EP Energy, a.s.

Consolidated Financial Statements
as of and for the year ended 31 December 2013

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 2013, 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 2013, 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
28 April 2014

KPMG Česká republika Audit

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

Vladimír Dvořáček
Partner

Jindřich Vašina
Partner
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Content

Consolidated statement of comprehensive income

For the year ended 31 December 2013
In thousands of EUR ("TEUR")

	Note	2013	2012
Sales: Energy	7	1,779,206	1,562,861
of which: Electricity		*982,596*	*892,137*
Heat		*321,141*	*272,800*
Coal		*281,569*	*250,328*
Gas		*193,900*	*147,596*
Sales: Other	7	94,735	70,397
Total sales		**1,873,941**	**1,633,258**
Cost of sales: Energy	8	(1,155,177)	(1,005,290)
Cost of sales: Other	8	(25,485)	(16,784)
Total cost of sales		**(1,180,662)**	**(1,022,074)**
		693,279	**611,184**
Personnel expenses	9	(184,246)	(150,499)
Depreciation and amortisation	16, 17	(239,662)	(207,255)
Repairs and maintenance		(12,184)	(18,176)
Emission rights, net	10	(32,616)	5,369
Negative goodwill	6	17,800	117,691
Taxes and charges	11	(11,648)	(15,193)
Other operating income	12	80,990	89,369
Other operating expenses	13	(150,105)	(89,568)
Profit (loss) from operations		**161,608**	**342,922**
Finance income	14	88,271	20,243
Finance expense	14	(97,482)	(80,062)
Profit (loss) from financial instruments	14	(2,165)	(3,898)
Net finance income/(expense)		**(11,376)**	**(63,717)**
Share of profit (loss) of equity accounted investees, net of tax	19	(5,377)	(358)
Gain/(loss) on disposal of subsidiaries, special purpose entities, joint-ventures and associates	6	(668)	174,218
Profit (loss) before income tax		**144,187**	**453,065**
Income tax expenses	15	(21,245)	(40,608)
Profit (loss) for the year		**122,942**	**412,457**
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences for foreign operations	15	21,390	1,965
Foreign currency translation differences from presentation currency	15	(100,719)	33,457
Fair value reserve included in other comprehensive income	15	(219)	-
Effective portion of changes in fair value of cash flow hedges, net of tax	15	(80,738)	80
Other comprehensive income for the year, net of tax		**(160,286)**	**35,502**
Total comprehensive income for the year		**(37,344)**	**447,959**
Profit (loss) attributable to:			
Owners of the Company		113,201	413,252
Non-controlling interest	28	9,741	(795)
Profit (loss) for the year		**122,942**	**412,457**
Total comprehensive income attributable to:			
Owners of the Company		(37,599)	443,211
Non-controlling interest	28	255	4,748
Total comprehensive income for the year		**(37,344)**	**447,959**
Basic and diluted earnings per share in EUR	27	**5.82**	**21.28**

The notes presented on pages 9 to 116 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2013
In thousands of EUR ("TEUR")

	Note	2013	2012 Restated*
Assets			
Property, plant and equipment	16	2,433,472	1,660,382
Intangible assets	17	186,685	180,628
Goodwill	17	92,545	104,296
Investment property	18	324	358
Participations with significant influence	19	260,800	160,819
Financial instruments and other financial assets	32	13,075	17,303
of which receivables from the parent company		-	-
Trade receivables and other assets	22	29,333	16,508
Deferred tax assets	20	8,014	1,273
Total non-current assets		**3,024,248**	**2,141,567**
Inventories	21	69,992	33,014
Extracted minerals and mineral products		6,136	4,177
Trade receivables and other assets	22	318,290	249,204
Financial instruments and other financial assets	32	516,842	543,835
of which receivables from the parent company		*467,104*	*490,135*
Prepayments and other deferrals		3,345	2,466
Tax receivables	24	13,406	19,292
Cash and cash equivalents	23	283,069	325,099
Assets/disposal groups held for sale	25	49	10,302
Total current assets		**1,211,129**	**1,187,389**
Total assets		**4,235,377**	**3,328,956**
Equity			
Share capital	26	769,180	763,650
Share premium		116,434	-
Reserves		(355,957)	(204,305)
Retained earnings		445,608	596,978
Total equity attributable to equity holders		**975,265**	**1,156,323**
Non-controlling interest	28	480,186	283,890
Total equity		**1,455,451**	**1,440,213**
Liabilities			
Loans and borrowings	29	1,513,784	653,779
of which owed to the parent company		-	*126,730*
Financial instruments and financial liabilities	32	1,649	1,472
Provisions	30	339,219	240,652
Deferred tax liabilities	20	269,463	194,153
Trade payables and other liabilities	33	76,679	4,892
Total non-current liabilities		**2,200,794**	**1,094,948**
Trade payables and other liabilities	33	383,971	324,185
Loans and borrowings	29	45,934	381,742
of which owed to the parent company		*2,287*	*377,009*
Financial instruments and financial liabilities	32	5,587	597
Provisions	30	93,726	63,524
Deferred income	31	42,022	17,542
Current income tax liability		7,892	4,415
Liabilities from disposal groups held for sale	25	-	1,790
Total current liabilities		**579,132**	**793,795**
Total liabilities		**2,779,926**	**1,888,743**
Total equity and liabilities		**4,235,377**	**3,328,956**

* *For details refer to Note 2(e) – Changes in accounting policies and Appendix 2 – Restated Consolidated statement of financial position.*

The notes presented on pages 9 to 116 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2013

In thousands of EUR ("TEUR")	Attributable to owners of the Company											
	Share capital	**Share premium**	**Other capital funds from capital contributions**	**Non-distributable reserves**	**Translation reserve**	**Fair value reserve**	**Other capital reserves**	**Hedging reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total Equity**
Balance at 1 January 2013 (A)	763,650	-	22,538	75,891	15,922	-	(319,163)	507	596,978	1,156,323	283,890	1,440,213
Total comprehensive income for the year:												
Profit or loss (B)	-	-	-	-	-	-	-	-	113,201	113,201	9,741	122,942
Other comprehensive income:												
Foreign currency translation differences for foreign operations	-	-	-	-	20,405	-	-	-	-	20,405	985	21,390
Foreign currency translation differences from presentation currency	-	-	-	-	(90,248)	-	-	-	-	(90,248)	(10,471)	(100,719)
Fair value reserve included in other comprehensive income	-	-	-	-	-	(219)	-	-	-	(219)	-	(219)
Effective portion of changes in fair value of cash-flow hedges	-	-	-	-	-	-	-	(80,738)	-	(80,738)	-	(80,738)
Total other comprehensive income (C)	-	-	-	-	(69,843)	(219)	-	(80,738)	-	(150,800)	(9,486)	(160,286)
Total comprehensive income for the year (D) = (B + C)	-	-	-	-	(69,843)	(219)	-	(80,738)	113,201	(37,599)	255	(37,344)
Contributions by and distributions to owners:												
Increase in share capital	4,795	116,434	-	-	-	-	-	-	-	121,229	-	121,229
Dividends to equity holders	-	-	-	-	-	-	-	-	(263,661)	(263,661)	(168,478)	(432,139)
Total contributions by and distributions to owners (E)	4,795	116,434	-	-	-	-	-	-	(263,661)	(142,432)	(168,478)	(310,910)
Changes in ownership interests in subsidiaries:												
Effect of merged entities	735	-	-	-	-	-	(735)	-	(1,909)	(1,909)	-	(1,909)
Effect of disposals through step acquisition	-	-	-	-	195	-	(312)	-	117	-	-	-
Effects from acquisitions through step acquisition (Note 6)	-	-	-	-	-	-	-	-	-	-	2,264	2,264
Effect from acquisitions through business combinations (Note 6)	-	-	-	-	-	-	-	-	-	-	370,393	370,393
Effect of changes in shareholdings on non-controlling interests	-	-	-	-	-	-	-	-	882	882	(8,138)	(7,256)
Total changes in ownership interests in subsidiaries (F)	735	-	-	-	195	-	(1,047)	-	(910)	(1,027)	364,519	363,492
Total transactions with owners (G) = (E + F)	5,530	116,434	-	-	195	-	(1,047)	-	(264,571)	(143,459)	196,041	52,582
Balance at 31 December 2013 (H) = (A + D + G)	769,180	116,434	22,538	75,891	(53,726)	(219)	(320,210)	(80,231)	445,608	975,265	480,186	1,455,451

The notes presented on pages 9 to 116 form an integral part of these consolidated financial statements.

