EP Energy, a.s.

Consolidated annual report for the year 2016

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I. Introduction by the Chairman of the Board of Directors

INTRODUCTORY WORD BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

Dear shareholders, business partners, colleagues and dear friends,

In 2016, EP Energy Group achieved revenues of EUR 1,842 million, with EBITDA reaching EUR 293 million.

2016 was a year of strategic changes for EP Energy. Parallel to the reorganisation of the ultimate parent company Energetický a průmyslový holding, EP Energy refocused fully on stable, long-term contracted and/or regulated assets.

For this reason, EP Energy sold its shareholding in MIBRAG, including its subsidiary Helmstedter Revier, and Saale Energie ("German assets") operating in the power production and coal mining industry directly to EPH. Subsequently, German assets became a part of the newly-built EP Power Europe Group.

The companies within the EP Energy Group were divided into three segments: *Heat Infra*, which is the producer and distributor of heat in the Czech Republic and Hungary, *Power Distribution and Supply*, which is the regional power distributor in central Slovakia region and successful power and natural gas supplier in the Czech Republic and Slovakia, and the *Renewables* segment, which includes wind and solar power plants and a biogas facility.

Finally, EP Energy became part of the EP Infrastructure that groups companies involved in operating energy infrastructure assets in central Europe.

The *Heat Infra* segment generated revenue of EUR 561 million for 2016, with an EBITDA of EUR 145 million that is up by more than EUR 9 million compared to the previous year. Acquisition of the Hungarian company BERT was fully reflected in the Group's result for the first time in 2016. On the other hand, Pražská teplárenská LPZ, a.s. was sold to a third party for EUR 82 million. EP Energy has remained the largest heat supplier to final consumers in the Czech Republic and the third largest domestic electricity producer.

The *Power Distribution and Supply* segment reached revenues of EUR 1,422 million and EBITDA of EUR 149 million. The gross operating result was temporarily negatively affected by an imbalance of so-called system operation tariff used by the Slovak regulator to carry out state support for renewable sources. This has had a temporary negative impact on operating results. However, under valid legislation in Slovakia, the loss from this tariff mechanism will be fully compensated to the Group in the next two years at the latest.

The *Renewables* segment is significantly smaller compared to the previous two segments in terms of installed capacity and, consequently, resulting economic performance. However, it remains an important part of our diversified portfolio.

I would like to thank to our employees, investors and partners who contributed to turning our strategy and goals into the reality and support and enable our business activities, and to whom we owe our gratitude for our achievements.

Tomáš David
Chairman of the Board of Directors

Prague, April 27, 2017

II. Independent Auditor´s Report to the Consolidated Annual Report

KPMG Česká republika Audit, s.r.o.
Pobřežní 648/1a
186 00 Praha 8
Česká republika
+420 222 123 111
www.kpmg.cz

This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

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

Opinion

We have audited the accompanying consolidated financial statements of EP Energy, a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the 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 the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, 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.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Key Audit Matters

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

Revenue recognition

See Note 3 of notes to the consolidated financial statements (Significant Accounting Policies) and 7 (Sales)

Key Audit Matter	How the key audit matter was addressed
Revenues and profits reported from electricity, heat, gas, coal and from related services are partially covered by estimates. **Revenues from sales of electricity, heat and gas to retail customers are recognised at the time the electricity, heat or gas is supplied based periodic meter readings and include an estimate of the value of electricity and consumption after the date of the last meter reading of the year.** **Revenues between the meter reading date and the end of the year are based on estimates of daily consumption, adjusted to take into account weather conditions and other factors that may affect estimated consumption.** **In our opinion, the reporting of revenues is audit key matter since the Company/Group may inappropriately recognise sales due to having inappropriately set the estimate determination process.**	In this area, our audit procedures included the following: We discussed with the management of the Company changes in the area of tariffs, revenue recognition, and system settings. We tested the implementation, set up and effectiveness of manual and automatic controls in the process of revenue recognition. Using confirmations, we ascertained on a selected sample that information from counterparties agrees with information reported by the Company/Group. Analytical procedures related to revenues, EBITDA, various categories of income were carried out based on a comparison with the plan, previous periods and industry standards. In addition, we performed cut off procedures.

KPMG

Valuation of financial instruments

See Note 3 of notes to the consolidated financial statements (Significant Accounting Policies), 4 (Determination of fair values) and 31 (Financial instruments)

Key Audit Matter	How the key audit matter was addressed
The Company/Group has a portfolio of long-term interest rate, currency and commodity contracts that are booked as derivatives in line with IFRS-EU. Some of them are traded on the regulated market (stock exchange), others are negotiated outside of the regulated market (over-the-counter, OTC). **IFRS requires that the Company/Group revalue these contracts at fair value as at the date of the balance sheet. The fair value of unlisted derivatives depends, inter alia, on the determination of several assumptions and estimates that have significant influence on fair value.** **Due to the above, we consider the valuation of these financial instruments to be significant for our audit.**	In this area, our audit procedures included the following: With the help of our internal specialist in financial instruments valuation, we reviewed the Company/Group's procedures and models for the valuation of financial assets and liabilities. We also reviewed how the Company/Group creates a yield curve for the valuation of derivatives. Some model inputs are not market-based and are dependent on the assumptions and estimates of Company/Group management. We verified the merits and consistency of these estimates and assessed whether the procedure of determining these estimates is in line with market standards.

Testing of fixed assets, including goodwill impairment

See Note 3 of notes to the consolidated financial statements (Significant Accounting Policies), 16 (Property, plant and equipment) and 17 (Intangible assets including goodwill).

Key Audit Matter	How the key audit matter was addressed
The return on certain long-term assets including assets producing electricity, heat (included in Property, plant and equipment) as well as goodwill depends on individual operations achieving adequate profitability in the future. **Since these assets are related mainly to electricity and heat production, any assessment of their future profitability depends on many factors, including**	In this area, our audit procedures included the following: We critically reviewed the calculation of the fair value less costs of sale and calculation of allowances booked in statement of comprehensive income. This included an evaluation of supporting evidence for key assumption, such as projected cash flow included in calculation of impairment testing for individual assets

operating efficiency, operating costs and expected energy prices. All factors are influenced by political and economic aspects both globally and in the receiving country.

Assets are tested for impairment either individually or as part of a cash-generating unit (CGU), using the calculation of value from use or fair value less costs of sale. The result of this impairment testing may differ when using different assumptions and estimates.

Owning to the above, we consider the impairment testing of tangible and intangible long-term assets to be significant for our audit.

or cash-generating units or discount rates used by Company/Group management.

With the help of our internal business valuation specialists, we assessed whether the assumptions used by the management of the Group are in line with external information and our expectations based on knowledge of the individual sectors in which the Group operates. For example, we compared the discount rate used in the models with the rate used by other companies from the same industry.

Furthermore, we evaluated whether the projected financial results included in the models are adequate and in line with our knowledge of the industry.

We also assessed whether the growth rate of the final (continued) value is adequate and consistent with industry standards.

Finally, we considered the adequacy of information from this area disclosed in financial statements.

Other Information in consolidated annual report

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the consolidated annual report other than the consolidated financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- the other information describing matters that are also presented in the consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Statutory Body and those charged with governance of the Company for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Statutory Auditor Responsible for the Engagement

Vladimír Dvořáček is the statutory auditor responsible for the audit of the consolidated financial statements of EP Energy, a.s. as at 31 December 2016, based on which this independent auditor's report has been prepared.

Prague
27 April 2017

KPMG Česká republika Audit

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

Vladimír Dvořáček
Partner
Registration number 2332

III. Other Information

Expected development of the Group of EP Energy, a.s. ("EPE Group")

In 2017, EPE Group intends to continue to develop its activities in all its segments, i.e. predominantly in the power distribution and supply segment and in the heat and power generation segment.

EPE Group expects to achieve positive financial results in the following years.

Other information about subsequent events that occurred after the reporting date

On 20 January 2017 EP Energy, a.s. granted loans to ARISUN, s.r.o. and Triskata, s.r.o. that used the funds to repay their bank loans of EUR 1 million each.

