are calculated as the weighted average cost of capital (WACC) of each CGU.

As at the year end, the Group conducted impairment testing for all significant goodwill amounts.

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

Cash-flows were projected based on past experience, actual operating results and the 1-year business plan followed by additional 4-year projections. Cash flows for a terminal period were extrapolated using a constant growth rate of 2%, which does not exceed the long-term average growth rate for the industry. Other key assumptions considered by management include forecasts of commodity market prices, future electricity and gas prices, investment activity, changes in working capital and changes in the regulatory framework.

The discount rates used in estimating value in use were estimated based on the principle of an average market participant using peer companies (i.e. companies operating in a comparable industry and listed on world markets) as a standard for observing respective betas, debt to equity ratios and size adjustment parameters used for calculation. The resulting discount rates ranged from 8.08% to 8.32%.

Current year testing showed no need for impairment.

Additional information on CGU with significant goodwill assigned:

The recoverable amount of EAST BOHEMIA ENERGY HOLDING LIMITED was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of EAST BOHEMIA ENERGY HOLDING LIMITED. Value in use in 2012 was determined in a similar manner as in 2011. Management estimated that the recoverable amount for EAST BOHEMIA ENERGY

HOLDING LIMITED exceeded its carrying amount by CZK 2,882 million, including goodwill of CZK 2,321 million. Key assumptions used in the calculation of value in use were the discount rate, terminal value growth rate and EBITDA growth rate. These assumptions were as follows:

	2012	2011
Discount rate	8.08%	6.88%
Terminal value growth rate	2.00%	2.00%

The discount rate was a pre-tax measure based on the risk-free rate adjusted for a risk premium to reflect both the increase risk of investing in equities generally and the systemic risk of EAST BOHEMIA ENERGY HOLDING LIMITED.

Budgeted EBITDA was based on an expectation of future outcomes taking into account past experience. In particular, we have reflected the following:

- expected refurbishments necessary to comply with applicable regulation (impact especially on electricity output/sales, OPEX and CAPEX);
- market expectations regarding power and CO2 prices, development based on historical trends;
- a slight decrease in heat supplies and modest increase of heat prices;
- inflation driven development of various other positions, especially overhead costs.

Were EBITDA (EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortisation of intangible assets) to be 10% less than the management estimates, the value in use would decrease by CZK 1,235 million, which would not indicate any impairment loss.

18. Investment property

In millions of CZK

	31 December 2012	31 December 2011
Opening balance	9	3
Additions	-	6
Changes in fair value	-	-
Closing balance	9	9

Security

As at 31 December 2012 investment property in the amount of CZK 9 million (2011: CZK 0 million) is subject to pledges to secure bank loans.

19. Participations with significant influence and joint-ventures

Associates

The Group has the following investments in associates:

In millions of CZK

Associates	Country	Ownership 31 December 2012 %	Carrying amount 31 December 2012
Pražská teplárenská Holding a.s.	Czech Republic	49.00	597
PRVNÍ MOSTECKÁ a.s.	Czech Republic	47.06	154
Associates of JTSD			
Braunkohlebergbau GmbH	Germany	(1)	768
Associates of Saale Energie GmbH	Germany	(1)	2,524
Total			4,043

<i>In millions of CZK</i>		Ownership	Carrying amount
		31 December 2011	31 December 2011
Associates	Country	%	
Pražská teplárenská Holding a.s.	Czech Republic	49.00	581
PRVNÍ MOSTECKÁ a.s.	Czech Republic	47.06	150
Associates of JTSD			
Braunkohlebergbau GmbH	Germany	(1)	303
Total		-	1,034

(1) Ownership percentage varies, for details refer to Note 38 – Group entities

The Group has the following shares in the profit/(loss) of associates:

<i>In millions of CZK</i>		Ownership	Share of profit/(loss)
		31 December 2012	2012
Associates	Country	%	
Pražská teplárenská Holding a.s.	Czech Republic	49.00	-
PRVNÍ MOSTECKÁ a.s.	Czech Republic	47.06	5
Associates of JTSD			
Braunkohlebergbau GmbH	Germany	(1)	16
Associates of Saale Energie GmbH	Germany	(1)	(30)
Total			(9)

<i>In millions of CZK</i>		Ownership	Share of profit/(loss)
		31 December 2011	2011
Associates	Country	%	
Pražská teplárenská Holding a.s.	Czech Republic	49.00	(1)
PRVNÍ MOSTECKÁ a.s.	Czech Republic	47.06	4
Associates of JTSD			
Braunkohlebergbau GmbH	Germany	(1)	12
Total		-	15

(1) Ownership percentage varies, for details refer to Note 38 – Group entities

Summary financial information for standalone associates, presented at 100% as at and for the year ended 31 December 2012.

<i>In millions of CZK</i>					
Associates	Revenue	Profit/(Loss)	Assets	Liabilities	Equity
PRVNÍ MOSTECKÁ a.s.	489	9	994	666	328
Pražská teplárenská Holding a.s.	1,210	*1,210	3,551	1	3,550
Kraftwerk Schkopau GbR ⁽¹⁾	784	154	5,782	3,057	2,725
Kraftwerk Schkopau Betriebsgesellschaft GmbH ⁽¹⁾	2,405	-	249	248	1
Mitteldeutsche Umwelt- und Entsorgung GmbH ⁽¹⁾	1,017	47	1,849	1,223	626
Fernwärme GmbH Hohenmölsen - Webau ⁽¹⁾	103	8	262	135	127
Ingenieurbüro für Grundwasser GmbH ⁽¹⁾	41	4	22	8	14
	6,049	1,432	12,709	5,338	7,371

In millions of CZK

	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Associates				
PRVNÍ MOSTECKÁ a.s.	388	606	29	637
Pražská teplárenská Holding a.s.	2,332	1,219	-	1
Kraftwerk Schkopau GbR ⁽¹⁾	972	4,810	-	3,057
Kraftwerk Schkopau Betriebsgesellschaft GmbH ⁽¹⁾	-	249	-	248
Mitteldeutsche Umwelt- und Entsorgung GmbH ⁽¹⁾	1,295	554	905	318
Fernwärme GmbH Hohenmölsen - Webau ⁽¹⁾	226	36	85	50
Ingenieurbüro für Grundwasser GmbH ⁽¹⁾	12	10	0	8
	5,225	7,484	1,019	4,319

**Profit and Loss item represents primarily dividend income from an associate.*

(1) Data from standalone financial statements according to German GAAP

Summary financial information for standalone associates presented at 100% as at and for the year ended 31 December 2011:

In millions of CZK

Associates	Revenue	Profit/(Loss)	Assets	Liabilities	Equity
PRVNÍ MOSTECKÁ a.s.	548	9	1,056	738	318
Pražská teplárenská Holding a.s.	1,186	*1,176	3,517	1	3,516
Associates of JTSD Braunkohlebergbau GmbH	(1)	(1)	(1)	(1)	(1)
	1,734	1,185	4,573	739	3,834

In millions of CZK

Associates	Non-current assets	Current assets	Non-current liabilities	Current liabilities
PRVNÍ MOSTECKÁ a.s.	405	651	27	711
Pražská teplárenská Holding a.s.	2,332	1,185	-	1
Associates of JTSD Braunkohlebergbau GmbH	(1)	(1)	(1)	(1)
	2,737	1,836	27	712

**Profit and Loss item represents primarily dividend income from an associate.*

(1) Data is not available as the associates are sub-consolidated within JTSD Braunkohlebergbau GmbH

Joint-ventures

The Group had the following investments in joint-ventures:

In millions of CZK

Joint-ventures	Country	Ownership 31 December 2012 %	Ownership 31 December 2011 %
Pražská teplárenská a.s.	Czech Republic	-	73.26
JTSD Braunkohlebergbau GmbH	Germany	-	50.00
MIBRAG Neue Energie GmbH	Germany	-	50.00

The Group has no joint ventures as at 31 December 2012 as the Group gained control of the above entities through the step acquisitions in 2012.

Summary financial information for standalone joint-ventures presented at 100% as at and for the year ended 31 December 2011:

In millions of CZK

Joint-ventures	Revenue	Profit/(Loss)	Assets	Liabilities	Equity
Pražská teplárenská a.s.	7,679	1,163	27,250	4,758	22,492
JTSD Braunkohlebergbau GmbH	5,460	1,022	20,351	15,793	4,558
MIBRAG Neue Energie GmbH	19	(10)	293	260	33
	13,158	2,175	47,894	20,811	27,083

In millions of CZK

Joint-ventures	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Pražská teplárenská a.s.	8,719	18,531	987	3,771
JTSD Braunkohlebergbau GmbH	18,034	2,317	13,966	1,827
MIBRAG Neue Energie GmbH	280	13	238	22
	27,033	20,861	15,191	5,620

20. Deferred tax assets and liabilities

Unrecognised deferred tax assets

The EPE Group reports the following tax losses carried forward:

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Tax losses carried forward	496	126
Total	496	126

The total amount of tax losses carried forward is CZK 496 million (2011: CZK 126 million), of which CZK 0 million (2011: CZK 4 million) was used as the basis for deferred tax recognition. The amount of CZK 496 million (2011: CZK 122 million), for which no deferred tax was recognised, relates mainly to the company PT Holding Investment B.V. in an amount of CZK 237 million (2011: CZK 115 million), První energetická, a.s. in an amount of CZK 109 million, HC Fin3 N.V. in an amount of CZK 87 million and Alternative Energy, s.r.o. in an amount of CZK 45 million. Considering the nature of revenues and expenses, the companies do not expect taxable profit growth to a considerable extent, so no deferred tax was recognised. If a sufficient taxable profit had been achieved in 2012, then the associated tax income (savings) would have been up to CZK 94 million (2011: CZK 23 million).

Tax losses expire over a period of 5 years in the Czech Republic, 7 years in Slovakia (or 7 years for losses arising before 1 January 2004 in the Czech Republic or 5 years for tax losses arising before 1 January 2010 in Slovakia) and 9 years in the Netherlands for standard tax losses. Under current tax legislation, some deductible temporary differences do not expire. Deferred tax assets have not been recognised in respect of these items because, due to the varying nature of the sources of these profits, it is not probable that future taxable profit will be available against which the Group can utilise the benefits from the deferred tax assets.

Recognised deferred tax assets and liabilities

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

<i>In millions of CZK</i>	31 December 2012	31 December 2011	31 December 2012	31 December 2011	31 December 2012	31 December 2011
	Assets	Assets	Liabilities	Liabilities	Net	Net
Temporary difference related to:						
Property, plant and equipment	32	32	(5,181)	(3,009)	(5,149)	(2,977)
Intangible assets	-	449 ⁽¹⁾	(312)	-	(312)	449
Financial instruments at fair value through profit or loss	-	-	(2)	(2)	(2)	(2)
Inventories	167	62	-	-	167	62
Trade receivables and other assets	-	28	(48)	-	(48)	28
Provisions	375	-	-	(5)	375	(5)
Employee benefits (IAS 19)	24	13	-	-	24	13
Loans and borrowings	84	29	-	-	84	29
Derivatives	-	-	(55)	(50)	(55)	(50)
Tax losses	-	1	-	-	-	1
Other items	67	38	-	-	67	38
Setoff tax	(717)	(620)	717	620	-	-
Total	32	32	(4,881)	(2,446)	(4,849)	(2,414)

(1) Relates to intangible assets identified during the Purchase Price Allocation process.