For the year ended 31 December 2012

In thousands of EUR ("TEUR")	Attributable to owners of the Company									
	Share capital	**Other capital funds from capital contributions**	**Non-distributable reserves**	**Translation reserve**	**Other capital reserves**	**Hedging reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total Equity**
Balance at 1 January 2012 (A)	763,650	22,538	677	(10,018)	(319,163)	(1,005)	258,940	715,619	(265)	715,354
Total comprehensive income for the year:										
Profit or loss (B)	-	-	-	-	-	-	413,252	413,252	(795)	412,457
Other comprehensive income:										
Foreign currency translation differences for foreign operations	-	-	-	2,005	-	-	-	2,005	(40)	1,965
Foreign currency translation differences from presentation currency	-	-	-	27,874	-	-	-	27,874	5,583	33,457
Effective portion of changes in fair value of cash-flow hedges	-	-	-	-	-	80	-	80	-	80
Total other comprehensive income (C)	-	-	-	29,879	-	80	-	29,959	5,543	35,502
Total comprehensive income for the year (D) = (B + C)	-	-	-	29,879	-	80	413,252	443,211	4,748	447,959
Transfers within equity:										
Transfer to non-distributable reserves	-	-	75,214	-	-	-	(75,214)	-	-	-
Total transfers within equity (E)	-	-	75,214	-	-	-	(75,214)	-	-	-
Contributions by and distributions to owners:										
Dividends to equity holders	-	-	-	-	-	-	-	-	(39)	(39)
Total contributions by and distributions to owners (F)	-	-	-	-	-	-	-	-	(39)	(39)
Changes in ownership interests in subsidiaries:										
Effect of disposals through step acquisition	-	-	-	(3,939)	-	1,432	-	(2,507)	(6,747)	(9,254)
Effects from acquisitions through step acquisition (Note 6)	-	-	-	-	-	-	-	-	279,446	279,446
Effect of changes in shareholdings on non-controlling interests	-	-	-	-	-	-	-	-	6,747	6,747
Total changes in ownership interests in subsidiaries (G)	-	-	-	(3,939)	-	1,432	-	(2,507)	279,446	276,939
Total transactions with owners (H) = (F + G)	-	-	-	(3,939)	-	1,432	-	(2,507)	279,407	276,900
Balance at 31 December 2012 (I) = (A + D + E + H)	763,650	22,538	75,891	15,922	(319,163)	507	596,978	1,156,323	283,890	1,440,213

The notes presented on pages 9 to 116 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2013
In thousands of EUR ("TEUR")

	Note	2013	2012
OPERATING ACTIVITIES			
Profit (loss) for the year		122,942	412,457
Adjustments for:			
Income taxes	15	21,245	40,608
Depreciation and amortisation	16, 17	239,662	207,255
Impairment losses on property, plant and equipment and intangible assets		20,471	3,500
Change in fair value of investment property	18	11	-
Loss on disposal of property, plant and equipment, investment property and intangible assets	13	4,183	1,193
Gain on disposal of inventories	12	(370)	(358)
Emission rights	10	32,616	(5,369)
Gain on disposal of subsidiaries, special purpose entities, joint-ventures, associates and non-controlling interests	6	668	(174,218)
Share of profit (loss) of equity accounted investees	19	5,377	358
Gain on financial instruments	14	2,165	3,898
Net interest expense	14	64,485	57,672
Change in allowance for impairment to trade receivables and other assets, write-offs		11,665	2,108
Change in provisions		(10,342)	(60,932)
Negative goodwill	6	(17,800)	(117,691)
Unrealised foreign exchange (gains)/losses, net		17,554	29,644
Operating profit before changes in working capital		**514,532**	**400,125**
Change in financial instruments at other than fair value		(179,204)	(295,271)
Change in trade receivables and other assets		27,519	(52,380)
Change in inventories (including proceeds from sale)		(26,394)	(1,869)
Change in extracted minerals and mineral products		(1,959)	(2,148)
Change in assets held for sale and related liabilities		-	(76,642)
Change in trade payables and other liabilities		(43,261)	(637,155)
Cash generated from (used in) operations		**291,233**	**(665,340)**
Interest paid		(83,443)	(54,767)
Income taxes paid		(55,761)	(34,642)
Cash flows generated from (used in) operating activities		**152,029**	**(754,749)**
INVESTING ACTIVITIES			
Received dividends		25,470	-
Proceeds from sale of financial instruments – derivatives		4,171	(1,393)
Acquisition of property, plant and equipment, investment property and intangible assets	16, 17, 18	(98,839)	(75,447)
Purchase of emission rights	17	(12,448)	(17,937)
Proceeds from sale of emission rights		1,156	24,699
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		3,403	557
Acquisition of subsidiaries and special purpose entities, net of cash acquired	6	(263,452)	34,594
Net cash inflow from disposal of subsidiaries and special purpose entities including received dividends	6	7,052	512,166
Increase in participation in existing subsidiaries and special purpose entities		(7,256)	-
Cash flow from contingent consideration		-	-
Interest received		653	3,222
Cash flows from (used in) investing activities		**(340,090)**	**480,461**

Consolidated statement of cash flows (continued)

For the year ended 31 December 2013
In thousands of EUR ("TEUR")

	Note	2013	2012
FINANCING ACTIVITIES			
Proceeds from issue of share capital		1,171	-
Proceeds from loans received		772,529	390,964
Repayment of borrowings		(893,481)	(366,345)
Proceeds from bonds issued		591,689	488,247
Payment of finance lease liabilities		(81)	(358)
Dividends paid		(315,530)	(39)
Cash flows from (used in) financing activities		**156,297**	**512,469**
Net increase (decrease) in cash and cash equivalents		*(31,764)*	*238,181*
Cash and cash equivalents at beginning of the year		**325,099**	**87,713**
Effect of exchange rate fluctuations on cash held		(10,266)	(795)
Cash and cash equivalents at end of the year		**283,069**	**325,099**

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 EUR 763,650 thousand was settled by a non-cash consideration in the form of shares in Honor Invest, a.s.[(2)], AISE, s.r.o., První energetická a.s.[(1)], Czech Energy Holding, a.s.[(2)], Plzeňská energetika a.s., ROLLEON a.s., EP Renewables a.s. (previously Czech Wind Holding, a.s.) and HC Fin3 N.V.[(2)]

On 26 August 2013 the share capital of EPE increased by a cash contribution of EUR 1,171 thousand based on a decision of the Company's shareholder.

On 4 November 2013 the EPE Group completed the process of the cross-border merger of Honor Invest[(2)], a.s., Czech Energy Holding, a.s.[(2)], HC Fin3 N.V.[(2)], EAST BOHEMIA ENERGY HOLDING LIMITED[(2)], LIGNITE INVESTMENTS 1 LIMITED[(2)] and EP Energy, a.s.

EP Energy, a.s. is the successor company and took over all assets, rights and obligations of the acquired companies. As a result of the merger, on 4 November 2013 the Company's nominal value of shares increased from CZK 1,000 to CZK 1,001 and the share capital of the Company thus increased by EUR 735 thousand.

On 18 December 2013 the shareholder of the Company decided to increase share capital by EUR 3,624 thousand which was settled by a contribution of EPH Financing II, a.s. and a receivable relating to a shareholder loan used to co-finance the acquisition of a 49% share (associated with a management control) in Stredoslovenská energetika, a.s. As a result of this transaction the Company also recorded a share premium of EUR 116,434 thousand.

The consolidated financial statements of the Company for the year ended 31 December 2013 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.

(1) První energetická a.s. merged with EP ENERGY TRADING, a.s. as at 1 January 2013. EP ENERGY TRADING, a.s. is the successor company.

(2) Honor Invest, a.s., Czech Energy Holding, a.s., EAST BOHEMIA ENERGY HOLDING LIMITED, LIGNITE INVESTMENTS 1 LIMITED and HC Fin3 N.V. merged with EP Energy, a.s. as at 4 November 2013. EP Energy, a.s. is the successor company.

The shareholder of the Company as at 31 December 2013 was as follows:

	Interest in share capital		Voting rights
	TEUR	%	%
Energetický a průmyslový holding, a.s.	769,180	100.00	100.00
Total	**769,180**	**100.00**	**100.00**

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

	Interest in share capital		Voting rights
	TEUR	%	%
Energetický a průmyslový holding, a.s.	763,650	100.00	100.00
Total	**763,650**	**100.00**	**100.00**

The shareholders of Energetický a průmyslový holding, a.s. as at 31 December 2013 and 31 December 2012 were as follows:

	Interest in share capital %		Voting rights %	
	2013	2012	2013	2012
TIMEWORTH HOLDINGS LIMITED (owned by PPF Group N.V.)	44.44	44.44	44.44	44.44
BIQUES LIMITED (part of J&T PARTNERS I L.P.)	18.52	18.52	18.52	18.52
MACKAREL ENTERPRISES LIMITED (owned by Daniel Křetínský)	18.52	18.52	18.52	18.52
MILEES LIMITED (part of J&T PARTNERS II L.P.)	18.52	18.52	18.52	18.52
Total	**100.00**	**100.00**	**100.00**	**100.00**

The members of the board of directors as at 31 December 2013 were:

- JUDr. Daniel Křetínský (chairman of the board of directors)
- Ing. Jan Špringl (vice-chairman of the board of directors)
- Mgr. Marek Spurný (member of the board of directors)
- Mgr. Pavel Horský (member of the board of directors)
- Ing. Jiří Feist (member of the board of directors)
- Mgr. Ing. Tomáš David (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 28 April 2014.