On 20 January 2017, EP Infrastructure, a.s., the sole shareholder of the Company, declared interim dividend in amount of EUR 10 million (CZK 270 million), which was paid out in cash.

On 26 January 2017 Pražská teplárenská, a.s. ("PT") filed a lawsuit at the Regional Court in Brno against the resolution of Energy Regulatory Office ("ERO") from 23 December 2016 in all of its claims. Together with the appeal PT deposited the penalty of EUR 4 million to the ERO bank account and claimed a suspensive effect of the ERO resolution at the Regional Court in Brno. On 23 February 2017 the Regional Court in Brno confirmed the suspensive effect of PT' s claim in the full extent.

On 24 February 2017 Energetický a průmyslový holding, a.s. ("EPH") completed the previously concluded agreement with a consortium of global institutional investors led by Macquarie Infrastructure and Real Assets (MIRA) on the sale of a 31% stake in EP Infrastructure, a.s. ("EPIF"). The remaining 69% of EPIF remains with EPH, which will also retain management control over EPIF.

Following the sale of a minority shareholding in EPIF changes also occurred in the shareholder structure of EPH as follows:

- The current shareholders of EPH concluded a series of transactions, through which Daniel Křetínský (94%) and selected members of the existing management of EPH (6%), will become sole owners of EPH going forward.
- The current shareholders, Biques Limited, Milees Limited and EP Investment S.à.r.l. received in total EUR 1.5 billion at closing from EPH for the sale of their shares in EPH representing in aggregate 30% of EPH share capital. Whereas Biques Limited sold all its shares in EPH, Milees Limited and EP Investment S.à.r.l. sold each 2.17 % shares in EPH in this share-buy-back transaction.
- Milees Limited will further receive EUR 1.75 to 2.75 billion (plus interest) over time, whereby the final amount payable to Milees Limited will reflect growth in the underlying value of EPH over the coming years.

On 9 March 2017 Mr. Daniel Křetínský resigned as the Chairman of the Board of Directors of EP Energy, a.s. and Mr. Tomáš David was elected as the new Chairman of the Board of Directors. On 10 March 2017 Mr. Daniel Křetínský was removed from the office of a member of the Board of Directors and with effect from 11 March 2017 Mr. William Price was elected as the new member of the Board of Directors.

On 9 March 2017 PT Real Estate, a.s. sold its 100% share in Nový Veleslavín, a.s. for EUR 9 million (CZK 256 million).

On 10 March 2017, EP Infrastructure, a.s., the sole shareholder of the Company, declared interim dividend in amount of EUR 10 million (CZK 270 million), which was paid out in cash.

Except for the matters described above and elsewhere in the annual report or notes to the financial statements, the Company's management is not aware of any other material subsequent events that could have an effect on the statutory and consolidated financial statements as at 31 December 2016.

Branches

The EPE Group has no organizational unit (with the exception of the EP ENERGY TRADING, a.s., organizačná zložka located in Slovakia) or another branch abroad.

Research and development activities

In 2016, the EPE Group did not carry out any research and development activities and as a result did not incur any research and development costs.

Acquisition of own shares or own ownership interests

During the 2016, EPE Group did not acquire any of its own shares or ownership interests within the Group.

Risk management policies

The EPE Group's risk management policies are set out in the notes to the consolidated financial statements.

Information on environmental protection activities and employment relations

In 2016, the EPE Group continued to be very active in terms of environmental protection. The companies within the EPE Group continued to be operated in a manner ensuring their failure-free operation and high efficiency in producing electricity and heat, which has direct impact on the volume of produced emissions.

EPE Group activities are regulated by a number of environmental regulations in the Czech Republic, Slovakia and Hungary. These include regulations governing the discharge of pollutants, the handling of hazardous substances and their disposal, cleaning of contaminated sites and health and safety of employees. For example, EPE Group is subject to regulations imposing strict limits on emissions of CO2, sulfur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO) and solid dust particles emissions (SDP).

Although EPE Group currently does not employ an environmental policy at the Group level, the respective subsidiaries implement their own policies focused on meeting the legislative requirements and on mitigating the environmental footprint of EPE. This affects not only the activities for which EPE seeks to minimize their impact on the environment but also investment activities.

EPE will continue maintain its compliance with the environmental legislative requirements. In 2016, the Group invested considerable amounts into the restructuring of several plants. For example, Elektrárny Opatovice, a.s. (EOP) has completed several investment projects that will reduce emissions of SO2, NOx and SDP by more than ten percent compared to previous years. Also reconstruction of three boilers has been completed, which will ensure that the new limits on NOx emission are met. Together with the reconstruction, second desulphurization line was put into operation, allowing for a significant reduction of SO2 emissions. Moreover, EOP already fulfills the new dust limits effective from January 2020, and expects to further decrease its dust particles emissions as a result of planned investments.

Pražská teplárenská, a.s. met all emissions limits for SDP, SO2, NOx and CO2 in 2016. During 2016 several changes to integrated permits were issued. In the Malešice heating plant, these changes related to emissions measurement and to the reduction of the emission ceiling for CO2 emissions that were transferred to United Energy, a.s. In the Holešovice heating plant, the changes related to the commissioning of the new THOL4 source into operation. Additionally, environmental monitoring plans for the reporting of CO2 emissions were updated and approved by the Ministry of the Environment.

These plans relate to the Malešice, Michle and Holešovice heating plants and the Krč heating station. In 2016 a successful audit of the environmental management was carried out. The audit confirmed the compliance with the requirements of ČSN EN ISO 14001 standards in all examined areas.

United Energy, a.s. has set valid conditions in the Integrated permit for all environmental protection areas related to the operation of the Teplárna Komořany heating plant. The heating plant has set emission limits and emission ceilings to protect the air and is included in the Transitional National Plan of the Czech Republic. All emission ceilings are fulfilled, especially solid dust particles emissions contribution to the pollution concentration of the Ústí nad Labem region is being minimized. The other operating conditions were also met in 2016.

In 2016 Stredoslovenská energetika, a.s. successfully completed the recertification audit of the Integrated Management System, introduced in 2013. The audit confirmed the validity of certificates according to the OHSAS 18001: 2007 standard for work health and safety management system. As one of the first companies in Slovakia, Stredoslovenská energetika, a.s. has fulfilled the requirements of the updated ISO 14001: 2015 standard for the environmental management system.

The companies of the EPE Group have a municipal waste collection system established. Recycling, reuse of material , composting are preferred over landfilling, which greatly contributes to reducing the production of waste and even has economic benefits. For example, United Energy, a.s. is entitled to use the label of Ecological firm for its responsible approach to the environment, used product take-back and waste sorting.

EPE enjoys a positive image in the market and significant level of political and public support resulting from the fact that several of its production facilities operate in a highly efficient combined cogeneration mode that has much lower CO2 emissions than a typical power plant. As a result, EPE saves energy, avoids network losses and improves the security of Europe's internal energy supply.

The main strengths of the EPE Group include good relationships with employees and their loyalty. The Group maintains good and fair relations with the trade unions within the Group companies through regular meetings and discussions on labor, social and wage related issues. The EPE Group will continue to pay special attention to the prevention of work related injuries. Individual companies focus in particular on preventive controls, workplace inspections and the quality of organized health and safety training.

Prague, 27 April 2017

Pavel Horský
Member of the Board of Directors

Marek Spurný
Member of the Board of Directors

IV. Report on relations

REPORT ON RELATIONS

between the controlling and controlled entities and on relations between the controlled entity and other entities controlled by the same controlling entity (related entities)

prepared by the board of directors of **EP Energy, a.s.**, with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 292 59 428, in accordance with Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended)

("**the Report**")

I.
Preamble

The Report has been prepared pursuant to Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended).

The Report has been submitted for review to the Company's supervisory board in line with Section 83 (1) of the Corporations Act (Act No.90/2012 Coll., as amended), and the supervisory board's position will be communicated to the Company's general meeting which will decide on the approval of the Company's ordinary financial statements and the distribution of the Company's profit or the settlement of its loss.

The Report has been prepared for the 2016 accounting period.