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

	2012	2013	2014	2015	2016	After 2017
Tax losses	-	118	9	12	12	345

Movements in temporary differences during the period

In millions of CZK

Temporary difference related to:	Balance at 1 January 2012	Recognised in profit or loss	Recognised in OCI	Acquired in business combinations	Disposed through step acquisitions	Transfer to disposal group held for sale	Balance at 31 December 2012
Property, plant and equipment	(2,978)	(208)	-	(3,021)	1,013	45	(5,149)
Intangible assets	449	16	-	(700)	(77)	-	(312)
Financial instruments at fair value through profit or loss	(2)	-	-	-	-	-	(2)
Inventories	62	(6)	-	111	-	-	167
Trade receivables and other assets	28	(53)	-	-	(23)	-	(48)
Provisions	(5)	(14)	-	394	-	-	375
Employee benefits (IAS 19)	13	2	-	9	-	-	24
Loans and borrowings	30	54	-	-	-	-	84
Tax losses	1	(1)	-	-	-	-	-
Derivatives	(50)	(5)	-	-	-	-	(55)
Other	38	(40)	-	69	-	-	67
Total	(2,414)	(255)	-	(3,138)	913	45	(4,849)

In millions of CZK

Temporary difference related to:	Balance at 1 January 2011	Recognised in profit or loss	Recognised in OCI	Acquired in business combinations	Transfer to disposal group held for sale	Step acquisition	Balance at 31 December 2011
Property, plant and equipment	(2,477)	292	-	(790)	-	(3)	(2,978)
Intangible assets	(82)	26	-	505	-	-	449
Financial assets available for sale	(1)	1	-	-	-	-	-
Financial instruments at fair value through profit or loss	-	-	-	(2)	-	-	(2)
Inventories	4	(2)	-	60	-	-	62
Trade receivables and other assets	2	-	-	26	-	-	28
Provisions	(21)	1	-	15	-	-	(5)
Employee benefits (IAS 19)	10	3	-	-	-	-	13
Loans and borrowings	9	21	-	-	-	-	30
Unpaid interest, net	-	-	-	-	-	-	-
Tax losses	1	-	-	-	-	-	1
Derivatives	(78)	26	2	-	-	-	(50)
Other	(4)	(13)	-	30	31	(6)	38
Total	(2,637)	355	2	(156)	31	(9)	(2,414)

21. Inventories

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Fossil fuel	462	340
Raw material and supplies	254	165
Spare parts	97	86
Work in progress	18	9
Finished goods and merchandise	10	18
Value adjustment to inventories	(11)	(13)
Total	830	605

At 31 December 2012 inventories in the amount of CZK 329 million (2011: CZK 192 million) were subject to pledges.

22. Trade receivables and other assets

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Trade receivables	5,274	4,164
Advance payments	712	60
Estimated receivables	499	204
Other receivables and assets	376	183
Receivables from participants, members and association	-	16
Accrued income	-	2
Allowance for bad debts	(181)	(190)
Total	6,680	4,439
<i>Current</i>	6,265	4,087
<i>Non-current</i>	415	352
Total	6,680	4,439

In 2012, receivables of CZK 62 million were written off through profit or loss (2011: CZK 1 million).

As at 31 December 2012 trade receivables with a carrying value of CZK 3,330 million are subject to pledges (2011: CZK 1,440 million).

As at 31 December 2012 trade receivables and other assets amounting to CZK 5,896 million are not past due (2011: CZK 3,544 million); the remaining balance of CZK 784 million is overdue (2011: CZK 895 million).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 36 – Risk management policies and disclosures.

23. Cash and cash equivalents

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Current accounts with banks	6,576	2,036
Term deposits	1,395	225
Bills of exchange issued by banks	200	-
Cash on hand	2	2
Total	8,173	2,263

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

As at 31 December 2012 cash equivalents of CZK 3,001 million are subject to pledges (2011: CZK 0 million).

24. Tax receivables

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Value added tax receivables	314	252
Current income tax receivables	68	175
Other tax receivables	103	2
Total	485	429

25. Assets and liabilities held for sale

The following items are presented within Assets/disposal groups held for sale:

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Property, plant and equipment	258	10,055
Trade receivables and other assets	1	528
Cash and cash equivalents	-	1,195
Intangible assets	-	84
Inventories	-	118
Closing balance	259	11,980

The following items are presented within Liabilities from disposal groups held for sale:

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Deferred tax liability	45	322
Provisions	-	1,341
Current income tax liability	-	293
Trade payables and other liabilities	-	168
Closing balance	45	2,124

Assets held for sale totalling CZK 259 million and liabilities held for sale totalling CZK 45 million relate fully to Areál Třeboradice, a.s., which will be sold to a third party.

The balances as at 31 December 2011 relate fully to Energotrans, a.s. (a former subsidiary of Pražská teplárenská a.s.). On 28 July 2011, a share purchase agreement was signed, through which the company Pražská teplárenská a.s., belonging to the EPE Group, sold a 100% interest in Energotrans, a.s. to the ČEZ, a.s. group; the transaction became effective on 28 June 2012. This concluded long-running business negotiations between Pražská teplárenská a.s. and ČEZ, a.s. about the sale of Energotrans, a.s.

26. Equity

Share capital and share premium

The authorised, issued and fully paid share capital as at 31 December 2012 consisted of 19,419,548 ordinary shares with a par value of CZK 1,000 each (2011: 19,419,548 ordinary shares with a par value of CZK 1,000 each).

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

31 December 2012	Number of shares 1,000 CZK	Ownership %	Voting rights %
Energetický a průmyslový holding, a.s.	19,419,548	100.00	100.00
Total	19,419,548	100.00	100.00

31 December 2011	Number of shares 1,000 CZK	Ownership %	Voting rights %
Energetický a průmyslový holding, a.s.	19,419,548	100.00	100.00
Total	19,419,548	100.00	100.00

The reconciliation of the number of shares outstanding at the beginning and at the end of the period is hereby provided.

	Number of shares	
	31 December 2012	31 December 2011
Shares outstanding at the beginning of the period	19,419,548	18,649,239
New shares issued	-	770,309
Shares outstanding at the end of the period	19,419,548	19,419,548

Reserves recognised in equity comprise the following items:

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Non-distributable reserves	1,903	17
Translation reserve	49	26
Hedging reserve	12	(26)
Other capital reserves	(8,112)	(8,112)
Total	(6,148)	(8,095)
Other capital funds from capital contributions	579	579
Reserves	(5,569)	(7,516)

Non-distributable reserves

The creation of a legal reserve fund in the Czech Republic is required at a minimum of 20% (10% for limited liability companies) of net profit (annually) and up to a minimum of 10% (5% for limited liability companies) of the registered share capital (cumulative balance). The legal reserve fund can only be used to cover losses of the Company and may not be distributed as a dividend. The calculation of the legal reserve is based on local statutory regulations. The legal reserve of CZK 1,903 million was reported as at 31 December 2012 (2011: CZK 17 million).

Translation reserve

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

Other capital reserves

In 2009 the Group accounted for pricing differences that arose both from establishment of the Group as at 10 August 2009 and acquisition of certain new subsidiaries in the subsequent periods prior to 31 December 2010. Such subsidiaries were acquired under common control of Energetický a průmyslový holding, a.s. and therefore excluded from scope of IFRS 3, which defines recognition of goodwill raised from business combinations as the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Acquirees under common control are recorded at the book value, which is presented in the consolidated financial statements of Energetický a průmyslový holding, a.s. (i.e. including historical goodwill less potential impairment). The difference between the cost of acquisition, carrying values of net assets and original goodwill carried forward as at the acquisition date was recorded in consolidated equity as pricing differences.

In 2010 other capital reserves decreased by CZK 1,169 million in relation to the disposal of Pražská energetika, a.s. (associate), previously acquired under common control. The amount corresponds to pricing differences assigned directly to the disposed associate and its direct parent company (Honor Invest, a.s.). The increase in other capital reserves was recognised against retained earnings.

In 2011 other capital reserves decreased by CZK 770 million in relation to the acquisition of LIGNITE INVESTMENTS 1 LIMITED which was contributed by EPH to the Company's share capital.

Hedging reserves

The effective portion of fair value changes in financial derivatives designated as cash flow hedges are recognised in equity. The balance as at 31 December 2012 represents derivative agreements to hedge the selling price of heat concluded by POWERSUN a.s.

27. Earnings per share

Basic earnings per share

Basic earnings per share in CZK per 1 CZK of share nominal value is 0.54 (2011: 0.05).

The calculation of basic earnings per share as at 31 December 2012 was based on profit attributable to ordinary shareholders of CZK 10,547 million, and a weighted average number of ordinary shares outstanding of 19,420 million.

The calculation of basic earnings per share as at 31 December 2011 was based on profit attributable to ordinary shareholders of CZK 901 million, and a weighted average number of ordinary shares outstanding of 19,042 million.

Weighted average number of ordinary shares 2012

<i>In millions of shares</i>	Nominal	Weighted
Issued ordinary shares at 10 August 2009 (1 share/CZK 1,000)	5,020	5,020
Issued ordinary shares at 9 October 2009 (1 share/CZK 1,000)	8,136	8,136
Issued ordinary shares at 1 September 2010 (1 share/CZK 1,000)	399	399
Issued ordinary shares at 20 September 2010 (1 share/CZK 1,000)	4,162	4,162
Issued ordinary shares at 31 December 2010 (1 share/CZK 1,000)	933	933
Issued ordinary shares at 28 June 2011 (1 share/CZK 1,000)	770	770
Total	19,420	19,420

Weighted average number of ordinary shares 2011

<i>In millions of shares</i>	Nominal	Weighted
Issued ordinary shares at 10 August 2009 (1 share/CZK 1,000)	5,020	5,020
Issued ordinary shares at 9 October 2009 (1 share/CZK 1,000)	8,136	8,136
Issued ordinary shares at 1 September 2010 (1 share/CZK 1,000)	399	399
Issued ordinary shares at 20 September 2010 (1 share/CZK 1,000)	4,162	4,162
Issued ordinary shares at 31 December 2010 (1 share/CZK 1,000)	933	933
Issued ordinary shares at 28 June 2011 (1 share/CZK 1,000)	770	392
Total	19,420	19,042

Dilutive earnings per share

As the Group issued no convertible debentures or other financial instruments with dilutive potential effects on ordinary share, diluted earnings per share is the same as basic earnings per share.

28. Non-controlling interest

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Pražská teplárenská a.s.	7,152	-
AISE, s.r.o.	7	6
Claymore Equity, s.r.o.	(1)	-
VTE Pchery, s.r.o.	(5)	(9)
Alternative Energy, s.r.o.	(16)	(4)
Other	-	1
Total	7,137	(6)

29. Loans and borrowings

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Loans payable to other than credit institutions	13,114	179
<i>of which owed to the parent company</i>	12,664	127
<i>of which owed to other related companies</i>	-	44
Issued debentures at amortised cost	12,404	-
Loans payable to credit institutions	460	13,722
Bank overdraft	49	225
Liabilities from financial leases	6	-
Total	26,033	14,126
Non-current	16,436	9,839
<i>of which owed to the parent company</i>	3,186	2
<i>of which owed to other related companies</i>	-	5
Current	9,597	4,287
<i>of which owed to the parent company</i>	9,478	125
<i>of which owed to other related companies</i>	-	39
Total	26,033	14,126

The weighted average interest rate on loans for 2012 was 5.06 % (2011: 3.37 %).