(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 except for accounting policies as described in note 2(e) – Changes in accounting policies.

(c) Functional and presentation currency

The consolidated financial statements are presented in Euro ("EUR"). The Company's functional currency is the Czech crown ("CZK"). All financial information presented in Euros has been rounded to the nearest thousand (for more details refer to Note 2(e) vi. – Change in presentation currency).

(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.

i. Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2014 is included in the following notes:

- Notes 6 and 17 – accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill,
- Note 7 - Revenues
- Note 30 – measurement of defined benefit obligations, recognition and measurement of provisions,
- Notes 32 and 36 – valuation of financial instruments,
- Note 39 – litigations.

Measurement of fair values

A number of the Group's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Group has an established control Framework with respect to the measurement of fair values. This includes a valuation team that has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values.

The valuation team regularly reviews significant unobservable inputs and valuation adjustments. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the valuation team assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which such valuation should be classified.

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques 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).

If the inputs used to measure the fair value of an asset or a liability might be categorised in different level of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

ii. Judgements

Information about judgements made in the application of accounting policies that have the most significant effects 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 – measurement of defined benefit obligations, recognition and measurement of provisions.

(e) Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013:

- Emission Rights – change in previously applied accounting policy;
- IFRIC 20 – Stripping Costs in the Production Phase of a Surface Mine;
- IAS 19 – Employee Benefits;
- IFRS 13 – Fair Value Measurement;
- Amendments to IAS 1 Presentation of Items of Other Comprehensive Income
- Change in presentation currency.

Except as described below, the accounting policies applied in these consolidated financial statements are the same as those applied in the consolidated financial statements as at and for the year ended 31 December 2012.

i. Emission Rights

Recognition and measurement

Emission rights (purchased or issued by a government) are initially recognised at fair values. Where an active market exists fair value should be based on the market price in accordance with IFRS 13 (for allocated emission rights the fair value is determined as the price at the date of allocation; for purchased emission rights the fair value typically equals the purchase price). If it is determined that an active market

does not exist then alternative valuation techniques are applied to estimate the fair value in accordance with IFRS 13.

Subsequently, emission rights are accounted for under the cost method under intangible assets.

The Group's accounting policy is to use the first-in, first-out principle ("FIFO") for emission rights disposal (consumption or sale).

Impairment of emission rights

At each reporting date, the Group assesses whether there is any indication that emission rights may be impaired.

Where an impairment indicator exists, the Group reviews the recoverable amounts of the cash generating unit, to which the emission rights were allocated, to determine whether such amounts continue to exceed the assets' carrying values. In case the carrying value of a cash generating unit is greater than its recoverable value, impairment exists.

Any identified emission rights impairment is recognised directly as a debit to a profit or loss account and a credit to a valuation adjustment.

Recognition of grants

A 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. The pattern for the systematic recognition of the deferred income in profit is assessed based on estimated pollutants emitted in the current month, taking into account the estimated coverage of the estimated total annually emitted pollutants by allocated emission allowances. The release of deferred income to a profit and loss account is performed on a quarterly basis; any subsequent update to the estimate of total annual pollutants is taken into account during the following monthly or quarterly assessment. Any disposals of certificates or changes in their carrying amount do not affect the manner in which grant income is recognised.

Recognition, measurement of provision

A provision is recognised regularly during the year based on the estimated number of tonnes of CO2 emitted.

It is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. It means that the provision is measured based on the current carrying amount of the certificates on hand if sufficient certificates are owned to settle the current obligation, by using a FIFO method. The group companies identify (in each provision measurement period) which of the certificates are "marked for settling" the provision and this allocation is consistently applied.

Otherwise, if a shortfall of emission allowances on hand as compared to the estimated need exists at the reporting date, then the provision for the shortfall is recorded based on the current market value of the emission certificates at the end of the reporting period.

Summary of quantitative impact

Under the previous accounting policy for emission rights, the EPE Group recorded a provision only for a shortfall of emission rights as compared to emission rights held as intangible assets at a particular reporting date. Subsequently, during the period, the EPE Group derecognised emission rights from intangible assets based on estimated pollutants emitted for a reporting period.

The current accounting policy valid since 1 January 2013 grosses-up intangible assets and a provision for estimated pollutants. The Company believes that the current accounting policy better depicts the overall financial position in respect of emission allowances giving the user of the consolidated financial statements overview of emission allowances physically held at the end of the period and simultaneously presenting an estimated liability relating to the emitted pollutants. As there is no impact on the statement of comprehensive income, the Company decided not to present the restated statement of financial position as at 1 January 2012 on the face of the consolidated financial statements as the Company assessed that it

would not have a significant impact on the decisions made by the users of these consolidated financial statements.

For the original and restated consolidated statement of financial position refer to Appendix 2.

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

Stripping costs during development phase of the mine (before production begins)

Stripping costs incurred in the development of a mine before production commences are capitalised as part of the cost of constructing the mine and subsequently amortised over the life of the mine on a units-of-production basis.

Stripping costs in the production phase of a surface mine

Stripping costs incurred subsequently during the production phase of its operation are deferred for those operations where this is the most appropriate basis for matching the cost against the related economic benefits and the effect is material. This is generally the case where there are fluctuations in stripping costs over the life of the mine.

a) To the extent that the benefit from the stripping activity is realised in the form of inventory produced, the EPE Group accounts for the costs of that stripping activity in accordance with the principles of IAS 2 Inventories.

b) To the extent that the benefit is improved access to ore, the EPE Group recognises these costs as a non-current asset. This "stripping activity asset" (or "SAA") will be accounted for as part of an existing tangible or intangible asset.

Recognition of stripping activity asset

Stripping activity asset shall be recognised only if

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

Measurement of the stripping activity asset

a) Initially: at cost – representing costs directly incurred to perform the stripping activity and directly attributable overhead costs.

   When the costs of the SAA and the inventory produced are not separately identifiable, the EPE Group allocates the production stripping costs between the inventory produced and the SAA by using an allocation basis that is based on a relevant production measure.

b) Subsequently: in revaluated amount less depreciation or amortisation and less impairment losses, in the same way as the existing asset of which it is a part. SAA is amortised systematically over the expected useful life of the identified component of the ore body (which is mostly shorter than the mine's useful life) that becomes more accessible as a result of the stripping activity.

In accordance with IFRIC 20, the accounting policy for stripping costs is applied prospectively from 1 January 2013. As at 31 December 2013 the Group recognised an inventory resulting from the stripping activity of EUR 25,585 thousand (refer to Note 21 – Inventories).

iii. Employee benefits

Liability relating to long-term employee benefits and service awards excluding pension plans is defined as amount of future payments, to which employees will be entitled. Future liability is discounted to its present value. The discount rate used is based on yields of high quality corporate bonds as at the end of the reporting period, which maturity approximately corresponds with the maturity of the future obligation. The revaluation of the net liability from defined benefit plans (including actuarial gains and losses) shall be recognised in full immediately in other comprehensive income.

Contributions for pension insurance resulting from Collective agreement are expensed when incurred.

Employee benefits provision is presented separately both long and short-term part (if possible to distinguish, otherwise as non-current, if not IFRS 5). The benefit could be classified as short-term, if and only if the whole benefit category will be settled within 1 year; otherwise, it must be disclosed as long-term.

Notwithstanding the above, the change had no significant impact on the presentation of the EPE Group's assets and liabilities.

iv. Fair value measurement

IFRS 13 establishes a single framework for measuring fair value and making disclosures about fair value measurements, when such measurements are required or permitted by other IFRSs. In particular, it unifies the definition of fair value as the price at which an orderly transaction to sell an asset or to transfer a liability would take place between market participants at the measurement date. It also replaces and expands the disclosure requirements about fair value measurements in other IFRSs, including IFRS 7 Financial Instruments: Disclosures. Some of these disclosures are specifically required in financial statements for financial instruments; accordingly, the EPE Group has included additional disclosures in this regard (refer to Note 32 – Financial instruments).