II.
Structure of relations between related entities

CONTROLLED ENTITY

The controlled entity is EP Energy, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 292 59 428, recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, insert 21733.

DIRECTLY CONTROLLING ENTITIES:
EP Infrastructure, a.s.
Registered office: Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
Reg. No.: 02413507

INDIRECTLY CONTROLLING ENTITIES:
Energetický a průmyslový holding, a.s.
Registered office: Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
Reg. No.: 28356250

EP Investment S.a r.l.

Registered office: 46A, Avenue J.F. Kennedy, L – 1855 Luxembourg City, Luxembourg
Reg. No.: B 184488

MILEES LIMITED

Registered office: Akropoleos, 59-61, SAVVIDES CENTRE, 1st floor, Flat/Office 102, Nicosia, P.C. 2012, Cyprus
Reg. No.: HE246283

OTHER CONTROLLED ENTITIES

The companies controlled by the same controlling entities are disclosed in note 37 to the consolidated financial statements of the controlled entity.

III.
Role of the controlled entity; method and means of control

Role of the controlled entity

- strategic management of the development of a group of directly or indirectly controlled entities
- providing financing and developing financing systems for group entities
- optimising the services utilised/provided in order to improve the entire group's performance
- managing, acquiring and disposing of the Company's ownership interests and other assets

Method and means of control

The controlling entities hold a majority share of voting rights in EP Energy, a.s., and exercise a controlling influence over EP Energy, a.s.

IV.
Overview of actions pursuant to Section 82 (2)(d) of Act No. 90/2012 Coll., on Corporations

In 2016, no actions were taken at the initiative or in the interest of the controlling entity that would concern assets exceeding 10% of the controlled entity's equity as determined from the most recent financial statements.

V.
Contracts concluded between EP Energy, a.s. and other related entities

V.1.1.
In 2016, the following loan agreements were in force:

On 21 November 2006, a loan agreement, including valid amendments, was signed by and between a third party, as the creditor, and VTE Pchery s.r.o. (former ČES s.r.o.), as the debtor.

On 9 May 2012, based on a receivable assignment agreement, the receivable was assigned to EP Energy, a.s.

On 7 December 2009, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and VTE Moldava II, a.s. (former Czech Wind Holding, a.s.), as the debtor. On 30 December 2010, based on a receivable assignment agreement, the receivable was assigned to EP Energy, a.s.

On 9 December 2009, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and VTE Moldava II, a.s. (former Czech Wind Holding, a.s.), as the debtor. On 30 December 2010, based on a receivable assignment agreement, the receivable was assigned to EP Energy, a.s.

On 18 December 2009, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and VTE Pchery s.r.o., as the debtor. On 30 December 2010, based on a receivable assignment agreement, the receivable was assigned to EP Energy, a.s.

On 29 January 2010, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and Triskata, s.r.o., as the debtor. On 30 December 2010, based on a receivable assignment agreement, the receivable was assigned to EP Energy, a.s.

On 4 February 2010, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and VTE Moldava II, a.s. (former Czech Wind Holding, a.s.), as the debtor. On 30 December 2010, based on a receivable assignment agreement, the receivable was assigned to EP Energy, a.s.

On 27 May 2010, a loan agreement was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and VTE Moldava, a.s., as the debtor. On 30 December 2010, based on a receivable assignment agreement, the receivable was assigned to EP Energy, a.s. In 2015, VTE Moldava II, a.s. became the legal successor of VTE Moldava, a.s.

On 15 June 2010, a loan agreement, including valid amendments, was signed by and between EP Renewables a.s. (former Czech Wind Holding, a.s.), as the creditor, and ARISUN, s. r. o., as the debtor. In 2015, EP Energy, a.s. became the legal successor of EP Renewables a.s.

On 23 June 2010, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and CHIFFON ENTERPRISES LIMITED, as the debtor. On 30 December 2010, based on a receivable assignment agreement, the receivable was assigned to EP Energy, a.s. On 26 September 2012, based on a receivable assignment agreement, the receivable was assigned to EP Renewables a.s. In 2015, EP Energy, a.s. became the legal successor of EP Renewables a.s.

On 5 August 2010, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and POWERSUN, a.s., as the debtor. On 31 December 2010, based on a receivable assignment agreement, the receivable was assigned to EP Energy, a.s.

On 3 November 2010, a loan agreement, including valid amendments, was signed by and between EP Renewables a.s. (former Czech Wind Holding, a.s.), as the creditor, and

Greeninvest Energy, a.s., as the debtor. In 2015, EP Energy, a.s. became the legal successor of EP Renewables a.s.

On 27 June 2011, a loan agreement was signed by and between Energetický a průmyslový holding, a.s., as the creditor, and VTE Pchery s.r.o., as the debtor. On 25 September 2012, based on a receivable assignment agreement, the receivable was assigned to EP Energy, a.s.

On 28 December 2011, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and VTE Pchery s.r.o., as the debtor.

On 9 July 2012, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the debtor, and EP Energy, a.s., as the creditor.

On 21 August 2012, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and CHIFFON ENTERPRISES LIMITED, as the debtor. On 26 September 2012, based on a receivable assignment agreement, the receivable was assigned to EP Renewables a.s. In 2015, EP Energy, a.s. became the legal successor of EP Renewables a.s.

On 15 October 2012, a loan agreement, including valid amendments, was signed by and between EP Renewables a.s., as the creditor, and CHIFFON ENTERPRISES LIMITED, as the debtor. In 2015, EP Energy, a.s. became the legal successor of EP Renewables a.s.

On 16 October 2012, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and Plzeňská energetika a.s., as the debtor.

On 30 October 2012, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and United Energy, a.s., as the debtor.

On 30 October 2012, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and EP ENERGY TRADING, a.s., as the debtor.

On 30 October 2012, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and EP ENERGY TRADING, a.s., as the debtor.

On 30 October 2012, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and Elektrárny Opatovice, a.s., as the debtor.

On 17 January 2013, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as a creditor and debtor, and United Energy, a.s., as a creditor and debtor.

On 17 January 2013, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as a creditor and debtor, and Elektrárny Opatovice, a.s., as a creditor and debtor.

On 18 January 2013, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s., as the debtor, and EP Energy, a.s., as the creditor.

On 17 June 2013, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and EP Germany GmbH, as the debtor. On 1 April 2016, based on a receivable assignment agreement, the receivable was assigned to Energetický a průmyslový holding, a.s.

On 26 June 2013, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and Elektrárny Opatovice, a.s., as the debtor.

On 30 July 2013, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and Plzeňská energetika a.s., as the debtor.

On 15 November 2013, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and EP ENERGY TRADING, a.s., as the debtor.

On 22 November 2013, a loan agreement was signed by and between Energetický a průmyslový holding, a.s., as the debtor, and EP Energy, a.s., as the creditor.

On 30 December 2013, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and United Energy, a.s., as the debtor.

On 3 March 2014, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and EP ENERGY HR d.o.o., as the debtor.

On 1 April 2014, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and VTE Moldava II, a.s., as the debtor.

On 14 April 2014, a loan agreement, including valid amendments, was signed by and between JTSD - Braunkohlebergbau GmbH, as the creditor, and EP Energy, a.s., as the debtor.

On 26 May 2014, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the debtor, and PT-Holding Investment B.V., as the creditor.

On 11 June 2014, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and CHIFFON ENTERPRISES LIMITED, as the debtor.

On 11 June 2014, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and MR TRUST s.r.o., as the debtor.

On 30 June 2014, a loan agreement was signed by and between JTSD - Braunkohlebergbau GmbH, as the debtor, and EP Energy, a.s., as the creditor. On 1 April 2016, based on a receivable assignment agreement, the receivable was assigned to Energetický a průmyslový holding, a.s.

On 9 July 2014, a loan agreement was signed by and between VTE Moldava II, a.s., as the creditor, and EP Renewables a.s., as the debtor. In 2015, EP Energy, a.s. became the legal successor of EP Renewables a.s.

On 27 January 2015, a loan agreement was signed by and between Energotrans SERVIS, a.s., as the creditor, and EP Energy, a.s., as the debtor.