Issued debentures at amortised costs

The Senior Secured Notes were issued on 31 October 2012, are listed on the Irish Stock Exchange and comprise EUR 500 million (CZK 12,570 million) Senior Secured Notes due 2019. The Senior Secured Notes bear interest at 5.875% per annum, payable semi-annually in arrears on 1 May and 1 November of each year. Unless redeemed prematurely, the Senior Secured Notes will be redeemed by the Group in their principal amount on 1 November 2019.

The Senior Secured Notes rank pari passu with the loans under the Senior Facilities Agreement. The Senior Secured Notes are guaranteed by certain subsidiaries of EPE on a senior secured basis. The Senior Secured Notes and the guarantees thereof are secured by first ranking liens on the same assets that secure EPE's and the guarantors' obligations under the Senior Facilities Agreement.

The indenture pursuant to which the Senior Secured Notes were issued contains a number of restrictive covenants, including limitations on restricted payments, transactions with affiliates, liens and sales of collateral. The Company has to monitor the relationship between the total amount of debt and adjusted EBITDA; under certain circumstances, a specific limit must not be exceeded when considering additional debt. The level of debt must be also considered before certain profit distributions.

The Senior Secured Notes are stated net of debt issue costs of EUR 12 million (CZK 294 million). These costs are allocated to the profit and loss account over the term of the Senior Secured Notes through the effective interest rate of 6.301%.

Other loans and borrowings**Terms and debt repayment schedule**

Terms and conditions of outstanding other loans and borrowing as at 31 December 2012 were as follows:

<i>In millions of CZK</i>	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/12	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	EUR	fixed	2025	173	13	36	124
Secured bank loan	CZK	variable*	2023	189	9	65	115
Unsecured bank loan	CZK	fixed	2021	113	13	46	54
Unsecured bank loan	EUR	fixed	2016	151	17	134	-
Unsecured bank loan	EUR	variable*	2018	86	-	86	-
Secured bank loan**	EUR	variable*	2017	-252	-	-252	-
Unsecured loan	CZK	fixed	2015	6,113	5,678	435	-
Unsecured loan	EUR	fixed	2019	7,001	3,815	-	3,186
Bank overdraft	EUR	variable*	undefined	49	49	-	-
Liabilities from financial leases				6	3	3	-
Total interest-bearing liabilities				13,629	9,597	553	3,479

Terms and conditions of outstanding loans and borrowings as at 31 December 2011 were as follows:

<i>In millions of CZK</i>	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/11	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loans	CZK	fixed	2016	321	291	30	-
Secured bank loans	EUR	fixed	2025	94	-	-	94
Secured bank loans	CZK	variable*	2023	4,023	1,319	234	2,470
Secured bank loans	EUR	variable*	2017	3,326	793	1,729	804
Unsecured bank loans	CZK	fixed	2026	251	63	-	188
Unsecured bank loans	EUR	variable*	2023	5,707	1,429	4,180	98
Unsecured loans	CZK	fixed	2012	49	49	-	-
Unsecured loans	EUR	fixed	2013	129	117	12	-
Bank overdrafts	CZK	variable*	undefined	155	155	-	-
Bank overdrafts	EUR	variable*	undefined	71	71	-	-
Total interest-bearing liabilities				14,126	4,287	6,185	3,654

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

**Relates to the Senior Facilities Agreement (see below) – the fees were paid in 2012 but the principal was drawn in 2013.

On 18 October 2012, the Group entered into a facilities agreement (the “Senior Facilities Agreement”). No borrowings were made under this agreement in 2012. In connection with the issuance of the Senior Secured Notes (see below), the non-amortising term loan facility (“Facility B”) with up to CZK 10,575 million available, was cancelled in full. The amortising term-loan facilities (“Facility A1 and A2”) were cancelled in part. The Senior Facilities Agreement provides for the remaining part of Facility A1 and A2 in an amount of up to EUR 391 million as of 31 December 2012 and a revolving credit facility (the “Revolving Credit Facility”) of up to EUR 75 million.

The proceeds of Facilities A1 and A2 were made available for the purpose of (1) refinancing existing shareholder indebtedness, (2) specified distributions to shareholders (including through the repayment of shareholder loans) and (3) general corporate purposes (including acquisitions).

The interest rate under the Senior Facilities Agreement is EURIBOR (or PRIBOR for CZK denominated loans), plus mandatory costs and a margin. The margin on Facilities A1 and A2 are reviewed quarterly and may be adjusted if EPE Group attains certain leverage ratios to a minimum margin. The margin on the Revolving Credit Facility is not subject to adjustment.

Facilities A1 and A2 are amortised according to an agreed irregular repayment schedule and will be fully repaid in 2017. The Revolving Credit Facility will (subject to extension (if any) in accordance with the terms thereof) terminate and be repayable in full on the third anniversary of the date of the Senior Facilities Agreement.

The Senior Facilities Agreement is secured on a pari passu basis with the Senior Secured Notes on the same assets of EPE and the guarantors.

The Senior Credit Facility Agreement allows for voluntary prepayments, and will require mandatory prepayment in full or in part, in certain circumstances.

The Senior Facilities Agreement contains representation, warranties and undertakings common to facilities of this type and includes customary operating and financial covenants, subject to certain agreed exceptions.

In 2013 EPE had drawn EUR 431 million (CZK 10,835 million) by the date of signing of the consolidated financial statements. At the time of the drawdown Facilities A1 and A2, Facility A3 was cancelled.

30. Provisions

<i>In millions of CZK</i>	Emp- loyee benefits	Warr- anties	Provision for emission rights	Provision for lawsuits and litigations	Provision for restoration and decommissioning	Other	Total
Balance at 1 January 2012	309	2	-	32	2,720	234	3,297
Provisions made during the period	464	4	-	-	770	352	1,590
Provisions used during the period	(140)	-	-	-	-	(320)	(460)
Provisions reversed during the period	(21)	-	-	(6)	(2,266)	(518)	(2,811)
Additions through step acquisitions	451	2	-	5	6,657	679	7,794
Disposals through step acquisitions	(200)	(2)	-	(4)	(2,716)	(248)	(3,170)
Unwinding of discount*	-	-	-	-	131	-	131
Effects of movements in foreign exchange rates	-	-	-	-	(15)	(6)	(21)
Transfer	(228)	-	-	-	342	(114)	-
Balance at 31 December 2012	635	6	-	27	5,623	59	6,350
<i>Non-current</i>	387	-	-	27	5,623	13	6,050
<i>Current</i>	248	6	-	-	-	46	300

*Unwinding of discount is included in interest expense.

<i>In millions of CZK</i>	Emp- loyee benefits	Warr- anties	Provision for emission rights	Provision for lawsuits and litigations	Provision for restoration and decommissioning	Other	Total
Balance at 1 January 2011	72	-	-	36	80	33	221
Provisions made during the period	191	-	-	-	51	149	391
Provisions used during the period	(11)	-	-	(1)	(110)	(15)	(137)
Provisions reversed during the period	(22)	-	-	(3)	(343)	(216)	(584)
Additions through business combinations	75	-	-	-	2,871	265	3,211
Unwinding of discount*	-	-	-	-	-	4	4
Effects of movements in foreign exchange rates	4	-	-	-	171	16	191
Transfers	-	2	-	-	-	(2)	-
Balance at 31 December 2011	309	2	-	32	2,720	234	3,297
<i>Non-current</i>	<i>302</i>	<i>-</i>	<i>-</i>	<i>32</i>	<i>2,720</i>	<i>183</i>	<i>3,237</i>
<i>Current</i>	<i>7</i>	<i>2</i>	<i>-</i>	<i>-</i>	<i>-</i>	<i>51</i>	<i>60</i>

*Unwinding of discount is included in interest expense.

Accounting for provisions involves frequent use of estimates, such as probability of occurrence of uncertain events or calculation of the expected outcome. Such estimates are based on past experience, statistical models and professional judgment.

Employee benefits

The Group recorded a significant amount as provision for long-term employee benefits related to its employees. Valuations of these provisions are sensitive to assumptions used in the calculations, such as future salary and benefit levels, discount rates, employee leaving rate, late retirement rate, mortality and life expectancy. The management considered various estimated factors and how these estimates would impact the recognised provision. As a result of this analysis, no significant variances to the recorded provision are expected.

The provision for employee benefits in the amount of CZK 635 million (2011: CZK 309 million) was recorded by Mitteldeutsche Braunkohlengesellschaft GmbH, United Energy, a.s., Elektrárny Opatovice, a.s. and Pražská teplárenská a.s.

The provision recorded by Mitteldeutsche Braunkohlengesellschaft GmbH amounts to CZK 529 million, of which CZK 99 million represents a defined benefit pension scheme. The schedules below summarise information about the defined benefit obligations and plan assets.

<i>In millions of CZK</i>	2012	2011
Plan A		
Fair value of plan asset	89	82
Present value of obligations	(119)	(87)
Total employee benefit/(asset)	(30)	(5)
Plan B		
Fair value of plan asset	92	111
Present value of obligations	(124)	(126)
Total employee benefit/(asset)	(32)	(15)
Plan C		
Fair value of plan asset	-	-
Present value of obligations	(37)	(32)
Total employee benefit/(asset)	(37)	(32)

Plan assets

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Reinsurance contracts – plan A	89	82
Reinsurance contracts – plan B	92	111
Plan C	-	-
Total	181	193

Movement in the present value of defined benefit obligations

<i>In millions of CZK</i>	Plan A	Plan B	Plan C	Total
Balance at 1 January 2012	(87)	(126)	(32)	(245)
Benefits paid by plan	2	15	2	19
Current service costs	(9)	-	(1)	(10)
Current interest costs	(4)	(6)	(2)	(12)
Actuarial gains/(losses) recognised in P&L for the year	(22)	(10)	(5)	(37)
Effects of movements in foreign exchange	1	3	1	5
Balance at 31 December 2012	(119)	(124)	(37)	(280)

<i>In millions of CZK</i>	Plan A	Plan B	Plan C	Total
Balance at 1 January 2011	(78)	(127)	(31)	(236)
Benefits paid by plan	1	7	1	9
Current service costs	(9)	-	(1)	(10)
Current interest costs	(4)	(6)	(2)	(12)
Actuarial gains/(losses) recognised in P&L for the year	6	3	1	10
Effects of movements in foreign exchange	(3)	(3)	-	(6)
Balance at 31 December 2011	(87)	(126)	(32)	(245)

Movement in fair value of plan assets

<i>In millions of CZK</i>	Plan A	Plan B	Plan C	Total
Balance at 1 January 2012	82	111	-	193
Benefits paid by plan	(2)	(22)	-	(24)
Contributions to plan assets	9	1	-	10
Expected return on plan assets	3	3	-	6
Actuarial gains/(losses) recognised in P&L for the year	(1)	1	-	-
Effects of movements in foreign exchange	(2)	(2)	-	(4)
Balance at 31 December 2012	89	92	-	181

<i>In millions of CZK</i>	Plan A	Plan B	Plan C	Total
Balance at 1 January 2011	69	118	-	187
Benefits paid by plan	-	(7)	-	(7)
Contributions to plan assets	9	1	-	10
Expected return on plan assets	2	4	-	6
Actuarial gains/(losses) recognised in P&L for the year	(1)	(8)	-	(9)
Effects of movements in foreign exchange	3	3	-	6
Balance at 31 December 2011	82	111	-	193

Expense recognised in profit and loss:

<i>In millions of CZK</i>	2012	2011
Current service costs	10	10
Expected return on plan assets	(6)	(6)
Current interest costs	12	12
Actuarial gains/(losses) recognised in P&L for the year	37	(1)
Total	53	15

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

As at 31 December 2012

<i>In %</i>	Plan A	Plan B	Plan C
Discount rate	2.50	1.15	2.04
Expected return on assets	3.50	1.15	N/A
Annual rate of increase in salaries	0.00	N/A	0.00
Post retirement pension increase	0.00	N/A	0.00
Mortality & disability	(1)	(1)	(1)

(1) Assumptions regarding future mortality are based on published statistics and mortality tables 2005G.