In accordance with the transitional provisions of IFRS 13, the EPE Group has applied the new fair value measurement guidance prospectively, and has not provided any comparative information for new disclosures.

Notwithstanding the above, the change had no significant impact on the measurements of the EPE Group's assets and liabilities.

v. Presentation of items of other comprehensive income

As a result of the amendments to IAS 1, the EPE Group has modified the presentation of items of other comprehensive income in its consolidated statement of other comprehensive income, to present separately items that would be reclassified to profit or loss in the future from those that would never be. Comparative information has also been re-presented accordingly.

The adoption of the amendment to IAS 1 has no impact on the recognised assets, liabilities and comprehensive income of the Group.

vi. Change in presentation currency

By currency, EPE Group revenues and operating profit generated in Euro for the year ended 31 December 2013 represent a significant share of the total revenues and operating profit. Due to the acquisition of a 49% stake in Stredoslovenská energetika, a.s. on 16 December 2013 and the acquisition of the Helmstedter Revier GmbH ("HSR") on 20 December 2013, the share of EPE Group's revenue and operating profit generated in Euro further increased. As a result, the EPE Group changed its presentation currency from Czech crowns to Euro. This presentation currency was used for the first time for consolidated financial statements for the year ending 31 December 2013. The change allowed the EPE Group's financial statements to be presented in the currency that most closely represents the main operating currency of the operations of the EPE Group.

(f) Recently issued accounting standards

i. Newly adopted Standards, Amendments to standards and Interpretations effective for the year ended 31 December 2013 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 2013 and that have thus been applied by the Group for the first time.

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 amendments do not have any impact on the Group's 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 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 Standard does not 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 Amendments do not 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 adopted the amendment to its Group accounting policies. For quantitative impact refer to Note 2e iii – Employee benefits and Note 30 – Provisions.

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 re-valued 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 has adopted this interpretation to its Group accounting policies. For quantitative impact refer to Note 2e ii – Stripping costs and Note 21 – Inventories).

Improvements to IFRSs issued in 2012 (effective for annual reports beginning on or after 1 January 2013)

Since the improvements are focused on issued such as the first adoption of IFRSs (IFRS 1), interim financial reporting (IAS 34), financial instruments (IAS 32), recognition of spare parts (IAS 16), the adoption did not have any material effect on amounts reported in these consolidated financial statements.

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 2013 and thus have not been adopted by the Group:

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.

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 re-measurement 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 re-measured.

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 21, 'Levies' (effective for annual reports beginning on or after 1 January 2014)

The new interpretation provides guidance on when to recognise a liability for a levy imposed by a government, both for levies that are accounted for in accordance with IAS 37, 'Provisions, Contingent Liabilities and Contingent Assets' and those where the timing and amount of the levy is certain. The Interpretation covers the accounting for outflows imposed on entities by governments (including government agencies and similar bodies) in accordance with laws and/or regulations. However, it does not include income taxes, fines and other penalties, liabilities arising from emissions trading schemes and outflows within the scope of other Standards.

The management of the Group is about to discuss an adoption of this interpretation.

iii. Other International Financial Reporting Standards

The Group has not early adopted any IFRS standards where adoption is not mandatory at the reporting 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

Except for the changes explained in Note 2(e) – Changes in accounting policies, the EPE Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

Certain comparative amounts in the consolidated statement of comprehensive income and consolidated statement of financial position have been re-presented, either as a result of a change in the accounting policy regarding the presentation of items of other comprehensive income or a change in the accounting policy for emission rights (see Note 17 – Intangible assets and Appendix 2 – Restated Consolidated statement of financial position).

(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. Equity accounted investees

Associates are enterprises in which the Group has significant influence, but not control, over 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 the significant influence commences until the date that the 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 the 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. 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.

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in subsidiary that do not result in a loss of control are accounted for as equity transaction.

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 and equity accounted investees

Gain or loss from the sale of investments in subsidiaries and equity accounted investees 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 other capital 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 Euro, which is the Group's presentation currency. Company's functional currency is Czech crown. 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 a foreign exchange rate that approximates the foreign exchange rate at the date of the transaction.

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.

iii. Translation to presentation currency

These consolidated financial statements are presented in Euro which is the Company's presentation currency. The assets and liabilities, including goodwill and fair value adjustments arising on consolidation, are translated from Czech crowns into Euros at foreign exchange rate at the reporting date. The income and expenses are translated from Czech crowns into Euros using a foreign exchange rate that approximates the foreign exchange rate at the date of the transaction.

Foreign exchange differences arising on translation are recognised in other comprehensive income and presented in the translation reserve in equity. The relevant proportion of the translation difference is allocated to non-controlling interests if applicable.

(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. De-recognition

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 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 re-measuring 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 (refer to 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 or equity accounted investees 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 re-measurement (negative goodwill) is recognised in profit and loss account in the period of acquisition.

Upon acquisition of non-controlling interests (while maintaining control), 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 2013 and 2012, expenditures incurred by the Group did not meet these recognition criteria. Development expenditure has thus been recognised in profit or loss.

iii. Emission rights

Recognition and measurement

Emission rights (purchased or issued by a government) are initially recognised at fair values. Where an active market exists fair value should be based on the market price in accordance with IFRS 13 (for allocated emission rights the fair value is determined as the price at the date of allocation; for purchased emission rights the fair value typically equals the purchase price). If it is determined that an active market does not exist then alternative valuation techniques are applied to estimate the fair value in accordance with IFRS 13.

Subsequently, emission rights are accounted for under the cost method under intangible assets.

The Group's accounting policy is to use the first-in, first-out principle ("FIFO") for emission rights disposal (consumption or sale).

Impairment of emission rights

At each reporting date, the Group assesses whether there is any indication that emission rights may be impaired.

Where an impairment indicator exists, the Group reviews the recoverable amounts of the cash generating unit, to which the emission rights were allocated, to determine whether such amounts continue to exceed the assets' carrying values. In case the carrying value of a cash generating unit is greater than its recoverable value, impairment exists.

Any identified emission rights impairment is recognised directly as a debit to a profit or loss account and a credit to a valuation adjustment.

Recognition of grants

A 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. The pattern for the systematic recognition of the deferred income in profit is assessed based on estimated pollutants emitted in the current month, taking into account the estimated coverage of the estimated total annually emitted pollutants by allocated emission allowances. The release of deferred income to a profit and loss account is performed on a quarterly basis; any subsequent update to the estimate of total annual pollutants is taken into account during the following monthly or quarterly assessment. Any disposals of certificates or changes in their carrying amount do not affect the manner in which grant income is recognised.

Recognition, measurement of provision

A provision is recognised regularly during the year based on the estimated number of tonnes of CO2 emitted.

It is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. It means that the provision is measured based on the current carrying amount of the certificates on hand if sufficient certificates are owned to settle the current obligation, by using a FIFO method. The group companies identify (in each provision measurement period) which of the certificates are "marked for settling" the provision and this allocation is consistently applied.

Otherwise, if a shortfall of emission allowances on hand as compared to the estimated need exists at the reporting date, then the provision for the shortfall is recorded based on the current market value of the emission certificates at the end of the reporting period.

Summary of quantitative impact

Under the previous accounting policy for emission rights, the EPE Group recorded a provision only for a shortfall of emission rights as compared to emission rights held as intangible assets at a particular reporting date. Subsequently, during the period, the EPE Group derecognised emission rights from intangible assets based on estimated pollutants emitted for a reporting period.

The current accounting policy valid since 1 January 2013 grosses-up intangible assets and a provision for estimated pollutants. The Company believes that the current accounting policy better depicts the overall financial position in respect of emission allowances giving the user of the consolidated financial statements overview of emission allowances physically held at the end of the period and simultaneously presenting an estimated liability relating to the emitted pollutants. As there is no impact on the statement of comprehensive income, the Company decided not to present the restated statement of financial position as at 1 January 2012 on the face of the consolidated financial statements as the Company assessed that it would not have a significant impact on the decisions made by the users of these consolidated financial statements.

For the original and restated consolidated statement of financial position refer to Appendix 2.

iv. Software and other intangible assets

Software and other intangible assets acquired by the Group that have definite 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

Liability relating to long-term employee benefits and service awards excluding pension plans is defined as an amount of the future payments, to which employees will be entitled in return for their service in the current and prior periods. Future liability which is calculated using the projected unit credit method is discounted to its present value. The discount rate used is based on yields of high quality corporate bonds as at the end of the reporting period, which maturity approximately corresponds with the maturity of the future obligation. The revaluation of the net liability from defined benefit plans (including actuarial gains and losses) shall be recognised in full immediately in other comprehensive income.

Contributions for pension insurance resulting from Collective agreement are expensed when incurred.