On 25 March 2015, a loan agreement, including valid amendments, was signed by and between Mitteldeutsche Braunkohlengesellschaft mbH, as the creditor, and EP Energy, a.s., as the debtor.

On 8 December 2015, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and EP Hungary, a.s., as the debtor.

On 14 December 2015, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and Alternative Energy, s.r.o., as the debtor.

On 28 December 2015, a loan agreement was signed by and between Saale Energie GmbH, as the creditor, and EP Energy, a.s., as the debtor.

On 14 January 2016, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and BUDAPESTI ERŐMŰ ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG, as the debtor.

On 8 February 2016, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and EP Hungary, a.s., as the debtor.

On 12 February 2016, a loan agreement was signed by and between Saale Energie GmbH, as the creditor, and EP Energy, a.s., as the debtor.

On 14 April 2016, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and EP Hungary, a.s., as the debtor.

On 3 June 2016, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as the creditor, and Alternative Energy, s.r.o., as the debtor.

On 29 June 2016, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and PT-Holding Investment B.V., as the debtor.

On 21 July 2016, a loan agreement was signed by and between PT-Holding Investment B.V., as the creditor, and EP Energy, a.s., as the debtor.

On 5 August 2016, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and POWERSUN a.s., as the debtor.

On 31 October 2016, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and Alternative Energy, s.r.o., as the debtor.

On 1 December 2016, a loan agreement was signed by and between EP Energy, a.s., as the creditor, and BUDAPESTI ERŐMŰ ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG, as the debtor.

V.1.2.

In 2016, the following agreements on the set-off of receivables and payables were concluded:

On 2 January 2016, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and VTE Moldava II, a.s.

On 2 May 2016, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and EP Infrastructure, a.s.

On 30 November 2016, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and EP Infrastructure, a.s.

On 31 December 2016, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and EP Investment Advisors, s.r.o.

V.1.3.

In 2016, the following receivable assignment agreements were concluded:

On 1 April 2016, a receivable assignment agreement was signed by and between EP Energy, a.s., as the assignor, and Energetický a průmyslový holding, a.s., as the assignee against EP Germany GmbH.

On 1 April 2016, a receivable assignment agreement was signed by and between EP Energy, a.s., as the assignor, and Energetický a průmyslový holding, a.s., as the assignee against JTSD - Braunkohlebergbau GmbH.

On 4 April 2016, a receivable assignment agreement was signed by and between EP Energy, a.s., as the assignor, and EP Infrastructure, a.s. (former CE Energy, a.s.), as the assignee against Energetický a průmyslový holding, a.s.

All agreements specified above were concluded under arm's length conditions. No damage was caused to EP Energy, a.s. as a result of these agreements.

V.1.4.

Other agreements effective in 2016:

On 1 August 2013, the ISDA 2002 Master Agreement and the Schedule to the 2002 Master Agreement were concluded by and between Energetický a průmyslový holding, a.s. and EP Energy, a.s.

On 30 June 2014, an agreement on the assumption of a liability was signed by and between Mitteldeutsche Braunkohlengesselschaft mbH, as the creditor, JTSD – Braunkohlebergbau GmbH, as the debtor, and EP Energy, a.s., as the new debtor.

On 29 June 2015, an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s., United Energy, a.s., Plzeňská energetika a.s., EP ENERGY TRADING, a.s., Elektrárny Opatovice, EP Sourcing, a.s. and Severočeská teplárenská, a.s.

On 23 September 2015, a request for the accession of a new party to an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s. and Pražská teplárenská Trading, a.s.

On 23 September 2015, a request for the accession of a new party to an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s. and Energotrans SERVIS, a.s.

On 23 September 2015, a request for the accession of a new party to an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s. and TERMONTA PRAHA a.s.

On 9 December 2015, a request for the accession of a new party to an agreement on the distribution of benefits from physical reciprocal cash-pooling within a group of financially related entities was signed by and between EP Energy, a.s. and EP Cargo a.s.

On 28 December 2015, a master agreement on the provision of guarantees, including valid amendments, was signed by and between EP Energy, a.s. and EP Energy Trading, a.s.

On 23 February 2016, an agreement on the assumption of a liability was signed by and between Mitteldeutsche Braunkohlengesellschaft mbH, as the creditor, and EP Energy, a.s., as the debtor, and JTSD - Braunkohlebergbau GmbH, as the new debtor.

On 4 April 2016, an agreement on the assumption of a liability was signed by and between EP Energy, a.s., as the creditor, and Energetický a průmyslový holding, a.s., as the debtor, and EP Infrastructure, a.s. (former CE Energy, a.s.), as the new debtor.

On 1 December 2016, an agreement on a long-term deposit was signed by and between EP Energy, a.s. and BUDAPESTI ERŐMŰ ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG.

On 23 December 2016, an agreement on a short-term deposit was signed by and between EP Energy, a.s. and BUDAPESTI ERŐMŰ ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG.

V.1.5.

In 2016, the following operating agreements were effective:

A sublease agreement concluded by and between EP Investment Advisors, s.r.o. and EP Energy, a.s. on 30 September 2013, including all its amendments.

An agreement on the provision of meeting rooms concluded by and between Elektrárny Opatovice, a.s. and EP Energy, a.s. on 30 September 2013.

An agreement on the provision of meeting rooms concluded by and between Plzeňská energetika a.s. and EP Energy, a.s. on 30 September 2013.

An agreement on the provision of meeting rooms concluded by and between United Energy, a.s. and EP Energy, a.s. on 30 September 2013.

An agreement on controlling and analytical advisory services concluded by and between Elektrárny Opatovice, a.s. and EP Energy, a.s. on 29 November 2013.

An agreement on controlling and analytical advisory services concluded by and between Plzeňská energetika a.s. and EP Energy, a.s. on 29 November 2013.

An agreement on controlling and analytical advisory services concluded by and between United Energy, a.s. and EP Energy, a.s. on 29 November 2013.

A technical advisory agreement concluded by and between Elektrárny Opatovice, a.s. and EP Energy, a.s. on 2 January 2014.

A technical advisory agreement concluded by and between United Energy, a.s. and EP Energy, a.s. on 2 January 2014.

A technical advisory agreement concluded by and between Plzeňská energetika a.s. and EP Energy, a.s. on 2 January 2014.

An agreement on common progress concluded by and between JTSD Braunkohlebergbau GmbH and EP Energy, a.s. on 2 January 2014.

An agreement on a joint course of action concluded by EP Energy, a.s. on 24 November 2014 with the following companies:

AISE, s.r.o.
Alternative Energy, s.r.o.
ARISUN, s.r.o.
Claymore Equity, s. r. o.
EBEH Opatovice, a.s.
Elektrárny Opatovice, a.s.
EP Coal Trading, a.s.
EP ENERGY TRADING, a.s.
Greeninvest Energy, a.s.
Helmstedter Revier GmbH
CHIFFON ENTERPRISES LIMITED
NPTH, a.s.
Plzeňská energetika a.s.
POWERSUN a.s.
PT-HOLDING INVESTMENT B.V.
Triskata, s.r.o.
UNITED ENERGY COAL TRADING POLSKA S.A.
United Energy, a.s.
VTE Moldava II, a.s.
VTE Pchery, s.r.o.

An agreement on a joint course of action concluded by and between Stredoslovenská energetika, a.s. and EP Energy, a.s. on 15 December 2014.

An agreement on a joint course of action concluded by and between Energotrans SERVIS, a.s. and EP Energy, a.s. on 23 December 2014.

An agreement on a joint course of action concluded by and between Pražská teplárenská a.s. and EP Energy, a.s. on 23 December 2014.

An agreement on providing professional assistance concluded by and between EP Investment Advisors, s.r.o. and EP Energy, a.s. on 2 January 2015.

A sublease agreement concluded by and between EP Investment Advisors, s.r.o. and EP Energy, a.s. on 1 January 2016, including all its amendments.

An agreement on cooperation concluded by and between Elektrárny Opatovice, a.s. and EP Energy, a.s., Pražská teplárenská a.s., United Energy, a.s. and Plzeňská energetika a.s. on 1 April 2016.