As at 31 December 2011

<i>In %</i>	Plan A	Plan B	Plan C
Discount rate	4.70	5.50	5.30
Expected return on assets	3.50	3.50	N/A
Annual rate of increase in salaries	0.00	N/A	0.00
Post retirement pension increase	0.00	N/A	0.00
Mortality & disability	(1)	(1)	(1)

(1) *Assumptions regarding future mortality are based on published statistics and mortality tables 2005G.*

Provision for emission rights

Provision for emission rights is recognised if there is a shortage between real amount of emissions to date and emission rights held at the year end. As at 31 December 2012 and 31 December 2011 there was no expected shortage between the real amount of emissions to date and emission rights held.

Provision for lawsuits

The most significant provision for lawsuits is represented by a provision of CZK 25 million (2011: CZK 31 million) recognised by United Energy, a.s. as a probable liability for environmental pollution. As disclosed in the Note 39 – Litigations and Claims, the total amount claimed is CZK 54 million (2011: CZK 62 million); the recorded provision represents the management's best estimate of the probable outcome.

As disclosed in Note 39 – Litigations and Claims, there are other legal proceedings in which the Group is involved whose results cannot be reliably estimated as at the date of the preparation of these consolidated financial statements, and therefore no provision was recorded as at 31 December 2011 and 31 December 2012.

Provision for restructuring, restoration and decommissioning

According to the German Federal Mining Law, a mining company is obliged to re-cultivate/reclaim all the land used for mining purposes after discontinuation of mining operations. The requirements to be met for this purpose are set forth in a comprehensive framework operations plan and compliance is monitored by the mining authorities.

The following expense items are considered:

- Dewatering and flooding expenses
- Creation and stability of slope systems
- Soil preparation and treatment for subsequent agricultural and forest use
- Removal of all technical plants and equipment

Estimates are reviewed by an external expert/engineering office to ensure that mining provisions have been properly created. These external experts determine the value of all expense items listed above on the basis of usual market prices. In 2012, quantities and values were adjusted based on the latest knowledge. Consequently, the provisions were recalculated for IFRS accounting purposes on the basis of the new settlement values. An annual inflation rate of 1.7% was used to calculate the provision for adjustments based on the current price basis and a discount rate of 3.68% (2011: 1.65%) for the whole period.

In 2012 the remaining 50% share in JTSD Braunkohlebergbau GmbH was acquired. As a result of the step-acquisition the provision increased by CZK 3,941 million, this effect was calculated by an external valuation specialist during a Purchase Price Allocation process. At the year-end, the Company reassessed several factors, specifically the inflation and discount rates to be in line with best practice used in the mining sector. These changes in estimates resulted in a one-off reversal of the reclamation provision for Schleenhain and Profen mines totalling CZK 2,136 million. This impact is presented within Other operating income.

As at 31 December 2012 the provision for restoration and decommissioning was recorded by Mitteldeutsche Braunkohlengesellschaft GmbH in the amount of CZK 5,611 million (2011: CZK 2,712 million). The rehabilitation is expected to occur in the period from 2030 to 2058.

The Group performs stress testing using inflation and FX rate shock, i.e. an immediate decrease/increase in inflation by 10 basis points ('bp') and a change in the CZK/EUR rate of 5% along the whole yield curve is applied to the interest rate positions of the portfolio.

At the reporting date, a change of 10 basis points in inflation and 5% of CZK/EUR foreign exchange rate would have increased or decreased the provision for restructuring by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of CZK

	2012	2011
	Profit/(loss)	Profit/(loss)
Decrease of inflation rate by 10 bp	(295)	(143)
Increase of inflation rate by 10 bp	267	129
Decrease of discount rate by 10%	623	301
Increase of discount rate by 10%	(510)	(247)

Other provisions

Other provisions mainly include mining provisions recorded by Mitteldeutsche Braunkohlengesellschaft GmbH of CZK 41 million (2011: CZK 110 million).

31. Deferred income

In millions of CZK

	31 December 2012	31 December 2011
Government grants	72	188
Other deferred income	369	113
Total	441	301

32. Financial instruments

Financial instruments and other financial assets

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Assets carried at amortised cost		
Loans to other than credit institutions	13,790	7,921
<i>of which owed by the parent company</i>	12,322	6,682
<i>of which owed by other Group related companies</i>	1,463	-
Bills of exchange held to maturity	19	33
Shares available for sale held at cost	16	-
Other equity instruments	14	14
Total	13,839	7,968
Assets carried at fair value		
Commodity derivatives for trading	141	155
Currency forwards for trading	121	106
Equity options for trading	6	-
Currency options for trading	-	1
Total	268	262
<i>Non-current</i>	435	1,219
<i>Current</i>	13,672	7,011
Total	14,107	8,230

Financial instruments and other financial liabilities

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Liabilities carried at amortised cost		
Issued bills of exchange at amortised costs	-	633
Total	-	633
Liabilities carried at fair value		
Interest rate swaps	44	72
Currency forwards	7	51
Commodity derivatives	-	14
Currency options for trading	-	2
Other financial liabilities	1	2
Total	52	141
<i>Non-current</i>	37	36
<i>Current</i>	15	738
Total	52	774

The weighted average interest rate on loans to other than credit institutions as at 31 December 2012 was 4.23% (2011: 9.61%).

Fair values and respective nominal amounts of derivatives are disclosed in the following table.

<i>In millions of CZK</i>	31 December 2012 Nominal amount buy	31 December 2012 Nominal amount sell	31 December 2012 Fair value buy	31 December 2012 Fair value sell
Commodity derivatives – futures/forwards	14,386	(14,325)	141	-
Currency forwards	7,169	(7,057)	121	(7)
Equity options	-	-	6	-
Interest rate swaps (IRS) ⁽¹⁾	1	(5)	-	(44)
Total	21,556	(21,387)	268	(51)

<i>In millions of CZK</i>	31 December 2011 Nominal amount buy	31 December 2011 Nominal amount sell	31 December 2011 Fair value buy	31 December 2011 Fair value sell
Commodity derivatives – futures/forwards	14,022	(14,122)	155	(14)
Currency forwards	6,166	(6,824)	106	(51)
Currency options	395	(774)	1	(2)
Interest rate swaps (IRS) ⁽¹⁾	20	(50)	-	(72)
Total	20,603	(21,770)	262	(139)

(1) Nominal amounts include only forward part of swaps.

Swap derivatives are recognised in respect of interest rate swaps as described in detail in Note 36 – Risk management policies and disclosures.

Commodity derivatives are recognised in respect of contracts for purchase and sale of electricity, which are denominated in CZK and EUR with maturity up to 1 year and where the contractual condition of derivatives does not meet the “own use exemption” as noted in IAS 39.5.

Sensitivity analysis relating to the fair values of financial instruments is included in the Note 36 – Risk management policies and disclosures.

Fair value hierarchy for financial instruments carried at fair value

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

Were fair values to differ by 10% from management estimates, the net carrying amount of financial instruments would be an estimated CZK 22 million (2011: CZK 12 million) higher or lower than disclosed as at 31 December 2012.

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

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

<i>In millions of CZK</i>	2012			Total
	Level 1	Level 2	Level 3	
Financial assets carried at fair value:				
Commodity derivatives for trading	-	141	-	141
Currency forwards for trading	-	121	-	121
Equity options for trading		6		6
Total	-	268	-	268
Financial liabilities carried at fair value:				
Interest rate swaps	-	44	-	44
Currency forwards	-	7	-	7
Total	-	51	-	51

<i>In millions of CZK</i>	2011			Total
	Level 1	Level 2	Level 3	
Financial assets carried at fair value:				
Commodity derivatives for trading	-	155	-	155
Currency forwards for trading	-	106	-	106
Currency options	-	1	-	1
Total	-	262	-	262
Financial liabilities carried at fair value:				
Interest rate swaps	-	72	-	72
Currency forwards	-	51	-	51
Commodity derivatives	-	14	-	14
Currency options for trading	-	2	-	2
Total	-	139	-	139

There were no transfers between fair value levels in either 2012 or 2011.

The fair value of financial instruments held at amortised costs is shown in the table below:

<i>In millions of CZK</i>	Carrying value 31 December 2012	Fair value 31 December 2012
Financial assets		
Loans to other than credit institutions	13,790	13,821
Bills of exchange held to maturity	19	19
Shares available for sale	16	16
Other equity instruments	14	14
Financial instruments held at amortised costs	13,839	13,870
Cash and cash equivalents	8,173	8,173
Financial liabilities		
Financial instruments held at amortised costs	-	-
Loans and borrowings	26,033	26,204

<i>In millions of CZK</i>	Carrying value 31 December 2011	Fair value 31 December 2011
Financial assets		
Loans to other than credit institutions	7,921	8,041
Bills of exchange held to maturity	33	33
Other equity instruments	14	14
Financial instruments held at amortised costs	7,968	8,088
Cash and cash equivalents	2,263	2,263
Financial liabilities		
Issued bills of exchange at amortised costs	633	632
Financial instruments held at amortised costs	633	632
Loans and borrowings	14,126	14,822

Transactions with emission rights

The following information pertains to contracts on delivery or sale of emission rights. These contracts do not meet the IAS 39 criteria for derivatives (refer to the Note 3 – Significant Accounting Policies) and are reported as off-balance sheet items.

Swap operations

As at 31 December 2012 the EPE Group reports commitments for a purchase of 1,711,845 pieces (2011: 800,000 pieces) of emission rights at an average price of 9.17 EUR/piece (2011: 12.42 EUR/piece) and at the same time the EPE Group is committed to sell 1,711,845 pieces (2011: 800,000 pieces) of emission rights at average price of 9.77 EUR/piece (2011: 15.35 EUR/piece).

Forward operations

As at 31 December 2012 the EPE Group is contractually obliged to purchase 4,795,883 pieces (2011: 5,586,000 pieces) of emission rights at an average price 11.23 EUR/piece (2011: 13.69 EUR/piece).

33. Trade payables and other liabilities

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Trade payables	5,590	4,101
Advance payments received	766	12,980
Other tax liabilities	600	371
Estimated payables	575	332
Payroll liabilities	306	220
Accrued expenses	128	52
Uninvoiced supplies	61	4
Retentions to contractors	7	7
Lease liabilities	-	9
Other liabilities	240	251
Total	8,273	18,327
<i>Non-current</i>	123	81
<i>Current</i>	8,150	18,246
Total	8,273	18,327

The advance payments received as at 31 December 2011 mainly represent the advance provided by ČEZ, a.s. to EAST BOHEMIA ENERGY HOLDING LIMITED in connection with the acquisition of assets; the advance was settled in 2012.

Trade payables and other liabilities have not been secured as at 31 December 2012, or as at 31 December 2011.