Employee benefits provision is presented separately both long and short-term part (if possible to distinguish, otherwise as non-current, if not IFRS 5). The benefit could be classified as short-term, if and only if the whole benefit category will be settled within 1 year; otherwise, it must be disclosed as long-term.

Pension plans

In accordance with IAS 19, 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.

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. Provision for emission rights

A provision for emission rights is recognised regularly during the year based on the estimated number of tonnes of CO2 emitted. It is measured at the best estimate of the expenditure required to settle the present obligation at the reporting date.

v. 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.

vi. 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.

vii. 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 such as:

- inputs to the distribution companies system (measured value)
- supply of high and very high voltage levels (measured value)
- estimation of network losses
- estimation of low voltage level supply

Revenues from sale of coal

Sales of coal are 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 re-measurement. 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 and 2013 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: a strategic committee, an investment committee, a risk management committee and a 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, Power Distribution and Supply and Other. Mining, Heat and Power and Power Distribution and Supply are the core segments of the Group.

i. Mining

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. Heat and Power

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. In December 2013, the EPE Group acquired a 100% share in Helmstedter Revier GmbH which operates a condensation mode power plant with an installed capacity of 352MW.

iii. Renewables

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. Power Distribution and Supply

The Power Distribution and Supply segment consists of a Power Distribution division and a Supply division. The Supply division supplies power and natural gas to end-consumers in the Czech Republic and Slovakia. The Power Distribution division purchases and sells in the wholesale market power generated by the Heat and Power segment and purchases from external sources and purchases electricity and natural gas to supply customers through the Supply division. This segment is mainly represented by Stredoslovenská energetika, a.s., United Energy Coal Trading, a.s. and EP ENERGY TRADING, a.s.

v. Other

The Other segment mainly represents EP Energy, a.s. The segment profit therefore primarily represents dividends received from its subsidiaries and results from acquisition accounting.

Profit or loss

For the year ended 31 December 2013

In thousands of EUR	Mining	Heat and Power	Power Distribution and Supply	Renewables	Other	Total segments	Inter-segment eliminations	Consolidated Financial Information
Sales: Energy	354,466	652,759	960,146	5,958	-	1,973,329	(194,123)	1,779,206
external revenues	*314,419*	*553,771*	*905,349*	*5,667*	-	*1,779,206*	-	*1,779,206*
inter-segment revenues	*40,047*	*98,988*	*54,797*	*291*	-	*194,123*	*(194,123)*	-
Sales: Other	65,857	20,510	11,620	171	3,136	101,294	(6,559)	94,735
external revenues	*59,977*	*20,470*	*11,620*	*171*	*2,497*	*94,735*	-	*94,735*
inter-segment revenues	*5,880*	*40*	-	-	*639*	*6,559*	*(6,559)*	-
Cost of sales: Energy	(52,647)	(375,174)	(902,013)	(86)	-	(1,329,920)	174,743	(1,155,177)
external cost of sales	*(52,647)*	*(299,730)*	*(802,736)*	*(64)*	-	*(1,155,177)*	-	*(1,155,177)*
inter-segment cost of sales	-	*(75,444)*	*(99,277)*	*(22)*	-	*(174,743)*	*174,743*	-
Cost of sales: Other	(5,081)	(15,087)	(30,698)	(27)	(331)	(51,224)	25,739	(25,485)
external cost of sales	*(5,081)*	*(14,710)*	*(5,343)*	*(21)*	*(330)*	*(25,485)*	-	*(25,485)*
inter-segment cost of sales	-	*(377)*	*(25,355)*	*(6)*	*(1)*	*(25,739)*	*25,739*	-
Personnel expenses	(126,458)	(49,984)	(5,941)	(369)	(1,494)	(184,246)	-	(184,246)
Depreciation and amortisation	(110,170)	(115,906)	(10,070)	(3,450)	(66)	(239,662)	-	(239,662)
Repairs and maintenance	(3,162)	(8,355)	(85)	(569)	(13)	(12,184)	-	(12,184)
Emission rights, net	(9,904)	(22,713)	1	-	-	(32,616)	-	(32,616)
Negative goodwill	-	2,176	15,624	-	-	17,800	-	17,800
Taxes and charges	(9,923)	(1,251)	(68)	(403)	(3)	(11,648)	-	(11,648)
Other operating income	44,422	33,534	2,888	718	220	81,782	(792)	80,990
Other operating expenses	(82,160)	(35,381)	(13,977)	(14,599)	(4,715)	(150,832)	727	(150,105)
Finance income	2,676	(2,561)	(1,338)	617	*267,962	*267,356	*(179,085)	88,271
external finance revenues	*2,603*	*(4,617)*	*(1,338)*	*617*	*91,006*	*88,271*	-	*88,271*
inter-segment finance revenues	*73*	*2,056*	-	-	**176,956*	**179,085*	**(179,085)*	-
Finance expense	(26,212)	(30,261)	(7,365)	(4,806)	(73,202)	(141,846)	44,364	(97,482)
Profit (loss) from derivative financial instruments	(139)	(5,349)	(1,631)	(124)	5,078	(2,165)	-	(2,165)
Share of profit (loss) of equity accounted investees, net of tax	(4,332)	(1,045)	-	-	-	(5,377)	-	(5,377)
Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	(668)	-	-	-	(668)	-	(668)
Profit (loss) before income tax	**37,233**	**45,244**	**17,093**	**(16,969)**	***196,572**	***279,173**	***(134,986)**	**144,187**
Income tax expenses	(14,281)	(8,326)	804	136	422	(21,245)	-	(21,245)
Profit (loss) for the year	**22,952**	**36,918**	**17,897**	**(16,833)**	***196,994**	***257,928**	***(134,986)**	**122,942**

**EUR 134,758 thousand is attributable to inter-group dividends primarily recognised by EP Energy, a.s.*

For the year ended 31 December 2012

In thousands of EUR	Mining	Heat and Power	Power Distribution and Supply	Renewables	Other	Total segments	Inter-segment eliminations	Consolidated Financial Information
Sales: Energy	284,612	652,309	845,285	5,210	-	1,787,416	(224,555)	1,562,861
external revenues	*284,612*	*493,259*	*780,138*	*4,852*	-	*1,562,861*	-	*1,562,861*
inter-segment revenues	-	*159,050*	*65,147*	*358*	-	*224,555*	*(224,555)*	-
Sales: Other	50,710	14,915	25,891	676	4,534	96,726	(26,329)	70,397
external revenues	*50,710*	*14,875*	*79*	*676*	*4,057*	*70,397*	-	*70,397*
inter-segment revenues	-	*40*	*25,812*	-	*477*	*26,329*	*(26,329)*	-
Cost of sales: Energy	(39,216)	(364,395)	(825,160)	(80)	-	(1,228,851)	223,561	(1,005,290)
external cost of sales	*(39,216)*	*(300,123)*	*(665,871)*	*(80)*	-	*(1,005,290)*	-	*(1,005,290)*
inter-segment cost of sales	-	*(64,272)*	*(159,289)*	-	-	*(223,561)*	*223,561*	-
Cost of sales: Other	(3,261)	(12,608)	(25,932)	(40)	(756)	(42,597)	25,813	(16,784)
external cost of sales	*(3,261)*	*13,165*	*(25,932)*	-	*(756)*	*(16,784)*	-	*(16,784)*
inter-segment cost of sales	-	*(25,773)*	-	*(40)*	-	*(25,813)*	*25,813*	-
Personnel expenses	(97,999)	(47,091)	(2,307)	(199)	(2,903)	(150,499)	-	(150,499)
Depreciation and amortisation	(85,630)	(118,443)	(318)	(2,824)	(40)	(207,255)	-	(207,255)
Repairs and maintenance	(5,886)	(12,051)	(120)	(119)	-	(18,176)	-	(18,176)
Emission rights, net	(12,687)	18,056	-	-	-	5,369	-	5,369
Negative goodwill	99,025	18,666	-	-	-	117,691	-	117,691
Taxes and charges	(5,608)	(9,108)	(40)	(437)	-	(15,193)	-	(15,193)
Other operating income	79,824	7,954	1,710	597	-	90,085	(716)	89,369
Other operating expenses	(59,142)	(21,119)	(4,335)	(1,273)	(6,006)	(91,875)	2,307	(89,568)
Finance income	2,665	6,284	438	1,153	*103,487	*114,027	*(93,784)	20,243
external finance revenues	*2,625*	*2,227*	*80*	*1,153*	*14,158*	*20,243*	-	*20,243*
inter-segment finance revenues	*40*	*4,057*	*358*	-	**89,329*	**93,784*	**(93,784)*	-
Finance expense	(31,699)	(51,028)	(2,625)	(5,489)	(29,670)	(120,511)	40,449	(80,062)
Profit (loss) from derivative financial instruments	(159)	3,341	(8,114)	(119)	1,153	(3,898)	-	(3,898)
Share of profit (loss) of equity accounted investees, net of tax	636	(994)	-	-	-	(358)	-	(358)
Gain/(loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	100,349	-	-	73,869	174,218	-	174,218
Profit (loss) before income tax	**176,185**	**185,037**	**4,373**	**(2,944)**	***143,668**	***506,319**	***(53,254)**	**453,065**
Income tax expenses	(13,006)	(22,233)	(1,114)	(79)	(4,176)	(40,608)	-	(40,608)
Profit (loss) for the year	**163,179**	**162,804**	**3,259**	**(3,023)**	***139,492**	***465,711**	***(53,254)**	**412,457**