V.2.
Other juridical acts made between EP Energy, a.s. and other related entities

Except for the above, no other agreements were concluded by and between EP Energy, a.s. and related entities, and no supplies or considerations were provided or received between EP Energy, a.s. and related entities.

EP Energy, a.s. did not take or adopt any other juridical acts or measures in the interest or at the initiative of related entities.

V.3.
Transactions, receivables and payables of EP Energy, a.s. vis-à-vis related entities

The receivables and payables of EP Energy, a.s. from/to related entities as at 31 December 2016 are disclosed in the notes to the consolidated financial statements, which form part of the annual report.

VI.

We hereby declare that we have included in this report on relations between related entities of EP Energy, a.s., prepared pursuant to Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended) for the accounting period from 1 January 2016 to 31 December 2016, all information regarding:

- agreements between related entities;
- supplies and considerations provided to related entities;
- other juridical acts carried out in the interest of related entities; and
- all measures adopted or implemented in the interest or at the initiative of related entities;

that was known to us as at the date of this Report.

In addition, the board of directors of EP Energy, a.s. declares that EP Energy, a.s. incurred no damage as a result of the actions of the controlling entity or of any entity controlled by the same entity. All transactions between the controlled entity and the controlling entity/entities controlled by the same controlling entity were concluded at arm's length. The contractual and

other relations with related entities resulted in no damage or financial advantage or disadvantage to EP Energy, a.s.

Prague, 30 March 2017

.....	.....
Mgr. Marek Spurný	Mgr. Pavel Horský
Member of the Board of Directors	Member of the Board of Directors

V. Consolidated Financial Statements and Notes to the Consolidated Financial Statements

EP Energy, a.s.

Consolidated Financial Statements
as at and for the year ended 31 December 2016

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

Content

Consolidated statement of comprehensive income

For the year ended 31 December 2016
In millions of EUR ("MEUR")

	Note	2016	2015
Sales: Energy	7	1,807	1,917
of which: Electricity		*1,293*	*1,301*
Heat		*355*	*295*
Gas		*132*	*246*
Coal		*27*	*75*
Sales: Other	7	34	44
Gain (loss) from commodity derivatives for trading with electricity and gas, net		1	10
Total sales		**1,842**	**1,971**
Cost of sales: Energy	8	(1,365)	(1,483)
Cost of sales: Other	8	(29)	(33)
Total cost of sales		**(1,394)**	**(1,516)**
Subtotal		**448**	**455**
Personnel expenses	9	(108)	(95)
Depreciation and amortisation	16, 17	(168)	(158)
Repairs and maintenance		(5)	(9)
Emission rights, net	10	(15)	(4)
Negative goodwill	6	-	33
Taxes and charges	11	(3)	9
Other operating income	12	27	26
Other operating expenses	13	(51)	(51)
Profit (loss) from operations		**125**	**206**
Finance income	14	19	42
Finance expense	14	(65)	(89)
Profit (loss) from financial instruments	14	(9)	(2)
Net finance income (expense)		**(55)**	**(49)**
Share of profit (loss) of equity accounted investees, net of tax	18	-	-
Gain (loss) on disposal of subsidiaries, special purpose entities, joint-ventures and associates	6	63	(1)
Profit (loss) before income tax		**133**	**156**
Income tax expenses	15	(19)	(54)
Profit (loss) from continuing operations		**114**	**102**
Profit (loss) from discontinued operations, net of tax		22	(20)
Profit (loss) for the year		**136**	**82**
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences from foreign operations	15	5	(21)
Foreign currency translation differences from presentation currency	15	(6)	59
Effective portion of changes in fair value of cash flow hedges, net of tax	15	3	31
Fair value reserve included in other comprehensive income, net of tax	15	-	(4)
Other comprehensive income for the year, net of tax		**2**	**65**
Total comprehensive income for the year		**138**	**147**
Profit (loss) attributable to:			
Owners of the Company			
Profit for the year from continuing operations		66	57
Profit/loss for the year from discontinued operations		22	(20)
Profit for the year attributable to owners of the company		**88**	**37**
Non-controlling interest			
Profit for the year from continuing operations		48	45
Profit for the year from discontinued operations		-	-
Profit for the year attributable to owners of the company		**48**	**45**
Profit (loss) for the year		**136**	**82**
Total comprehensive income attributable to:			
Owners of the Company		89	97
Non-controlling interest	27	49	50
Total comprehensive income for the year		**138**	**147**
Basic and diluted earnings per share in EUR – continuing operations	26	**3.38**	**2.91**
Basic and diluted earnings per share in EUR	26	**4.50**	**1.87**

The notes presented on pages 9 to 110 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2016
In millions of EUR ("MEUR")

	Note	2016	2015
Assets			
Property, plant and equipment	16	1,564	1,606
Intangible assets	17	59	82
Goodwill	17	98	98
Investment property		-	3
Equity accounted investees	18	16	8
Financial instruments and other financial assets	31	6	8
of which receivables from the parent company/ultimate parent company		-	-
Trade receivables and other assets	21	13	22
Prepayments and other deferrals		1	-
Deferred tax assets	19	-	2
Total non-current assets		**1,757**	**1,829**
Inventories	20	48	47
Trade receivables and other assets	21	295	295
Financial instruments and other financial assets	31	2	314
of which receivables from the parent company/ultimate parent company		-	*306*
Prepayments and other deferrals		3	3
Tax receivables	23	23	20
Cash and cash equivalents	22	464	132
Restricted cash		1	-
Assets/disposal groups held for sale	24	5	1,094
Total current assets		**841**	**1,905**
Total assets		**2,598**	**3,734**
Equity			
Share capital	25	505	505
Share premium		116	116
Reserves		(382)	(378)
Retained earnings		143	400
Total equity attributable to equity holders		**382**	**643**
Non-controlling interest	27	464	475
Total equity		**846**	**1,118**
Liabilities			
Loans and borrowings	28	1,140	1,304
of which owed to the parent company/ultimate parent company		-	-
Financial instruments and financial liabilities	31	11	1
Provisions	29	17	16
Deferred income	30	75	72
Deferred tax liabilities	19	167	183
Trade payables and other liabilities	32	2	7
Total non-current liabilities		**1,412**	**1,583**
Trade payables and other liabilities	32	270	286
Loans and borrowings	28	10	46
of which owed to the parent company/ultimate parent company		-	*3*
Financial instruments and financial liabilities	31	4	5
Provisions	29	31	23
Deferred income	30	21	12
Current income tax liability		3	13
Liabilities from disposal groups held for sale	24	1	648
Total current liabilities		**340**	**1,033**
Total liabilities		**1,752**	**2,616**
Total equity and liabilities		**2,598**	**3,734**

The notes presented on pages 9 to 110 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2016

In millions of EUR ("MEUR")	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 2016 (A)	**505**	**116**	**23**	**1**	**(14)**	**(14)**	**(320)**	**(54)**	**400**	**643**	**475**	**1,118**
Total comprehensive income for the year:												
Profit or loss (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**88**	**88**	**48**	**136**
Other comprehensive income:												
Foreign currency translation differences for foreign operations	-	-	-	-	5	-	-	-	-	5	-	**5**
Foreign currency translation differences from presentation currency	-	-	-	-	(7)	-	-	-	-	(7)	1	(6)
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	-	-	-	3	-	3	-	3
Total other comprehensive income (C)	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**3**	**-**	**1**	**1**	**2**
Total comprehensive income for the year (D) = (B + C)	**-**	**-**	**-**	**-**	**(2)**	**-**	**-**	**3**	**88**	**89**	**49**	**138**
Contributions by and distributions to owners:												
Dividends to equity holders	-	-	-	-	-	-	-	-	(351)	(351)	(49)	(400)
Total contributions by and distributions to owners (E)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(351)**	**(351)**	**(49)**	**(400)**
Changes in ownership interests in subsidiaries:												
Effect of disposed entitites (Note 6)	-	-	-	-	(19)	14	-	-	6	1	(11)	(10)
Total changes in ownership interests in subsidiaries (F)	**-**	**-**	**-**	**-**	**(19)**	**14**	**-**	**-**	**6**	**1**	**(11)**	**(10)**
Total transactions with owners (G) = (E + F)	**-**	**-**	**-**	**-**	**(19)**	**14**	**-**	**-**	**(345)**	**(350)**	**(60)**	**(410)**
Balance at 31 December 2016 (H) = (A + D + G)	**505**	**116**	**23**	**1**	**(35)**	**-**	**(320)**	**(51)**	**143**	**382**	**464**	**846**

The notes presented on pages 9 to 110 form an integral part of these consolidated financial statements.