As at 31 December 2012 and 31 December 2011 no liabilities to social and health insurance or tax authorities were overdue.

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

The Group's exposure to currency and liquidity risk related to trade payables and other liabilities is disclosed in Note 36 – Risk management policies and disclosures.

Liabilities to social fund

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Balance at 1 January	19	18
Charged to expenses	3	4
Disposal/decrease in principal	(4)	(3)
Balance at 31 December	18	19

Liabilities to the social fund are presented under payroll liabilities.

34. Financial commitments and contingencies

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Granted pledges – securities	42,670	23,514
Guarantees given	-	2,698
Other guarantees given	-	2,272
Other contingent liabilities	40,075	9,255
Total	82,745	37,739

Granted pledges represent securities of individual Group companies used as collateral for external financing.

Guarantees mostly represent granted promises and warranties.

Other contingent liabilities relate to granted loans of CZK 24,838 million (2011: CZK 205 million), pledged cash of CZK 3,001 million (2011: CZK 0 million) and further pledges of CZK 12,236 million (2011: CZK 8,925 million) that include pledged fixed assets of CZK 8,577 million (2011: CZK 7,290 million), pledged inventories of CZK 329 million (2011: CZK 192 million) and trade receivables of CZK 3,330 million (2011: CZK 1,440 million); all were used as collateral for external financing.

Other commitments and contingencies

EPE's parent company, Energetický a průmyslový holding, a.s. ("EPH"), and a major energy company ("the Interested Party") are parties to contractual arrangements under of which they have agreed to use their best efforts to agree on the potential sale of certain heating assets currently held by a certain member of EPE Group ("the Transaction"), provided that the specified conditions will be met, inter alia, that the terms and conditions of the transaction will be agreed between the parties and the transaction will be approved by the respective corporate bodies of each relevant entity. If the Transaction is not completed within the agreed period, EPH will use its best efforts to provide the Interested Party with a similar alternative asset ("the Alternative Transaction"). If the transaction is not completed by the extended deadline either, EPH will pay to the Interested Party compensation of approximately CZK 200 million. As these transactions are subject to a confidentiality obligation, disclosure of more detailed information herein is prohibited.

However, the parties have not yet agreed as at the date hereof whether, or under what terms and conditions, the Transaction or the Alternative Transaction will be entered into and completed. Currently EPH is engaged in negotiations with the Interested Party concerning the terms and conditions of the foregoing transactions, including the preparation of due diligence; this should provide a basis to above conclude with certainty whether or not any of the transactions will be entered into and completed.

For the above reasons, the heating assets in question have not yet been recorded as Assets Held for Sale under IFRS 5 and the above compensation has not yet been recorded by EPH.

35. Operating leases

Leases as lessee

Non-cancellable operating lease rentals (total future minimum lease payments) are payable as follows:

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Less than one year	38	2
Between one and five years	2	5
More than five years	3	5
Total	43	12

The Group leases a number of cars and administration space under operating leases. The administration space leases typically run for an initial period of 5 to 10 years, with a renewal option after these periods. During the year ended 31 December 2012, CZK 192 million (2011: CZK 99 million) was recognised as an expense in profit or loss in respect of operating leases.

Leases as lessor

Non-cancellable operating lease rentals are payable as follows:

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Less than one year	-	1
Between one and five years	15	-
More than five years	-	-
Total	15	1

The Group leases out its property under operating leases (refer to Note 18 – Investment property).

During the year ended 31 December 2012, CZK 73 million (2011: CZK 46 million) was recognised as income in profit or loss in respect of operating leases.

36. Risk management policies and disclosures

This section provides details of the Group's exposure to financial and operational risks and the way it manages such risk. The most important types of financial risks to which the Group is exposed are credit risk, liquidity risk, interest rate risk and foreign exchange risk.

As part of its operations, the Group is exposed to different market risks, notably the risk of changes in interest rates, exchange rates and commodity prices. To minimise this exposure, the Group enters into derivatives contracts to hedge individual transactions and overall exposures, using instruments available on the market.

(a) Credit risk

i. Exposure to credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers and loans and advances.

The Group has established a credit policy under which each new customer requesting products/services over a certain limit (which is based on the size and nature of the particular business) is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's policy is also to require suitable collateral to be provided by customers. The exposure to credit risk is monitored on an ongoing basis.

Additional aspects mitigating credit risk

The Group operates mainly as an energy and power generation company, and thus has a specific customer structure: The distribution companies represent a very low credit risk. The large clients are dependent upon electricity supplies which significantly mitigates the credit risks. In addition, bank guarantees and advance payments are required before active operation with traders. Previous experience shows that such elements are very favourable in terms of credit risk elimination.

The carrying amount of financial assets represents the maximum credit exposure if counterparties fail to carry out completely their contractual obligations and any collateral or security proves to be of no value. The amount therefore greatly exceeds expected losses, which are included in the allowance for impairment.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The

collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

At the reporting date, the maximum exposure to credit risk by the type of counterparty and by geographic region is provided in the following tables.

Credit risk by type of counterparty

As at 31 December 2012

<i>In millions of CZK</i>	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Individuals	Other	Total
Assets							
Cash and cash equivalents	705	-	-	7,466	-	⁽¹⁾ 2	8,173
Trade receivables and other assets	5,636	47	-	1	6	990	6,680
Financial instruments and other financial assets	13,840	19	-	132	-	116	14,107
Total	20,181	66	-	7,599	6	1,108	28,960
Liabilities							
Loans and borrowings	13,120	-	12,404	509	-	-	26,033
Financial instruments and other financial liabilities	-	-	-	52	-	-	52
Trade payables and other liabilities	6,551	653	-	1	235	833	8,273
Total	19,671	653	12,404	562	235	833	34,358

(1) Primarily petty cash

As at 31 December 2011

<i>In millions of CZK</i>	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Individuals	Other	Total
Assets							
Cash and cash equivalents	17	-	-	2,244	-	⁽¹⁾ 2	2,263
Trade receivables and other assets	4,267	50	-	16	4	102	4,439
Financial instruments and other financial assets	8,007	-	18	99	-	106	8,230
Total	12,291	50	18	2,359	4	210	14,932
Liabilities							
Loans and borrowings	178	-	-	13,948	-	-	14,126
Financial instruments and other financial liabilities	94	-	-	644	-	36	774
Trade payables and other liabilities	17,330	489	1	-	122	385	18,327
Total	17,602	489	1	14,592	122	421	33,227

(1) Primarily petty cash

Credit risk by location

As at 31 December 2012

<i>In millions of CZK</i>	Czech Republic	Slovakia	Cyprus	Netherlands	Germany	Ireland	Other	Total
Assets								
Cash and cash equivalents	6,895	68	-	1	1,205	-	4	8,173
Trade receivables and other assets	3,850	991	126	-	1,657	-	56	6,680
Financial instruments and other financial assets	12,895	19	-	-	1,193	-	-	14,107
Total	23,640	1,078	126	1	4,055	-	60	28,960
Liabilities								
Loans and borrowings	13,471	237	-	-	173	⁽²⁾ 12,404	⁽¹⁾ (252)	26,033
Financial instruments and other financial liabilities	52	-	-	-	-	-	-	52
Trade payables and other liabilities	3,991	654	104	1	3,440	-	83	8,273
Total	17,514	891	104	1	3,613	12,404	(169)	34,358

(1) The amount represents fees paid in connection with obtaining a long term bank loan. The principal was not drawn by 31 December 2012; the loan was drawn in 2013.

(2) The amount represents issued bonds which are quoted on Irish stock exchange.

As at 31 December 2011

In millions of CZK

	Czech Republic	Slovakia	Cyprus	Netherlands	Germany	Other	Total
Assets							
Cash and cash equivalents	1,760	70	-	2	431	-	2,263
Trade receivables and other assets	2,912	673	113	-	601	140	4,439
Financial instruments and other financial assets	7,281	1	-	-	948	-	8,230
Total	11,953	744	113	2	1,980	140	14,932
Liabilities							
Loans and borrowings	10,513	288	44	804	2,477	-	14,126
Financial instruments and other financial liabilities	774	-	-	-	-	-	774
Trade payables and other liabilities	16,866	677	25	1	442	316	18,327
Total	28,153	965	69	805	2,919	316	33,227

ii. Impairment losses

The ageing of financial assets, excluding cash and cash equivalents and derivatives, at the reporting date was:

Credit risk – impairment of financial assets

As at 31 December 2012

In millions of CZK

	Financial instruments: held to maturity	Loans to other than credit institutions	Financial instruments: available for sale	Trade receivables and other assets	Total
Before maturity (net)	19	13,790	30	5,896	19,735
After maturity (net)	-	-	-	784	784
Total	19	13,790	30	6,680	20,519

A – Assets for which a provision has been created (overdue and impaired)

- Gross	-	-	-	533	533
- specific loss allowance	-	-	-	(181)	(181)
- collective loss allowance	-	-	-	-	-
Net	-	-	-	352	352

B – Assets for which a provision has not been created (overdue but not impaired)

- after maturity <30 days	-	-	-	165	165
- after maturity 31–60 days	-	-	-	228	228
- after maturity 61–90 days	-	-	-	39	39
- after maturity 91–180 days	-	-	-	-	-
- after maturity 181–365 days	-	-	-	-	-
- after maturity >365 days	-	-	-	-	-
Net	-	-	-	432	432
Total	-	-	-	784	784

The movements in the allowance for impairment in respect of financial assets during the year ended 31 December 2012 were as follows:

In millions of CZK

	Financial instruments: held to maturity	Loans to other than credit institutions	Financial instruments (excl. derivatives): available for sale	Trade receivables and other assets	Total
Balance at 1 January 2012	-	-	-	190	190
Impairment losses recognised during the period	-	-	-	82	82
Reversals of impairment losses recognised during the period	-	-	-	(56)	(56)
Write-offs	-	-	-	(34)	(34)
Differences due to foreign currency translation	-	-	-	(1)	(1)
Balance at 31 December 2012	-	-	-	181	181

As at 31 December 2011

In millions of CZK

	Financial instruments: held to maturity	Loans to other than credit institutions	Financial instruments: available for sale	Trade receivables and other assets	Total
Before maturity (net)	33	7,921	14	3,544	11,512
After maturity (net)	-	-	-	895	895
Total	33	7,921	14	4,439	12,407

A – Assets for which a provision has been created (overdue and impaired)

- Gross	-	-	-	459	459
- specific loss allowance	-	-	-	(190)	(190)
- collective loss allowance	-	-	-	-	-
Net	-	-	-	269	269

B – Assets for which a provision has not been created (overdue but not impaired)

- after maturity <30 days	-	-	-	199	199
- after maturity 31-60 days	-	-	-	427	427
- after maturity 61-90 days	-	-	-	-	-
- after maturity 91-180 days	-	-	-	-	-
- after maturity 181-365 days	-	-	-	-	-
- after maturity >365 days	-	-	-	-	-
Net	-	-	-	626	626
Total	-	-	-	895	895

The movements in the allowance for impairment in respect of financial assets during the year ended 31 December 2011 were as follows:

In millions of CZK

	Financial instruments: held to maturity	Loans to other than credit institutions	Financial instruments (excl. derivatives): available for sale	Trade receivables and other assets	Total
Balance at 1 January 2011	-	-	-	182	182
Impairment losses recognised during the period	-	-	-	13	13
Use	-	-	-	-	-
Reversals of impairment losses recognised during the period	-	-	-	(3)	(3)
Write-offs	-	-	-	(2)	(2)
Differences due to foreign currency translation	-	-	-	-	-
Balance at 31 December 2011	-	-	-	190	190

Impairment losses on trade receivables and other assets at 31 December 2012 and 31 December 2011 relate to several customers that have indicated that they do not expect to be able to pay their outstanding balances, mainly due to economic circumstances. The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on extensive analyses of the underlying ratings of the customers.