**EUR 53,335 thousand is attributable to inter-group dividends primarily recognised by EP Energy, a.s.*

Non-current assets and liabilities

For the year ended 31 December 2013

In thousands of EUR	Mining	Heat and Power	Power Distribution and Supply	Renewables	Other	Total segments	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	888,931	1,515,631	1,276,989	63,861	1,363,478	5,108,890	(873,513)	4,235,377
Reportable segment liabilities	(543,728)	(1,037,534)	(864,523)	(64,959)	(1,142,468)	(3,653,212)	873,286	(2,779,926)
Additions to tangible and intangible assets	68,817	60,077	9,438	1,061	113	139,506	-	139,506
Equity accounted investees	24,876	235,924	-	-	-	260,800	-	260,800

For the year ended 31 December 2012

In thousands of EUR	Mining	Heat and Power	Power Distribution and Supply	Renewables	Other	Total segments	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	928,759	1,832,737	170,406	87,828	1,466,905	4,486,635	(1,157,679)	3,328,956
Reportable segment liabilities	(674,383)	(1,093,516)	(138,743)	(88,425)	(1,051,313)	(3,046,380)	1,157,637	(1,888,743)
Additions to tangible and intangible assets	40,011	97,720	557	2,426	79	140,793	-	140,793
Equity accounted investees	30,549	130,270	-	-	-	160,819	-	160,819

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 2013

In thousands of EUR

	Czech Republic	Slovakia	Germany	Other	Total segments	Consolidated Financial Information
Property, plant and equipment	725,221	932,552	775,697	2	2,433,472	2,433,472
Intangible assets	148,669	29,955	100,606	-	279,230	279,230
Investment property	324	-	-	-	324	324
Total	**874,214**	**962,507**	**876,303**	**2**	**2,713,026**	**2,713,026**

In thousands of EUR

	Czech Republic	Slovakia	Germany	Other	Total segments	Consolidated Financial Information
Sales: Electricity	435,581	376,435	165,038	5,542	982,596	982,596
Sales: Heat	315,121	-	6,020	-	321,141	321,141
Sales: Coal	5,573	373	270,478	5,145	281,569	281,569
Sales: Gas	192,114	979	677	130	193,900	193,900
Sales: Other	30,660	757	59,977	3,341	94,735	94,735
Total	**979,049**	**378,544**	**502,190**	**14,158**	**1,873,941**	**1,873,941**

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

For the year ended 31 December 2012

In thousands of EUR

	Czech Republic	Slovakia	Cyprus	Germany	Other	Total segments	Consolidated Financial Information
Property, plant and equipment	861,575	20,207	-	778,600	-	1,660,382	1,660,382
Intangible assets	186,396	1,273	-	97,215	40	284,924	284,924
Investment property	358	-	-	-	-	358	358
Total	**1,048,329**	**21,480**	**-**	**875,815**	**40**	**1,945,664**	**1,945,664**

In thousands of EUR

	Czech Republic	Slovakia	Cyprus	Germany	Other	Total segments	Consolidated Financial Information
Sales: Electricity	381,458	362,288	40,250	103,329	4,812	892,137	892,137
Sales: Heat	267,550	-	-	5,250	-	272,800	272,800
Sales: Coal	13,602	79	-	234,499	2,148	250,328	250,328
Sales: Gas	146,363	1,233	-	-	-	147,596	147,596
Sales: Other	19,210	477	-	50,710	-	70,397	70,397
Total	**828,183**	**364,077**	**40,250**	**393,788**	**6,960**	**1,633,258**	**1,633,258**

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.[(2)] (acquired by EPH on 16 March 2010) including:
        (a) EAST BOHEMIA ENERGY HOLDING LIMITED[(2)] and its subsidiaries (acquired by EPH on 31 December 2010)
        (b) LIGNITE INVESTMENTS 1 LIMITED[(2)] 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.[(2)] and its subsidiaries and associate (acquired by EPH on 6 October 2009)
    b. Honor Invest, a.s.[(2)] and its associate Pražská energetika, a.s. (acquired by EPH on 10 August 2009)
    c. První energetická a.s.[(1)] (acquired by EPH on 6 October 2009)

(1) První energetická a.s. merged with EP ENERGY TRADING, a.s. as at 1 January 2013. EP ENERGY TRADING, a.s. is the successor company.

(2) Honor Invest, a.s., Czech Energy Holding, a.s., HC Fin3 N.V., EAST BOHEMIA ENERGY HOLDING LIMITED and LIGNITE INVESTMENTS I LIMITED merged with EP Energy, a.s. as at 4 November 2013. EP Energy, a.s. is the successor company.

(a) Acquisitions and step-acquisitions

i. 31 December 2013

In thousands of EUR	Date of acquisition	Purchase price	Cash paid	Other consid-eration	Equity interest acquired %	Equity interest after acquisition %
New subsidiaries						
PRVNÍ MOSTECKÁ a.s. and its subsidiary	14/01/2013	2,341	(2,341)	(1)6,026	(2)82.35	82.35
Stredoslovenská energetika, a.s. and its subsidiaries	27/11/2013	(3)339,052	(3)(359,052)	(20,000)	49	49
Helmstedter Revier GmbH and its subsidiaries	20/12/2013	(4)(2,083)	8,142	6,059	100	100
Total		**339,310**	**(353,251)**	**(7,915)**	-	-

(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 acquisition.
(3) The purchase price equals the cash paid to the seller (EUR 359,052 thousand) reduced by a contingent consideration receivable of EUR 20,000 thousand which represents a probable earn-out to be received from the seller in 2014.
(4) For more details for the negative purchase price see below

Common control acquisitions

On 27 November 2013 EPH Group acquired a 49% share (associated with management control) in Stredoslovenská energetika, a.s. and its subsidiaries. In relation with the completion of the transaction the acquirer EPH Financing II, a.s. and EPH agreed with the National Property Fund of the Slovak Republic (the 51% shareholder of Stredoslovenská energetika, a.s.) and the Ministry of Economy of the Slovak Republic on a new Shareholders'Agreement ("SHA") which grants the acquirer specific rights and obligations and governs the relationship of the acquirer with the other 51% shareholder. As a result of the concluded SHA and based on the other relevant facts and circumstances, the acquirer concluded that it controls Stredoslovenská energetika, a.s. because it has the power to govern the financial and operating activities of the acquiree so as to obtain benefits from its activities and thus the Stredoslovenská energetika, a.s. subgroup shall be consolidated in the EPE Group financial statements for the period ended 31 December 2013.

On 16 December 2013, the EPH Group contributed this entity to the EPE Group. As this transaction was a common control transaction, the Company presents the entity in its consolidated financial statements from the original date of acquisition by the parent company Energetický a průmyslový holding, a.s.

Together with Stredoslovenská energetika, a.s. EPH Group contributed EPH Financing II, a.s. to EPE Group's share capital. EPE Group decided not to restate its comparatives because of this acquisition as the balances of this entity were immaterial as at the date of common control acquisition.

On 20 December 2013 the EPE Group acquired a 100% share in Helmstedter Revier GmbH and its subsidiaries with the transfer of shares on 31 December 2013. The EPE Group received a consideration from the seller for the transfer of shares, i.e. EPE Group reported a negative purchase price of EUR 2,083 thousand. Negative purchase price reflects the fact that the EPE Group took over, together with the acquisition of assets, all liabilities relating to the mine recultivation and employees' related matters such as employee benefits obligations. The EPE Group believes that the acquisition of Helmstedter Revier GmbH fits into the EPE Group broad strategy of vertical integration, among other things, by enabling utilization of the spare mining capacity in MIBRAG mines.

Step acquisition

On 14 January 2013 Severočeská teplárenská, a.s, a subsidiary of United Energy, a.s., acquired a 35.29% share in PRVNÍ MOSTECKÁ a.s. for EUR 2,341 thousand. The total share in PRVNÍ MOSTECKÁ a.s. thus increased to 82.35% and EPE Group obtained control of this entity.