For the year ended 31 December 2015

In millions of EUR ("MEUR")	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 2015 (A)	**769**	**116**	**23**	**1**	**(46)**	**(10)**	**(320)**	**(86)**	**462**	**909**	**462**	**1,371**
Total comprehensive income for the year:												
Profit or loss (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**37**	**37**	**45**	**82**
Other comprehensive income:												
Foreign currency translation differences for foreign operations	-	-	-	-	(12)	-	-	-	-	**(12)**	(9)	**(21)**
Foreign currency translation differences from presentation currency	-	-	-	-	44	-	-	-	-	**44**	14	**58**
Fair value reserve included in other comprehensive income, net of tax	-	-	-	-	-	(4)	-	-	-	**(4)**	-	**(4)**
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	-	-	-	32	-	**32**	-	**32**
Total other comprehensive income (C)	**-**	**-**	**-**	**-**	**32**	**(4)**	**-**	**32**	**-**	**60**	**5**	**65**
Total comprehensive income for the year (D) = (B + C)	**-**	**-**	**-**	**-**	**32**	**(4)**	**-**	**32**	**37**	**97**	**50**	**147**
Contributions by and distributions to owners:												
Increase (Decrease) in share capital	(264)	-	-	-	-	-	-	-	-	**(264)**	-	**(264)**
Dividends to equity holders	-	-	-	-	-	-	-	-	(96)	**(96)**	(37)	**(133)**
Total contributions by and distributions to owners (E)	**(264)**	**-**	-	-	**-**	**-**	**-**	**-**	**(96)**	**(360)**	**(37)**	**(397)**
Changes in ownership interests in subsidiaries:												
Effect from acquisitions through business combinations (Note 6)	-	-	-	-	-	-	-	-	-	**-**	2	**2**
Effect of changes in shareholdings on non-controlling interests	-	-	-	-	-	-	-	-	(3)	**(3)**	(2)	**(5)**
Total changes in ownership interests in subsidiaries (F)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(3)**	**(3)**	**-**	**(3)**
Total transactions with owners (G) = (E + F)	**(264)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(99)**	**(363)**	**(37)**	**(400)**
Balance at 31 December 2015 (H) = (A + D + G)	**505**	**116**	**23**	**1**	**(14)**	**(14)**	**(320)**	**(54)**	**400**	**643**	**475**	**1,118**

The notes presented on pages 9 to 110 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2016
In millions of EUR ("MEUR")

	Note	2016	2015
OPERATING ACTIVITIES			
Profit (loss) for the year		136	82
Adjustments for:			
Income taxes	15	19	54
Depreciation and amortisation	16, 17	168	158
Impairment losses on property, plant and equipment and intangible assets	13	10	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net		(2)	(11)
Gain (loss) on disposal of property, plant and equipment, investment property and intangible assets	12,13	(2)	(2)
Gain on disposal of inventories		-	(1)
Emission rights	10	15	4
Gain on disposal of subsidiaries, special purpose entities, joint-ventures, associates and non-controlling interests	6, 19	(63)	1
Gain on financial instruments	14	9	2
Net interest expense	14	51	27
Revenue from release of deferred earn-out		(6)	-
Change in allowance for impairment to trade receivables and other assets, write-offs		6	4
Change in provisions		7	5
Negative goodwill	6	-	(33)
Other finance fees, net	14	1	-
Discontinued operations		(22)	172
Unrealised foreign exchange (gains) losses, net		-	(36)
Operating profit before changes in working capital		**327**	**426**
Change in trade receivables and other assets		1	23
Change in inventories (including proceeds from sale)		(1)	(22)
Change in extracted minerals and mineral products		-	8
Change in assets held for sale and related liabilities		(54)	4
Change in trade payables and other liabilities		-	12
Change in restricted cash		(1)	-
Cash generated from (used in) operations		**272**	**451**
Interest paid		(63)	(66)
Income taxes paid		(51)	(39)
Cash flows generated from (used in) operating activities		**158**	**346**
INVESTING ACTIVITIES			
Dividends received from associates and joint-ventures		-	5
Purchase of financial instruments		(11)	-
Change in financial instruments not at fair value		1	1
Loans provided to the other entities		-	(1)
Repayment of loans provided to other entities		1	6
Repayment of loans from discontinued operations		302	-
Proceeds (outflows) from sale (settlement) of financial instruments		13	4
Acquisition of property, plant and equipment, investment property and intangible assets	16, 17, 18	(126)	(244)
Purchase of emission rights	17	(9)	(27)
Proceeds from sale of emission rights		1	4
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		9	7
Acquisition of subsidiaries and special purpose entities, net of cash acquired	6	-	8
Net cash inflow from disposal of subsidiaries and special purpose entities including received dividends	6	79	3
Net cash inflow from disposal of discontinued operations	6	156	-
Increase (decrease) in participation in existing subsidiaries and special purpose entities, joint-ventures and associates		-	(5)
Interest received		11	17
Cash flows from (used in) investing activities		**427**	**(222)**

Consolidated statement of cash flows (continued)

For the year ended 31 December 2016
In millions of EUR ("MEUR")

	Note	2016	2015
FINANCING ACTIVITIES			
Proceeds from loans received		15	256
Repayment of borrowings		(209)	(294)
Repayment of bonds issued		(3)	-
Dividends paid		(89)	(125)
Cash flows from (used in) financing activities		**(286)**	**(163)**
Net increase (decrease) in cash and cash equivalents		*299*	*(39)*
Cash and cash equivalents at beginning of the year		**165**	**201**
Effect of exchange rate fluctuations on cash held		-	3
Cash and cash equivalents at end of the year		**464**	**165**
Of which relates to: continuing operations	23	*464*	*131*
discontinued operations	25	-	*34*

The notes presented on pages 9 to 110 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Background

EP Energy, a.s. (the "Parent Company" or the "Company" or "EPE" or "energy subholding") is a joint-stock company, with its registered office at Příkop 843/4, 602 00 Brno, Czech Republic. The Company was founded by Energetický a průmyslový holding, a.s. ("EPH") on 16 December 2010 as at that time 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 764 million 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 million 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.

On 18 December 2013 the shareholder of the Company decided to increase share capital by EUR 4 million which was settled by a contribution of EPH Financing II, a.s.(3) 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 million.

On 24 January 2014, CE Energy, a.s. (currently EP Infrastructure, a.s.), a 100% subsidiary of EPH, acquired all of the outstanding shares of EP Energy, a.s. from its sole shareholder EPH.

On 5 February 2015 the Company completed a process of decrease of share capital by EUR 264 million due to the capital structure optimisation. As a result of this transaction nominal value of shares decreased from CZK 1,001 per share to CZK 657 per share.

As part of the reorganization of the EP Infrastructure Group (previously CE Energy Group) in 2016, the Company sold-off its power generation activities in Germany as well as its mining operations in Germany to its ultimate parent company EPH (effective on 1 April 2016). The decision to sell-off these activities, which comprise an isolated geographical segment (Germany) was reached at the end of 2015. Due to the fact that these operations were predominantly representing the whole German operations, mining operations and condensation power production, the Company presents these activities as discontinued operations as of and for the year ending 31 December 2015.

The consolidated financial statements of the Company for the year ended 31 December 2016 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 37 – 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.

(3) EPH Financing II, a.s. merged with EP Energy, a.s. as at 25 August 2014. EP Energy, a.s. is the successor company.