Based on historic default rates, the Group believes that, apart from the above, no impairment allowance is necessary in respect of trade receivables and other assets that are not past due or past due by up to 30 days.

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

(b) Liquidity risk

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

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

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

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

Maturities of financial assets and liabilities

As at 31 December 2012

<i>In millions of CZK</i>	Carrying amount	Contractual cash flows ⁽¹⁾	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Undefined maturity
Assets							
Cash and cash equivalents	8,173	8,173	8,173	-	-	-	-
Trade receivables and other assets	6,680	⁽²⁾ 6,146	3,800	1,467	116	172	591
Financial instruments and other financial assets	14,107	14,782	39	14,004	142	568	29
<i>out of which derivatives</i>	268	197	39	87	71	-	-
Total	28,960	29,101	12,012	15,471	258	740	620
Liabilities							
Loans and borrowings	26,033	32,671	60	11,092	3,856	17,663	-
Financial instruments and other financial liabilities	52	53	7	9	37	-	-
<i>out of which derivatives</i>	52	53	7	9	37	-	-
Trade payables and other liabilities	8,273	8,046	3,943	1,435	22	68	2,578
Total	34,358	40,770	4,010	12,536	3,915	17,731	2,578
Net liquidity risk position	(5,398)	(11,669)	8,002	2,935	(3,657)	(16,991)	(1,958)

As at 31 December 2011

<i>In millions of CZK</i>	Carrying amount	Contractual cash flows ⁽¹⁾	Up to 3 months	3 months to 1 year	1-5 years	Over 5 years	Undefined maturity
Assets							
Cash and cash equivalents	2,263	2,263	2,263	-	-	-	-
Trade receivables and other assets	4,439	⁽²⁾ 4,396	3,467	587	112	219	11
Financial instruments and other financial assets	8,230	8,514	257	6,952	386	880	39
<i>out of which derivatives</i>	262	261	194	34	33	-	-
Total	14,932	15,173	5,987	7,539	498	1,099	50
Liabilities							
Loans and borrowings	14,126	17,074	535	4,263	8,339	3,936	1
Financial instruments and other financial liabilities	774	791	738	41	10	1	-
<i>out of which derivatives</i>	141	158	155	(8)	10	1	-
Trade payables and other liabilities	18,327	18,349	3,874	13,968	81	-	427
Total	33,227	36,214	5,147	18,272	8,430	3,937	428
Net liquidity risk position	(18,295)	(21,041)	840	(10,733)	(7,932)	(2,838)	(378)

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.

(2) Prepaid expenses and advances provided are excluded.

It is not expected that the cash flows included in the maturity analysis could occur significantly earlier or in significantly different amounts.

(c) Interest rate risk

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

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

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

Financial information relating to interest bearing and non-interest bearing assets and liabilities and their contractual maturity or re-pricing dates as at 31 December 2012 is as follows:

<i>In millions of CZK</i>	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
Assets					
Cash and cash equivalents	8,171	-	-	2	8,173
Trade receivables and other assets	1,473	-	-	5,207	6,680
Financial instruments and other financial assets	13,544	6	280	277	14,107
Total	23,188	6	280	5 486	28,960
Liabilities					
Loans and borrowings	9,597	836	12,265	3,335	26,033
Financial instruments and financial liabilities	15	2	-	35	52
Trade payables and other liabilities	3,018	101	-	5,154	8,273
Total	12,630	939	12,265	8,524	34,358
Net interest rate risk position	10,558	(933)	(11,985)	(3,038)	(5,398)

Notional amounts of financial instruments are included in Note 32 – Financial instruments.

Interest rate risk exposure as at 31 December 2011 is as follows:

<i>In millions of CZK</i>	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
Assets					
Cash and cash equivalents	2,261	-	-	2	2,263
Trade receivables and other assets	618	-	-	3,821	4,439
Financial instruments and other financial assets	6,758	320	904	248	8,230
Total	9,637	320	904	4,071	14,932
Liabilities					
Loans and borrowings	5,166	8,624	262	74	14,126
Financial instruments and financial liabilities	670	6	-	98	774
Trade payables and other liabilities	13,223	14	-	5,090	18,327
Total	19,059	8,644	262	5,262	33,227
Net interest rate risk position	(9,422)	(8,324)	642	(1,191)	(18,295)

Sensitivity analysis

The Group performs stress testing using a standardised interest rate shock, i.e. an immediate decrease/increase in interest rates by 100 basis points ('bp') along the whole yield curve is applied to the interest rate positions of the portfolio.

At the reporting date, a change of 100 basis points in interest rates would have increased or decreased profit by the amounts shown in the table below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

<i>In millions of CZK</i>	2012	2011
Decrease in interest rates by 100 bp	568	261
Increase in interest rates by 100 bp	(568)	(261)

(d) Foreign exchange risk

The Group takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows.

The Group is exposed to a currency risk on sales, purchases and borrowings that are denominated in currency other than the respective functional currencies of Group entities, primarily EUR, USD and PLN.

Various types of derivatives are used to reduce the exchange rate risk on foreign currency assets, liabilities and expected future cash flows. These include forward exchange contracts, most with a maturity of less than one year.

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

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

As of 31 December 2012, the exposure to foreign exchange risk translated to millions of CZK was as follows:

<i>In millions of CZK</i>	CZK	USD	EUR	PLN	Other	Total
Assets						
Cash and cash equivalents	5,238	-	2,930	5	-	8,173
Trade receivables and other assets	3,161	-	3,480	39	-	6,680
Financial instruments and other financial assets	11,626	-	2,481	-	-	14,107
	20,025	-	8,891	44	-	28,960
Off-balance sheet assets	81,277	-	29,138	-	-	110,415
<i>Notional amounts of derivatives*</i>	17,611	-	5,520	-	-	23,131
Liabilities						
Loans and borrowings	6,173	-	19,860	-	-	26,033
Financial instruments and other financial liabilities	26	-	26	-	-	52
Trade payables and other liabilities	3,451	-	4,782	37	3	8,273
	9,650	-	24,668	37	3	34,358
Off-balance sheet liabilities	23,426	-	2,564	-	-	25,990
<i>Notional amounts of derivatives*</i>	19,132	-	2,275	-	-	21,407

* Also includes the spot part of forwards.

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 32 – Financial instruments for more details).

As of 31 December 2011, the Group's financial assets based on currency of denomination and translated in to millions of CZK was as follows:

<i>In millions of CZK</i>	CZK	USD	EUR	PLN	Other	Total
Assets						
Cash and cash equivalents	1,481	18	760	4	-	2,263
Trade receivables and other assets	1,356	4	3,077	2	-	4,439
Financial instruments and other financial assets	7,264	-	966	-	-	8,230
	10,101	22	4,803	6	-	14,932
Off-balance sheet assets	69,293	-	5,726	-	-	75,019
<i>Notional amounts of derivatives*</i>	<i>18,009</i>	<i>-</i>	<i>4,828</i>	<i>-</i>	<i>-</i>	<i>22,837</i>
Liabilities						
Loans and borrowings	4,923	-	9,203	-	-	14,126
Financial instruments and other financial liabilities	759	-	15	-	-	774
Trade payables and other liabilities	15,323	11	2,992	1	-	18,327
	21,005	11	12,210	1	-	33,227
Off-balance sheet liabilities	23,459	-	3,826	-	-	27,285
<i>Notional amounts of derivatives*</i>	<i>18,328</i>	<i>-</i>	<i>3,466</i>	<i>-</i>	<i>-</i>	<i>21,794</i>

* Includes also spot part of forwards.

The following significant exchange rates applied during the period:

<i>CZK</i>	31 December 2012		31 December 2011	
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
EUR 1	25.143	25.140	24.586	25.800
USD 1	19.583	19.055	17.688	19.940
PLN 1	6.010	6.172	5.982	5.789

Sensitivity analysis

A strengthening (weakening) of the Czech crown, as indicated below, against the EUR, USD and PLN at the reporting date would have increased (decreased) equity by the amounts shown in the following table. This analysis is based on foreign currency exchange rate variances that the Group considered to be reasonably likely at the end of the reporting period. The analysis assumes that all other variables, in particular interest rates, remain constant.

<i>Effect in millions of CZK</i>	Profit/(loss)	
	31 December 2012	31 December 2011
EUR (5% strengthening)	789	370
USD (5% strengthening)	-	(1)
PLN (5% strengthening)	-	-

A weakening of the Czech crown against the above currencies at the reporting date would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(e) Commodity risk

The Group is exposed to risks resulting from fluctuations in the prices of commodities, especially energy and emission rights, both on the supply and demand side. Various types of derivatives are used to reduce the exposure to fluctuations in commodity prices, especially swaps.

An increase/decrease in the price of electricity by 1 EUR per megawatt-hour would have increased/decreased profit from the derivative contracts by the amount as shown in the table below.

<i>Impact in millions of CZK</i>	Profit/(loss)	
	31 December 2012	31 December 2011
Increase by 1 EUR per megawatt-hour	4	6
Decrease by 1 EUR per megawatt-hour	(4)	(6)

An increase/decrease in the price of energy by 5% would have increased/decreased profit from the derivatives by the amount as shown in the table below.

<i>Impact in millions of CZK</i>	Profit/(loss)	
	31 December 2012	31 December 2011
Increase by 5%	6	14
Decrease by 5%	(6)	(14)

(f) Operational risk

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency or system failure. It arises from all the Group's activities and is a risk faced by all business organisations. Operational risk includes legal risk.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and avoid control procedures which restrict initiative and creativity.

The primary responsibility for the implementation of controls to address operational risk is assigned to management within each subsidiary. This responsibility is supported by the development of overall standards within the Group for the management of operational risk, which is carried out by the Risk Department and covers the following areas:

- requirements for the reconciliation and monitoring of transactions
- identification of operational risk within the framework of each subsidiary's control system (development of conditions for decreasing and limitation of operational risk, as well as its impacts and consequences; recommendations for appropriate solutions in this area)
- this overview of the Group's operational risk events allows the Group to specify the direction of the steps and process to take in order to limit these risks, as well as to make decisions with regard to:
 - accepting the individual risks that are faced;
 - initiating processes leading to limitation of possible impacts; or
 - decreasing the scope of the relevant activity or discontinuing it entirely.