Acquisition of non-controlling interest

On 19 December 2013 Severočeská teplárenská, a.s, acquired 15.28% share in PRVNÍ MOSTECKÁ a.s. This transaction resulted to change in ownership interest from 82.35% to 97.63% share.

On 29 July 2013 Pražská teplárenská a.s. acquired 10% share in Energotrans SERVIS a.s., which resulted to change in ownership interest from 85% to 95% share.

ii. 31 December 2012

In thousands of EUR	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	26,755	(26,755)	125,819	[2]100	100
Pražská teplárenská a.s. and its subsidiaries and associates	29/06/2012	-	-	740,134	[2]73.26	73.26
Saale Energie GmbH and its associates	17/07/2012	91,080	(91,080)	-	100	100
Total		**117,835**	**(117,835)**	**865,953**	-	-

(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.

In thousands of EUR	Date of acquisition	Purchase price	Cash paid	Equity interest acquired %	Equity interest after acquisition %
New associates					
COOP ENERGY, a.s.	15/06/2012	39	(39)	40	40
Total		**39**	**(39)**	-	-

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 mbH 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. The purchase price was reduced by an acquired loan of EUR 50 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. 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%).

(b) Effect of acquisitions and step acquisitions

i. 31 December 2013

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date of PRVNÍ MOSTECKÁ a.s. including its subsidiary, Helmstedter Revier GmbH, including its subsidiaries and Stredoslovenská energetika, a.s. including its subsidiaries and associates are provided in the following table.

In thousands of EUR	**Carrying amount[1]**	**Fair value adjustment**	**2013 Total[1]**
Property, plant, equipment, land, buildings	560,411	431,165	991,576
Intangible assets	25,454	7,177	32,631
Deferred tax assets	1,729	4,124	5,853
Inventories	10,704	-	10,704
Trade receivables and other assets	87,397	-	87,397
Financial instruments – assets	21,291	-	21,291
Cash and cash equivalents	89,799	-	89,799
Provisions	(128,177)	(14,245)	(142,422)
Deferred tax liabilities	(18,693)	(100,819)	(119,512)
Loans and borrowings	(83,507)	-	(83,507)
Trade payables and other liabilities	(163,070)	-	(163,070)
Net identifiable assets and liabilities	**403,338**	**327,402**	**730,740**
Non-controlling interest			(372,657)
Goodwill on acquisitions of a subsidiary			5,053
Negative goodwill on acquisitions of a subsidiary			(17,800)
Pricing differences in equity			-
Cost of acquisition			**345,336**
Consideration paid, satisfied in cash (A)			353,251
Consideration, contingent			(20,000)
Consideration, other			12,085
New shares issued			-
Total consideration transferred			**345,336**
Less: Cash acquired (B)			89,799
Net cash inflow (outflow) (C) = (B – A)			**(263,452)**

(1) Represents values at 100% share.

In 2013, the EPE Group also acquired a 100% share in EPH Financing II, a.s. from EPH as contribution to share capital. This transaction is not included in the effect of acquisition presented above as the amounts are immaterial.

The table above does not include the effect from the acquisition of a non-controlling interest in PRVNÍ MOSTECKÁ a.s. and Energotrans SERVIS a.s.

For details on major acquisitions please refer to Appendix 1.

ii. 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.

In thousands of EUR	**Carrying amount[1]**	**Fair value adjustment[1]**	**2012 Total[1]**
Property, plant, equipment, land, buildings	1,000,546	232,020	1,232,566
Intangible assets	20,086	91,645	111,731
Participations with significant influence	102,707	31,969	134,676
Inventories	15,684	-	15,684
Trade receivables and other assets	152,899	-	152,899
Financial instruments – assets	486,733	-	486,733
Assets held for sale, net	6,396	2,496	8,892
Cash and cash equivalents	419,047	-	419,047
Provisions	(245,983)	(57,995)	(303,978)
Deferred tax liabilities	(54,597)	(68,175)	(122,772)
Loans and borrowings	(319,813)	-	(319,813)
Trade payables and other liabilities	(413,952)	(20,788)	(434,740)
Net identifiable assets and liabilities	**1,169,753**	**211,172**	**1,380,925**
Non-controlling interest			(279,446)
Goodwill on acquisition and step acquisition of subsidiaries			-
Negative goodwill on acquisition and step acquisition of subsidiaries			(117,691)
Pricing differences in equity			-
Cost of acquisition			**983,788**
Consideration paid, satisfied in cash (A)			117,835
Consideration, other			865,953
Total consideration transferred			**983,788**
Less: Cash acquired[2] (B)			419,047
Net cash inflow (outflow) (C) = (B – A)			**301,212**

(1) Represents values at 100% share.

(2) Of which EUR 267,317 thousand 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 EUR 34,594 thousand.

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 EUR 39 thousand. 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.

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 in a total amount of EUR 92,545 thousand; in 2013 goodwill in amount of EUR 5,053 thousand and a goodwill impairment loss amounting EUR 8,589 thousand were recognised. The decrease in the total amount of goodwill compared to prior year balance (2012: EUR 104,296 thousand) was caused by significant changes in foreign exchange rate of CZK compared to EUR and goodwill impairment recognised in 2013.

Negative goodwill arose upon the step acquisition of PRVNÍ MOSTECKÁ a.s. and acquisition of Stredoslovenská energetika, a.s. totalling EUR 17,800 thousand (31 December 2012: EUR 117,691 thousand from the step acquisition of JTSD Braunkohlebergbau GmbH and acquisition of Saale Energie GmbH). 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.

In thousands of EUR	**2013 Total**
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	145,291
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	22,526

In thousands of EUR	**2012 Total**
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	609,199
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	105,634

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 2012 or as at 1 January 2013); this financial information was derived from the statutory or IFRS financial statements of the acquired entities.

In thousands of EUR	**2013 Total**
Revenue of the acquirees recognised in the year ended 31 December 2013 (subsidiaries)	850,401
Profit (loss) of the acquirees recognised in the year ended 31 December 2013 (subsidiaries)	67,887

In thousands of EUR	**2012 Total**
Revenue of the acquirees recognised in the year ended 31 December 2012 (subsidiaries)*	991,211
Profit (loss) of the acquirees recognised in the year ended 31 December 2012 (subsidiaries)*	237,880

* *Before intercompany elimination*

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

(c) Business combinations – acquisition accounting 2013 and 2012

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 2013 are presented in the following table.

In thousands of EUR	**Intangible assets**	**Property, plant and equipment (including mine property)**	**Provisions**	**Deferred tax asset/ (liability)**	**Total net effect on financial position**
Subsidiary					
Stredoslovenská energetika, a.s. and its subsidiaries	7,177	431,165	-	(100,819)	**337,523**
Helmstedter Revier GmbH and its subsidiaries	-	-	(14,245)	4,124	**(10,121)**
Total	**7,177**	**431,165**	**(14,245)**	**(96,695)**	**327,402**

The fair value adjustments resulting from the purchase price allocation of PRVNÍ MOSTECKÁ a.s. were not significant and therefore management of the Group decided not to recognise any fair value adjustment resulting from this business combinations in 2013.

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

In thousands of EUR	**Intangible assets**	**Property, plant and equipment (including mine property)**	**Other**	**Deferred tax asset/ (liability)**	**Total net effect on financial position**
Subsidiary					
JTSD Braunkohlebergbau GmbH	(975)	182,098	(73,635)	(27,301)	**80,187**
Pražská teplárenská a.s.	3,315	49,922	3,666	(10,803)	**46,100**
Saale Energie GmbH	89,305	-	25,651	(30,071)	**84,885**
Total	**91,645**	**232,020**	**(44,318)**	**(68,175)**	**211,172**

(d) Disposal of investments in 2013 and 2012

i. 31 December 2013

On 14 January 2013 the Group accounted for a disposal of its 47.06% investment in PRVNÍ MOSTECKÁ a.s. as a part of the step acquisition process. The effects of the disposal are provided in the following table:

In thousands of EUR	**Net assets disposed in 2013**
Participation with significant influence	6,026
Net identifiable assets and liabilities disposed at carrying value	**6,026**
Fair value of disposed net identifiable assets and liabilities	6,026
Gain/(loss) on disposal	-

On 28 June 2013 the Group accounted for disposal of its 85% investment in Areál Třeboradice, a.s. The effects of disposal are provided in the following table:

In thousands of EUR	**Net assets sold in 2013**
Assets/disposal groups held for sale[1]	8,819
Liabilities from assets/disposal groups held for sale[1]	(1,099)
Net identifiable assets and liabilities[1]	**7,720**
Sales price	7,052
Gain/(loss) on disposal[1]	**(668)**

(1) Represents values at 85% share.