The shareholder of the Company as at 31 December 2016 was as follows:

	Interest in share capital		Voting rights
	MEUR	%	%
EP Infrastructure, a.s.	505	100.00	100.00
Total	**505**	**100.00**	**100.00**

The shareholder of the Company as at 31 December 2015 was as follows:

	Interest in share capital		Voting rights
	MEUR	%	%
EP Infrastructure, a.s.	505	100.00	100.00
Total	**505**	**100.00**	**100.00**

The shareholders of Energetický a průmyslový holding, a.s., the parent company of EP Infrastructure, a.s. (former CE Energy, a.s.) and ultimate parent of EP Energy, a.s. as of 31 December 2016 and 31 December 2015 were as follows:

	Interest in share capital %		Voting rights %	
	2016	2015	2016	2015
EP Investment S.à r.l. (owned by Daniel Křetínský)	37.17	20.65	37.17	37.17
MILEES LIMITED (part of J&T PARTNERS II L.P.)	37.17	18.52	37.17	33.33
BIQUES LIMITED (part of J&T PARTNERS I L.P.)	25.66	16.39	25.67	29.50
Own shares[(1)]	-	44.44	-	
Total	**100.00**	**100.00**	**100.00**	**100.00**

(1) In 2014 the parent company EPH acquired 44.44% of its own shares from TIMEWORTH HOLDINGS LIMITED. As at 31 December 2015 these shares were reported within EPH´s equity. These shares were cancelled on 22 January 2016.

The members of the Board of Directors as at 31 December 2016 were:

- Daniel Křetínský (Chairman of the Board of Directors)
- Petr Sekanina (Vice-chairman of the Board of Directors)
- Marek Spurný (Member of the Board of Directors)
- Pavel Horský (Member of the Board of Directors)
- Jiří Feist (Member of the Board of Directors)
- Tomáš David (Member of the Board of Directors)

Information relating to the establishment of the ultimate 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 ultimate 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 at 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 27 April 2017.

(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:

- derivative financial instruments
- available-for-sale financial instruments

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

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

(c) Functional and presentation currency

The consolidated financial statements are presented in Euro ("EUR"). The Company's functional currency is the Czech crown ("CZK"). All financial information presented in Euros has been rounded to the nearest million. The reason for the presentation currency is that by currency, EPE Group revenues and operating profit generated in Euro represent a significant share of the total revenues and operating profit.

(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 following years 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 24 – Disposal of JTSD Braunkohlebergbau GmbH and its subsidiaries and associates classified as discontinued operations,
- Note 29 – Recognition and measurement of provisions,
- Notes 28, 31 and 35 – Valuation of loans and borrowings and financial instruments,
- Note 38 – 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 on the market 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 24 – accounting for a sale of JTSD Braunkohlebergbau GmbH and its subsidiaries and associates as at 31 December 2015,
- Note 29 – recognition and measurement of provisions.

(e) Recently issued accounting standards

i. Newly adopted Standards, Amendments to standards and Interpretations effective for the year ended 31 December 2016 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 2016 and that have thus been applied by the Group for the first time.

Amendments to IFRS 11 – Accounting for Acquisitions of Interests in Joint Operations (effective for annual periods beginning on or after 1 January 2016)

The amendments require business combination accounting to be applied to acquisitions of interests in a joint operation that constitutes a business.

Business combination accounting also applies to the acquisition of additional interests in a joint operation while the joint operator retains joint control. The additional interest acquired will be measured at fair value. The previously held interests in the joint operation will not be remeasured.

The amendments have no impact on the Group's financial statements because the Group has an existing accounting policy to account for acquisitions of joint operations consistent with that set out in the amendments.

Amendments to IAS 1 – Presentation of Financial Statements (effective for annual periods beginning on or after 1 January 2016)

The Amendments to IAS 1 include the following five improvements to the disclosure requirements contained in the standard.

The guidance on materiality in IAS 1 has been amended to clarify that:

- Immaterial information can detract from useful information.
- Materiality applies to the whole of the financial statements.
- Materiality applies to each disclosure requirement in an IFRS.

The guidance on the order of the notes (including the accounting policies) have been amended, to:

- Remove language from IAS 1 that has been interpreted as prescribing the order of notes to the financial statements.
- Clarify that entities have flexibility about where they disclose accounting policies in the financial statements

The amendments do not have a material impact on the presentation of the financial statements of the Group.

Amendments to IAS 16 and IAS 38 – Clarification of Acceptable Methods of Depreciation and Amortisation (Effective for annual periods beginning on or after 1 January 2016)

The amendments explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The amendments introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of the economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue.

The amendments have no impact on the Group's financial statements as the Group does not apply revenue-based methods of amortisation/depreciation.

Amendments to IAS 16 Property Plant and Equipment and IAS 41 Agriculture (Effective for annual periods beginning on or after 1 January 2016)

The amendments result in bearer plants being in the scope of IAS 16 Property, Plant and Equipment, instead of IAS 41 Agriculture, to reflect the fact that their operation is similar to that of manufacturing.

The amendments have no impact on the financial statements as the Group has no bearer plants.

Amendments to IAS 19 – Defined Benefit Plans: Employee Contributions (effective for annual periods beginning on or after 1 January 2016)

The amendments are relevant only to defined benefit plans that involve contributions from employees or third parties meeting certain criteria. Namely that they are:

- set out in the formal terms of the plan;
- linked to service; and
- independent of the number of years of service.

When these criteria are met, a company is permitted (but not required) to recognise them as a reduction of the service cost in the period in which the related service is rendered.

The amendments do not have a material impact on the financial statements of the Group.

ii. Standards 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 2016 and thus have not been adopted by the Group:

IFRS 15 Revenue from contracts with customers (Effective for annual periods beginning on or after 1 January 2018) and Clarifications to IFRS 15 Revenue from contract with Customers (Effective for annual periods beginning on or after 1 January 2018 (not adopted by EU yet))

The new Standard provides a framework that replaces existing revenue recognition guidance in IFRS. Entities will adopt a five-step model to determine when to recognise revenue, and at what amount. The new model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled. Depending on whether certain criteria are met, revenue is recognised:

- over time, in a manner that depicts the entity's performance; or
- at a point in time, when control of the goods or services is transferred to the customer.

IFRS 15 also establishes the principles that an entity shall apply to provide qualitative and quantitative disclosures which provide useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from a contract with a customer.

The Group is currently evaluating the effect on its financial position and performance but does not expect that the new Standard will have material impact on the financial statements. The timing and measurement of the Group's revenues are not expected to change under IFRS 15 because of the nature of the Group's operations and the types of revenues it earns.

IFRS 9 Financial Instruments (Effective for annual periods beginning on or after 1 January 2018); to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight.)

This Standard replaces IAS 39, Financial Instruments: Recognition and Measurement, except that the IAS 39 exception for a fair value hedge of an interest rate exposure of a portfolio of financial assets or financial liabilities continues to apply, and entities have an accounting policy choice between applying the hedge accounting requirements of IFRS 9 or continuing to apply the existing hedge accounting requirements in IAS 39 for all hedge accounting.

Although the permissible measurement bases for financial assets – amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit and loss (FVTPL) – are similar to IAS 39, the criteria for classification into the appropriate measurement category are significantly different.

A financial asset is measured at amortized cost if the following two conditions are met:

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

In addition, for a non-trading equity instrument, a company may elect to irrevocably present subsequent changes in fair value (including foreign exchange gains and losses) in OCI. These are not reclassified to profit or loss under any circumstances.

For debt instruments measured at FVOCI, interest revenue, expected credit losses and foreign exchange gains and losses are recognised in profit or loss in the same manner as for amortised cost assets. Other gains and losses are recognised in OCI and are reclassified to profit or loss on derecognition.

The impairment model in IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model, which means that a loss event will no longer need to occur before an impairment allowance is recognised.

IFRS 9 includes a new general hedge accounting model, which aligns hedge accounting more closely with risk management. The types of hedging relationships – fair value, cash flow and foreign operation net investment – remain unchanged, but additional judgment will be required.

The standard contains new requirements to achieve, continue and discontinue hedge accounting and allows additional exposures to be designated as hedged items.