(g) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of its business.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

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

<i>In millions of CZK</i>	31 December 2012	31 December 2011
Total liabilities	46,186	41,574
Less: cash and cash equivalents	8,173	2,263
Net debt	38,013	39,311
Total equity attributable to equity holders of the Company	29,070	18,462
Less: amounts accumulated in equity relating to cash flow hedges	12	(26)
Adjusted capital	29,058	18,488
Debt to adjusted capital	1.31	2.13

37. Related parties

Identity of related parties

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

- (1) – Ultimate shareholders and companies they control
- (2) – Associates
- (3) – Key management personnel of the entity or its parent
- (4) – Other related parties

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

(a) The summary of outstanding balances with related parties as at 31 December 2012 and 31 December 2011 was as follows:*In millions of CZK*

		Accounts receivable and other financial assets	Accounts payable and other financial liabilities	Accounts receivable and other financial assets	Accounts payable and other financial liabilities
		2012	2012	2011	2011
AC Sparta Praha fotbal, a.s.	1	5	4	4	3
CE EQUITY PLUS LIMITED	1	-	-	-	39
COOP ENERGY, a.s.	2	5	-	-	-
EGEM s.r.o.	1	-	21	-	7
Energetický a průmyslový holding, a.s.	1	12,322	12,683	6,682	151
EP Investment Advisors, s.r.o.	1	3	7	-	10
Greeninvest Energy, a.s.	2	280	-	-	-
J & T BANKA, a.s.	4	991	30	252	125
J & T BANKA, a.s., pobočka zahraničnej banky	4	51	-	-	-
J&T FINANCE GROUP, a.s.	4	-	-	-	1
J&T Management, a.s.	4	1	2	-	-
JTG Services Anstalt	4	-	2	-	2
PPF banka a.s.	4	847	-	345	-
Pražská teplárenská Holding a.s.	2	-	443	-	-
První brněnská strojírna, a.s.	1	-	1	-	-
PRVNÍ MOSTECKÁ a.s.	2	10	-	9	2
Przedsiębiorstwo Górnicze Silesia	1	41	4	4	-
REATEX a.s.	2	-	6	-	-
SEDILAS ENTERPRISES LIMITED	1	-	-	-	6
SOR Libchavy spol. s r.o.	1	1	-	-	-
VČE – montáže, a.s.	1	-	-	-	3
Total		14,557	13,203	7,296	349

Outstanding balances with Energetický a průmyslový holding, a.s. relate primarily to mutual loans and borrowings. In addition, the Company reported CZK 4,304 million (2011: CZK 890 million) off-balance sheet in guarantees from Energetický a průmyslový holding, a.s.

(b) The summary of transactions with related parties during the period ended 31 December 2012 and 31 December 2011 was as follows:

<i>In millions of CZK</i>		Revenues	Expenses	Revenues	Expenses
		2012	2012	2011	2011
AC Sparta Praha fotbal, a.s.	1	4	15	3	3
EGEM s.r.o.	1	-	1	-	-
Elektrizace železnic Praha a.s.	1	8	-	6	-
Energetický a průmyslový holding, a.s.	1	371	612	249	544
EP Investment Advisors, s.r.o.	1	2	46	-	2
EŽC a.s.	1	-	-	-	1
J & T BANKA, a.s.	4	11	11	4	4
J&T Management, a.s.	4	-	4	-	1
JTG Services Anstalt	4	-	-	-	-
MSEM a.s.	1	1	-	1	-
PPF banka a.s.	4	8	-	5	20
PPF GATE a.s.	4	-	-	4	-
Pražská teplárenská Holding a.s.	2	563	4	430	-
První brněnská strojírna, a.s.	1	-	1	-	-
PRVNÍ MOSTECKÁ a.s.	2	340	1	372	4
Przedsiębiorstwo Górnicze Silesia	1	27	-	13	-
SEDILAS ENTERPRISES LIMITED	1	-	-	64	65
SERW, spol. s r.o.	1	8	-	8	-
SOR Libchavy spol. s r.o.	1	12	-	-	-
V A H O s.r.o.	2	12	-	-	-
Total		1,367	695	1,159	644

38. Group entities

The list of the Group entities as at 31 December 2012 and 31 December 2011 is set out below:

		31 December 2012		31 December 2011		2012	2011
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
EP Energy, a.s. **	Czech Republic	-	-	-	-	-	-
AISE, s.r.o.	Czech Republic	80	Direct	80	Direct	Full	Full
Honor Invest, a.s. **	Czech Republic	100	Direct	100	Direct	Full	Full
PT Holding Investment B.V. **	Netherlands	100	Direct	100	Direct	Full	Full
Pražská teplárenská Holding a.s. **	Czech Republic	49	Direct	49	Direct	Equity	Equity
Pražská teplárenská a.s.	Czech Republic	47.33	Direct	47.33	Direct	Full*	Prop.
Areál Třeboradice, a.s.	Czech Republic	100	Direct	-	-	IFRS 5	-
Termonta Praha a.s.	Czech Republic	100	Direct	100	Direct	Full*	Prop.
Energotrans, a.s.	Czech Republic	-	-	100	Direct	IFRS 5***	IFRS 5
Energotrans SERVIS a.s.	Czech Republic	85	Direct	-	-	Full	-
Teplo Neratovice spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full*	Prop.
První energetická a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Czech Energy Holding, a.s. **	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy Moldova, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
EKY III, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy Invest, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EVO – Komoňany, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Severočeská teplárenská, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PRVNÍ MOSTECKÁ a.s.	Czech Republic	47.06	Direct	47.06	Direct	Equity	Equity
PRVNÍ MOSTECKÁ Servis a.s.	Czech Republic	100	Direct	-	-	Equity	-
United Energy Coal Trading, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
UNITED ENERGY COAL TRADING POLSKA S.A.	Poland	100	Direct	-	-	Full	-
EP ENERGY TRADING, a.s. (former United Energy Trading, a.s.)	Czech Republic	100	Direct	100	Direct	Full	Full
COOP ENERGY, a.s.	Czech Republic	40	Direct	-	-	At cost	-
Plzeňská energetika a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Renewables a.s. **	Czech Republic	100	Direct	100	Direct	Full	Full
Arisun, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Greeninvest Energy, a.s.	Czech Republic	41.70	Direct	41.70	Direct	IFRS 5	IFRS 5
ČKD Blansko Wind, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
POWERSUN a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Triskata, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
MR TRUST s.r.o. **	Czech Republic	0.50	Direct	0.50	Direct	Full	Full
VTE Pchery s.r.o.	Czech Republic	64	Direct	64	Direct	Full	Full
MR TRUST s.r.o. **	Czech Republic	99.50	Direct	99.50	Direct	Full	Full
VTE Pastviny s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
VTE Moldava, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
CHIFFON ENTERPRISES LIMITED **	Cyprus	100	Direct	100	Direct	Full	Full
Claymore Equity, s.r.o. **	Slovakia	80	Direct	80	Direct	Full	Full
Alternative Energy, s.r.o.	Slovakia	90	Direct	90	Direct	Full	Full
ROLLEON a.s. **	Czech Republic	100	Direct	100	Direct	Full	Full
ENERGZET, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
HC Fin3 N.V. **	Netherlands	100	Direct	100	Direct	Full	Full
EAST BOHEMIA ENERGY HOLDING LIMITED **	Cyprus	100	Direct	100	Direct	Full	Full
EBEH Opatovice, a.s. **	Czech Republic	100	Direct	100	Direct	Full	Full
Elektrárny Opatovice, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Reatex a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EOP & HOKA s.r.o.	Czech Republic	99.79	Direct	99.79	Direct	Full	Full
V A H O s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
NPTH, a.s. **	Czech Republic	100	Direct	100	Direct	Full	Full
Pražská teplárenská a.s.	Czech Republic	50.07	Direct	50.07	Direct	Full*	Prop.
Areál Třeboradice, a.s.	Czech Republic	100	Direct	-	-	IFRS 5	-
Termonta Praha a.s.	Czech Republic	100	Direct	100	Direct	Full*	Prop.

		31 December 2012	31 December 2011	2012	2011			
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method	
	Energotrans, a.s.	Czech Republic	-	-	100	Direct	IFRS 5***	IFRS 5
	Energotrans SERVIS a.s.	Czech Republic	85	Direct	-	-	Full	-
	Teplo Neratovice spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full*	Prop.
LIGNITE INVESTMENTS 1 LIMITED **	Cyprus	100	Direct	100	Direct	Full	Full	Full
JTSD Braunkohlebergbau GmbH	Germany	100	Direct	50	Direct	Full*	Prop.	Prop.
Mitteldeutsche Braunkohlen Gesellschaft GmbH	Germany	100	Direct	100	Direct	Full*	Prop.	Prop.
MIBRAG Consulting International GmbH(former Montan Bildungs- und Entwicklungsgesellschaft mbH)	Germany	100	Direct	100	Direct	Full*	Prop.	Prop.
GALA-MIBRAG-Service GmbH	Germany	100	Direct	100	Direct	Full*	Prop.	Prop.
Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50	Direct	50	Direct	Equity	Equity	Equity
Fernwärme GmbH Hohenmölsen – Webau	Germany	48.96	Direct	48.96	Direct	Equity	Equity	Equity
Ingenieurbüro für Grundwasser GmbH	Germany	25	Direct	25	Direct	Equity	Equity	Equity
Bohr & Brunnenbau GmbH	Germany	100	Direct	-	-	At cost	-	-
MIBRAG Neue Energie GmbH	Germany	100	Direct	100	Direct	Full*	Prop.	Prop.
EP Germany GmbH **	Germany	100	Direct	-	-	Full	-	-
Saale Energie GmbH	Germany	100	Direct	-	-	Full	-	-
Kraftwerk Schkopau GbR	Germany	41.9	Direct	-	-	Equity	-	-
Kraftwerk Schkopau Betriebsgesellschaft mbH	Germany	44.4	Direct	-	-	Equity	-	-

Prop. = proportional

** Full consolidation method has been applied since 29 June 2012 when the EPE Group obtained control over the entities.*

*** Special purpose entity (SPE)*

**** The entity was disposed in 2012.*

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

Transactions with Members of the EPE Board

EPE has provided the following monetary and non-monetary remuneration to the members of Board of Directors of the Company for the financial periods 2012 and 2011:

<i>In millions of CZK</i>	2012	2011
Total remuneration	40	33

Remuneration of key EPE Group managers is included in Note 9 – Personnel expenses.

39. Litigations and claims

Elektrárny Opatovice, a.s.

- a) On 7 June 2012, a notice of withdrawal from the Contract on Coal Supplies was filed by the supplier against Elektrárny Opatovice, a.s. The management of the Company and of the Energetický a průmyslový holding, a.s. Group (“EPH”) subsequently took necessary legal steps as it considers the supplier’s notice illegitimate. Until the end of 2012, the supplier provided coal to the Company based on the resolution of the Regional Court in Ústí nad Labem on a preliminary measure dated 22 June 2012.

On 21 November 2012, the Company re-filed a proposal for issuing a preliminary measure, based on which on 23 November 2012 the Regional Court in Ústí nad Labem made a resolution on a preliminary measure. Under the measure, the coal supplier is obliged to supply coal to Elektrárny Opatovice, a.s. during 2013 as per the valid contract. On 13 December 2012, the coal supplier filed

an appeal against this measure with the High Court in Prague. The appeal had no suspending effect. The Court of appeal satisfied the appeal in February 2013 and upheld the preliminary measure for 2013.

The Company is also seeking alternative methods for coal supplies. The Company's management is convinced that the above facts do not adversely affect the Company's ability to continue as a going concern.

- b) Elektrárny Opatovice, a.s. is also subject to a dispute with its former minority shareholders claiming inadequacy of the compensation received for their shares subject to a compulsory sell-out procedure ("squeeze-out"), challenging an underlying expert valuation. As the compensation was not paid by Elektrárny Opatovice, a.s. but instead by its former majority shareholder (International Holdings, B.V.), any resulting liability is thus expected to be the responsibility of the former shareholder.

United Energy, a.s.