As of 28 June 2013 the Group lost its control of this entity and remaining 15% share in Areál Třeboradice, a.s. is therefore reported as equity instrument under Financial instruments and other financial assets.

31 December 2012

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:

In thousands of EUR	**Net assets sold in 2012**
Assets/disposal groups held for sale[1]	492,561
Liabilities from assets/disposal groups held for sale[1]	(80,744)
Net identifiable assets and liabilities[1]	**411,817**
Sales price[1]	512,166
Gain (loss) on disposal[1]	**100,349**
Consideration received, satisfied in cash[1]	512,166
Less: Cash disposed[1]	-
Net cash inflow (all in cash)[1]	**512,166**

(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:

In thousands of EUR	**Net assets disposed in 2012**
Property, plant, equipment, land, buildings	587,598
Intangible assets	11,661
Participations with significant influence	12,324
Deferred tax assets	-
Inventories	9,165
Trade receivables and other assets	90,796
Financial instruments – assets	323,518
Cash and cash equivalents	267,317
Provisions	(123,635)
Deferred tax liabilities	(35,608)
Loans and borrowings	(159,906)
Trade payables and other liabilities	(189,079)
Assets held for sale, net	4,680
Non-controlling interests	(6,747)
Net identifiable assets and liabilities disposed at carrying value	**792,084**
Fair value of disposed net identifiable assets and liabilities	865,953
Gain (loss) on disposal	**73,869**

Net identifiable assets and liabilities disposed at carrying value are attributable to JTSD Braunkohlebergbau GmbH in the amount of EUR 85,726 thousand, and to Pražská teplárenská a.s. in the amount of EUR 706,358 thousand. The fair values of disposed net identifiable assets and liabilities attributable to JTSD Braunkohlebergbau GmbH is EUR 125,819 thousand and Pražská teplárenská a.s. EUR 740,134 thousand, respectively.

7. Sales

In thousands of EUR	2013	2012
Sales: Energy		
Electricity	982,596	892,137
Heat	321,141	272,800
Coal	281,569	250,328
Gas	193,900	147,596
Total Energy	**1,779,206**	**1,562,861**
Sales: Other	**94,735**	**70,397**
Total	**1,873,941**	**1,633,258**
Domestic revenues	979,049	828,183
Foreign sales	894,892	805,075
Total	**1,873,941**	**1,633,258**

Revenues are recognised based on accounting policies described in the Note 3 (m) Revenue.

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

In thousands of EUR	2013	2012
Cost of Sales: Energy		
Cost of sold electricity	608,562	552,122
Cost of sold/consumed gas and other energy products	221,318	150,738
Cost of coal and other material	200,631	223,044
Consumption of energy	96,471	52,380
Other cost of sales	28,195	27,006
Total Energy	**1,155,177**	**1,005,290**
Cost of Sales: Other		
Cost of goods sold	16,502	8,949
Consumption of material	5,036	6,085
Consumption of energy	2,513	1,273
Changes in WIP, semi-finished products and finished goods	(468)	119
Other cost of sales	1,902	358
Total Other	**25,485**	**16,784**
Total	**1,180,662**	**1,022,074**

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

In thousands of EUR	2013	2012
Wages and salaries	131,748	101,977
Compulsory social security contributions	40,479	31,738
Board members' remuneration (including boards of subsidiaries, associates and joint-ventures)	9,199	14,596
Expenses and revenues related to employee benefits (IAS 19)	968	955
Creation and reversal of provisions for personnel costs	-	(239)
Other social expenses	1,852	1,472
Total	**184,246**	**150,499**

The average number of employees during 2013 was 6,187 (2012: 4,057), of which 321 (2012: 107) were executives.

10. Emission rights

In thousands of EUR	2013	2012
Deferred income (grant) released to profit and loss	8,863	47,409
Profit from sale of emission rights	717	9,545
Creation of provision for emission rights	(42,196)	(51,585)
Use of provision for emission rights	49,935	94,460
Consumption of emission rights	(49,935)	(94,460)
Total	**(32,616)**	**5,369**

The Ministries of the Environment of the Czech Republic, Slovakia 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.

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

11. Taxes and charges

In thousands of EUR	2013	2012
Electricity tax	7,869	6,125
Property and real estate transfer tax	588	4,017
Gift tax on emission rights	-	8,113
Other taxes and charges	3,191	(3,062)
Total	**11,648**	**15,193**

A gift tax (32 %) on emission rights was applicable in the Czech Republic for 2011 and 2012. From 2013, this tax no longer applies.

12. Other operating income

In thousands of EUR	2013	2012
Own work, capitalised[1]	36,311	7,239
Compensation from insurance and other companies	19,790	6,761
Ecological tax reimbursement	6,825	4,614
Consulting fees	6,117	1,273
Rental income	3,854	2,903
Inventories surplus	1,342	875
Decentralisation and cogeneration fee	807	-
Contractual penalties	656	1,153
Profit from sale of material	370	358
Change in provisions, net[2]	-	60,693
Other	4,918	3,500
Total	**80,990**	**89,369**

(1) This position is mainly represented by stripping costs amounting to EUR 25,585 thousand which were capitalised to inventories. The rest of the balance relates to own work capitalised in mines (primarily labour cost).

(2) Change in provision is presented under Other operating expenses in 2013.

13. Other operating expenses

In thousands of EUR	2013	2012
Office equipment and other material	22,295	15,670
Transport expenses	21,918	17,898
Impairment losses	21,031	3,500
Outsourcing and other administration fees	19,654	13,761
Consulting expenses	17,640	11,454
Rent expenses	9,974	7,636
Loss from receivables written-off	9,947	2,466
Contractual penalties	4,585	358
Net loss on disposal of property, plant and equipment, investment property and intangible assets	4,183	1,193
Administrative expense	2,770	1,114
Insurance expenses	2,562	2,267
Gifts and sponsorship	2,503	2,187
Advertising expenses	2,372	2,269
Information technology costs	1,949	1,153
Training, courses, conferences	1,363	1,074
Shortages and damages	1,256	517
Communication expenses	774	557
Investment property income	23	40
Change in provisions, net	(6,756)	-
Other	10,062	4,454
Total	**150,105**	**89,568**

The increase in other operating expenses was caused primarily by the acquisition of Stredoslovenská energetika, a.s.

No research and development expenses were recognised in profit and loss for the year ended 31 December 2013 and 31 December 2012.

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

In thousands of EUR	2013	2012
Interest income	27,732	20,203
Net foreign exchange gain	59,956	-
Other finance income	583	40
Finance income	**88,271**	**20,243**
Interest expense	(92,217)	(77,875)
Fees and commissions expense for guarantees	(348)	(477)
Fees and commissions expense for payment transactions	(278)	(318)
Net foreign exchange loss	-	(239)
Fees and commissions expense for other services	(4,639)	(1,153)
Finance costs	**(97,482)**	**(80,062)**
Profit (loss) from securities	2,185	-
Profit (loss) from other non-derivative liabilities	751	-
Profit (loss) from other derivatives for trading	214	159
Profit (loss) from interest rate derivatives for trading	(66)	(1,193)
Profit (loss) from hedging activities	(130)	(80)
Profit (loss) profit from currency derivatives for trading	(313)	7,477
Profit (loss) from commodity derivatives for trading	(4,806)	(10,261)
Profit (loss) from financial instruments	**(2,165)**	**(3,898)**
Net finance (expense) recognised in profit or loss	**(11,376)**	**(63,717)**

15. Income tax expenses

Income taxes recognised in profit or loss

In thousands of EUR	2013	2012
Current taxes:		
Current year	(47,692)	(37,505)
Adjustment for prior periods	(9,112)	7,039
Withholding tax	(2)	-
Total current taxes	**(56,806)**	**(30,466)**
Deferred taxes:		
Origination and reversal of temporary differences	35,561	(10,142)
Total deferred taxes	**35,561**	**(10,142)**
Total income taxes (expense)/benefit recognised in profit or loss	**(21,245)**	**(40,608)**

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 2013 and 2012. The Slovak corporate income tax rate is 22% for fiscal year 2013 and 23% for fiscal year 2012. The German federal income tax rate for 2013 and 2012 is 26.98%.

Income tax recognised in other comprehensive income

In thousands of EUR	2013		
	Gross	Income tax	Net of income tax
Effective portion of changes in fair value of cash-flow hedges	(80,738)	-	(80,738)
Foreign currency translation differences for foreign operations	21,390	-	21,390
Foreign currency translation differences from presentation currency	(100,719)	-	(100,719)
Fair value reserve included in other comprehensive income	(219)	-	(219)
Total	**(160,286)**	**-**	**(160,286)**