- a) Several court actions were brought by United Energy, a.s. against a fossil fuel supplier (the lawsuit amount is CZK 257 million (2011: CZK 257 million)). In addition, the fossil fuel supplier filed an action for payment of CZK 216 million (2011: CZK 216 million) plus associated fees and interest, seeking payment for deliveries of fuel in the amount of CZK 116 million (2011: CZK 116 million) plus associated fees and interest and payment of contractual penalties for breach of a non-disclosure obligation of CZK 100 million (2011: CZK 100 million) plus associated fees and interest. United Energy, a.s. filed a statement with respect to the matter, rejecting all claims in terms of their merit and amount.
- b) There is another lawsuit against United Energy, a.s. by an off-taker of granulate (the lawsuit amount is CZK 3 million (2011: CZK 3 million)).
- c) Nine lawsuits have been brought against United Energy, a.s. for environmental damages allegedly caused by the United Energy, a.s.'s operations. The aggregate amount of the alleged claims is no more than CZK 54 million (2011: CZK 62 million). The provision created for the lawsuit amounts to CZK 25 million (2011: CZK 31 million).
- d) United Energy, a.s. is also subject to several disputes with its former shareholders claiming inadequacy of the compensation received for their shares subject to a compulsory sell-out procedure ("squeeze-out"), challenging the validity of the underlying resolution of the general shareholder meeting. The outcome of this matter is unforeseeable and United Energy, a.s. intends to defend itself.

Plzeňská energetika a.s.

In August 2012, Škoda Investment a.s. filed an unjust enrichment claim against Plzeňská energetika a.s. for approximately CZK 63 million. This unjust enrichment claim allegedly arises from the fact that Plzeňská energetika a.s. owns and operates utility distribution systems (e.g., for gas, water and heat), which lie on the property of Škoda Investment a.s. and thereby illegally restrict the ownership of Škoda Investment a.s. The EPE Group's management believes that the claim is not grounded and should be dismissed by the court. For this reason Plzeňská energetika a.s. did not create a provision for this litigation as at 31 December 2012.

Mitteldeutsche Braunkohlen Gesellschaft GmbH

MIBRAG is subject to an ongoing dispute filed by 50Hertz Transmission GmbH ("50Hertz") in Germany in 2011. 50Hertz operates an upstream transmission grid and seeks retroactive payment from MIBRAG for costs under the burden-sharing mechanism related to the promotion of renewable energies (so-called EEG surcharge) between August 2004 and December 2008 under the German Renewable Energies Act (Erneuerbare Energien Gesetz). Transmission grid operators generally charge energy supply companies with the EEG surcharge depending on the quantity of electricity delivered by them to end customers. Energy supply companies are in turn entitled to pass the EEG surcharge on to end customers as a part of the electricity price (see "Regulation — Renewable energies act (EEG)"). In March 2013, the District Court of Halle (Landgericht Halle) rendered a partial judgment in favour of 50Hertz ordering MIBRAG

to provide detailed data on its deliveries of electricity to end customers from August 2004 to December 2008 to allow for a calculation of EEG surcharge payments potentially owed by MIBRAG. MIBRAG is intending to file an appeal against the partial judgment. If the court ultimately decides in favour of 50Hertz on whether MIBRAG owes 50Hertz the EEG surcharge for the above period, MIBRAG's liability could be significant.

40. Subsequent events

On 1 January 2013 EP ENERGY TRADING, a.s. and První energetická a.s. merged. The continuing entity is EP ENERGY TRADING, a.s.

The EPE group is currently preparing a merger of ENERGAZET, a.s. into ROLLEON a.s. The accounting effects of the merger should be as of 1 January 2013.

On 14 January 2013 Severočeská teplárenská, a.s. acquired a 35.29% share in PRVNÍ MOSTECKÁ a.s. for CZK 60 million. As a result of this transaction, the total share in PRVNÍ MOSTECKÁ a.s. increased to 82.35% and EPE Group obtained control over this entity. The Purchase Price Allocation process was performed in accordance with IFRS 3. Fair value of total assets of PRVNÍ MOSTECKÁ a.s. were CZK 973 million and fair value of total liabilities were CZK 311 million as at the date of revaluation. The fair values did not differ significantly from the net book values as at the date of the step acquisition.

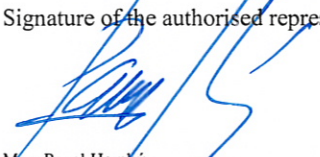

As at the date of preparation of these consolidated financial statements, the EPE Group is in the process of cross-border merger preparation. The following companies are being merged as follows: Honor Invest, a.s., Czech Energy Holding, a.s., EAST BOHEMIA ENERGY HOLDING LIMITED, HC Fin3 N.V. and LIGNITE INVESTMENTS 1 LIMITED. EP Energy, a.s. as continuing company will take over all assets, rights and obligations arising from employment relationships of the acquired companies.

The EPE Group is currently in the process of arranging for a new incurrence of indebtedness to optimise its current capital structure.

In 2012 the EPE group obtained a bank commitment to provide a syndicated loan. The loan was drawn in 2013, more details are described in Note 29 – Loans and borrowings.

On 5 March 2013 the Board of Directors voted and approved the resignation of Mgr. Marek Spurný as a Vice-Chairman of the Board of Directors and the election of Ing. Jan Špringl as a Vice-Chairman of the Board of Directors. On 5 March 2013 Jiří Feist and Tomáš David were elected as members of Board of Directors. Also on 5 March 2013, the Board of Directors voted and approved the resignation of Ing. Jan Špringl as Chief Executive Officer of EP Energy, a.s. and the Board of Directors voted and approved the appointment of Tomáš David as Chief Executive Officer of EP Energy, a.s.

Except for the matters described above and elsewhere in the Notes, the Company's management is not aware of any other material subsequent events that could have an effect on the consolidated financial statements as at 31 December 2012.

Date:	Signature of the authorised representative	
3 April 2013	 Mgr. Pavel Horský Member of the Board of Directors	 Mgr. Ing. Tomáš David Member of the Board of Directors

Appendix 1 – Business combinations

The following tables provide further information on the amounts recognised for assets acquired and liabilities assumed as at the acquisition date for individually significant business combinations through step acquisitions and acquisitions.

Effect of acquisitions

i. 31 December 2012

JTSD Braunkohlebergbau GmbH including its subsidiaries and associates

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date are provided in the following table.

<i>In millions of CZK</i>	Carrying amount	Fair value adjustment	2012 Total
Property, plant, equipment, land, buildings	16,029	4,669	20,698
Intangible assets	337	(25)	312
Participations with significant influence	632	162	794
Inventories	220	-	220
Trade receivables and other assets	1,169	-	1,169
Financial instruments – assets	184	-	184
Cash and cash equivalents	1,856	-	1,856
Provisions	(6,235)	(1,487)	(7,722)
Deferred tax liabilities	(252)	(700)	(952)
Loans and borrowings	(8,200)	-	(8,200)
Trade payables and other liabilities	(1,345)	(563)	(1,908)
Net identifiable assets and liabilities	4,395	2,056	6,451
Non-controlling interest			-
Goodwill on acquisition of new subsidiaries			-
Negative goodwill on acquisition of new subsidiaries			(2,539)
Pricing differences in equity			-
Cost of acquisition			3,912
Consideration paid, satisfied in cash (A)			686
Consideration, other			3,226
Consideration, contingent			-
New shares issued			-
Total consideration transferred			3,912
Less: Cash acquired (B)			1,856
Net cash inflow (outflow) (C) = (B – A)			1,170

<i>In millions of CZK</i>	2012 Total
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	9,374
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	2,601

<i>In millions of CZK</i>	2012 Total
Revenue of the acquirees recognised in the year ended 31 December 2012 (subsidiaries)*	14,362
Profit (loss) of the acquirees recognised in the year ended 31 December 2012 (subsidiaries)*	1,768

* Before intercompany elimination

Pražská teplotárenská a.s.

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date are provided in the following table.

<i>In millions of CZK</i>	Carrying amount	Fair value adjustment	2012 Total
Property, plant, equipment, land, buildings	9,625	1,280	10,905
Intangible assets	178	85	263
Inventories	170	-	170
Trade receivables and other assets	2,380	-	2,380
Financial instruments – assets	11,197	-	11,197
Assets held for sale, net	164	64	228
Cash and cash equivalents	8,089	-	8,089
Provisions	(72)	-	(72)
Deferred tax liabilities	(1,074)	(277)	(1,351)
Trade payables and other liabilities	(5,697)	30	(5,667)
Net identifiable assets and liabilities	24,960	1,182	26,142
Non-controlling interest			(7,165)
Goodwill on acquisition of new subsidiaries			-
Negative goodwill on acquisition of new subsidiaries			-
Pricing differences in equity			-
Cost of acquisition			18,977
Consideration paid, satisfied in cash (A)			-
Consideration, other			18,977
Consideration, contingent			-
New shares issued			-
Total consideration transferred			18,977
Less: Cash acquired (B)			8,089
Net cash inflow (outflow) (C) = (B – A)			8,089

<i>In millions of CZK</i>	2012 Total
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	2,777
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	(30)

<i>In millions of CZK</i>	2012 Total
Revenue of the acquirees recognised in the year ended 31 December 2012 (subsidiaries)*	7,413
Profit (loss) of the acquirees recognised in the year ended 31 December 2012 (subsidiaries)*	4,604

* Before intercompany elimination

Saale Energie GmbH including its subsidiaries

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date are provided in the following table.

<i>In millions of CZK</i>	Carrying amount	Fair value adjustment	2012 Total
Intangible assets	-	2,263	2,263
Participations with significant influence	1,978	650	2,628
Inventories	12	-	12
Trade receivables and other assets	367	-	367
Financial instruments – assets	1,086	-	1,086
Cash and cash equivalents	790	-	790
Deferred tax liabilities	(73)	(762)	(835)
Trade payables and other liabilities	(3,530)	-	(3,530)
Net identifiable assets and liabilities	630	2,151	2,781
Non-controlling interest			-
Goodwill on acquisition of subsidiaries			-
Negative goodwill on acquisition of subsidiaries			(473)
Pricing differences in equity			-
Cost of acquisition			2,308
Consideration paid, satisfied in cash (A)			2,308
Consideration, other			-
Total consideration transferred			2,308
Less: Cash acquired (B)			790
Net cash inflow (outflow) (C) = (B – A)			(1,518)

<i>In millions of CZK</i>	2012 Total
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	3,146
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	82

<i>In millions of CZK</i>	2012 Total
Revenue of the acquirees recognised in the year ended 31 December 2012 (subsidiaries)*	3,147
Profit (loss) of the acquirees recognised in the year ended 31 December 2012 (subsidiaries)*	(391)

* Before intercompany elimination

ii. 31 December 2011

LIGNITE INVESTMENTS 1 LIMITED and its joint-venture

For details on comparison between Carrying amount and Fair value refer to Note 6 – Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates.

<i>In millions of CZK</i>	2011
	Total
Revenue of the acquiree recognised since the acquisition date (subsidiaries and joint-ventures)*	3,035
Profit (loss) of the acquiree recognised since the acquisition date (subsidiaries and joint-ventures)*	406

<i>In millions of CZK</i>	2011
	Total
Revenue of the acquiree recognised in the year ended 31 December 2011 (subsidiaries and joint-ventures)*	6,278
Profit (loss) of the acquiree recognised in the year ended 31 December 2011 (subsidiaries and joint-ventures)*	1,020

** Before intercompany elimination*