Extensive additional disclosures regarding an entity's risk management and hedging activities are required.

The Group is currently evaluating the effect on its financial position and performance.

IFRIC 22 Foreign Currency Translations and Advance Consideration (Effective for annual periods beginning on or after 1 January 2018 (not adopted by EU yet))

The Interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. In such circumstances, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The Group is currently evaluating the effect on its financial position and performance.

IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019 (not adopted by EU yet))

IFRS 16 supersedes IAS 17 Leases and related interpretations. The Standard eliminates the current dual accounting model for lessees and instead requires companies to bring most leases on-balance sheet under a single model, eliminating the distinction between operating and finance leases.

Under IFRS 16, a contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. For such contracts, the new model requires a lessee to recognise a right-of-use asset and a lease liability. The right-of-use asset is depreciated and the liability accrues interest. This will result in a front-loaded pattern of expense for most leases, even when the lessee pays constant annual rentals.

The new Standard introduces a number of limited scope exceptions for lessees which include:

- leases with a lease term of 12 months or less and containing no purchase options, and
- leases where the underlying asset has a low value ('small-ticket' leases).

Lessor accounting shall remain largely unaffected by the introduction of the new Standard and the distinction between operating and finance leases will be retained.

The Group is currently evaluating the effect on its financial position and performance.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018 (not adopted by EU yet))

The amendments clarify share-based payment accounting on the following areas:

- the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments;
- share-based payment transactions with a net settlement feature for withholding tax obligations; and
- a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity settled.

The Group expects that the amendments will not have a material impact on the Group's financial statements.

Amendments to IAS 7 – Statement of Cash Flows (Effective for annual periods beginning on or after 1 January 2017 (not adopted by EU yet))

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising for obtaining or losing control of subsidiaries, changes in fair value).

The Group expects that the amendments will not have a material impact on the Group's financial statements.

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2017 (not adopted by EU yet))

The amendments clarify how and when to account for deferred tax assets in certain situations and clarify how future taxable income should be determined for the purposes of assessing the recognition of deferred tax assets.

The Group expects that the amendments will not have a material impact on the Group's financial statements because the Group already measures future taxable profit in a manner consistent with the Amendments.

Amendments to IAS 40 – Transfers of Investment Property (Effective for annual periods beginning on or after 1 January 2018 (not adopted by EU yet))

The amendments reinforce the principle for transfers into, or out of, investment property in IAS 40 Investment Property to specify that such a transfer should only be made when there has been a change in use of the property. Based on the amendments a transfer is made when and only when there is an actual change in use – i.e. an asset meets or ceases to meet the definition of investment property and there is evidence of the change in use. A change in management intention alone does not support a transfer.

The Group expects that the amendments will not have a material impact on the Group's financial statements because the Group transfers a property asset to, or from, investment property only when there is an actual change in use.

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

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 financial position have been regrouped or reclassified, where necessary, on a basis consistent with the current period.

(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. 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.

iv. 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.

v. 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.

vi. 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.

vii. 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 EP Energy, a.s. 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.

viii. 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 3(a) – 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 35 – 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.

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, 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 2016 and 2015, 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 rights. 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 rights 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.

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 – 7 years
- Other intangible assets 2 – 20 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. It is determined as the best estimate of possible outcomes, stated based on a legal study and considering all risks 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.

Any separate major line of business or geographical area of operations or significant part of business, which is decided to be sold, is classified as discontinued operations and is presented in profit or loss under separate line Profit (loss) from discontinued operations, net of tax.

(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 Infra, Renewables, Power Distribution and Supply, Other and Holding. Heat Infra and Power Distribution and Supply are the core segments of the Group. Mining segment was classified as discontinued operation for year 2015.

Operating segments have been identified primarily on the basis of internal reports used by the EPE's "chief operating decision maker" (Board of Directors) to allocate resources to the segments and assess their performance. Major indicators used by the Board of Directors to measure these segments' performance is operating profit before depreciation, amortization and negative goodwill ("Adjusted EBITDA") and capital expenditures.

i. Mining (discontinued)

The Mining segment, represented 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. This segment was classified as discontinued operation in 2015 and during 2016 was disposed off.

ii. Heat Infra

The Heat Infra segment owns and operates four large-scale combined heat and power plants (CHPs) in the Czech Republic primarily operated in highly efficient co-generation 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, and three CHPs in Hungary, represented by Budapesti Erömü Zrt., which is supplying the City of Budapest. The heat generated in its co-generation 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. Czech based heat supply is regulated in a way of cost plus a reasonable profit margin while the Hungarian operations are regulated using the standard Regulated Asset Base ("RAB") multiplied by WACC plus eligible operating expenditures and allowed depreciation formula.

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 in Lippendorf with an installed capacity of 390MW. These entities were classified as discontinued operations in 2015 and during 2016 were disposed off.

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 two solar power plants in Slovakia, a biogas facility in Slovakia and one wind farm in Germany at MIBRAG, which was classified as discontinued operation in 2015 and during 2016 was disposed off.

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 Infra segment and purchases from external sources and purchases electricity and natural gas to supply customers through the Supply division. In addition, this segment distributes electricity in the central Slovakia region. This segment is mainly represented by Stredoslovenská energetika Group, EP Sourcing, a.s., EP Cargo a.s. and EP ENERGY TRADING, a.s.

SSE-Distribúcia, which provides distribution of natural gas and power, is required by law to provide non-discriminatory access to the distribution network. Prices are subject to the review and approval of Energy Regulatory Authority ("RONI"). Entity operates under similar regulatory frameworks whereby allowed revenues are based on the RAB multiplied by the allowed regulatory WACC plus eligible operating

expenditures and allowed depreciation in line with regulatory frameworks in other European countries. All key tariff parameters are set for a given regulatory period of five years.

RONI regulates certain aspects of the SSE's relationships with its customers including the pricing of electricity and services provided to certain customers of SSE. Price of electricity (the commodity) is regulated for households and small businesses with the annual consumption up to 30 MWh where RONI sets a capped gross profit per MWh. The price of electricity for the wholesale customers is not regulated.

v. Holding

The Holding segment represents EP Energy, a.s. as a holding company. The segment profit therefore primarily represents dividends received from its subsidiaries, finance expense and results from acquisition accounting.

Profit or loss

For the year ended 31 December 2016

In millions of EUR	Mining (discontinued)	Heat Infra	Power Distribution and Supply	Renewables	Other	Total segments	Holding	Inter-segment eliminations	Consolidated Financial Information
Sales: Energy	-	549	1,404	5	-	1,958	-	(151)	1,807
external revenues	-	475	1,327	5	-	1,807	-	-	1,807
inter-segment revenues	-	74	77	-	-	151	-	(151)	-
Sales: Other	-	12	17	-	8	37	-	(3)	34
external revenues	-	12	17	-	5	34	-	-	34
inter-segment revenues	-	-	-	-	3	3	-	(3)	-
Gain (loss) from commodity derivatives from trading with electricity and gas, net	-	-	1	-	-	1	-	-	1
Total sales	**-**	**561**	**1,422**	**5**	**8**	**1,996**	**-**	**(154)**	**1,842**
Cost of sales: Energy	-	(317)	(1,144)	-	-	(1,461)	-	96	(1,365)
external cost of sales	-	(294)	(1,071)	-	-	(1,365)	-	-	(1,365)
inter-segment cost of sales	-	(23)	(73)	-	-	(96)	-	96	-
Cost of sales: Other	-	(17)	(58)	-	(5)	(80)	-	51	(29)
external cost of sales	-	(17)	(7)	-	(5)	(29)	-	-	(29)
inter-segment cost of sales	-	-	(51)	-	-	(51)	-	51	-
Personnel expenses	-	(57)	(49)	-	(1)	(107)	(1)	-	(108)
Depreciation and amortisation	-	(97)	(68)	(3)	-	(168)	-	-	(168)
Repairs and maintenance	-	(3)	(2)	-	-	(5)	-	-	(5)
Emission rights, net	-	(15)	-	-	-	(15)	-	-	(15)
Taxes and charges	-	(2)	(1)	-	-	(3)	-	-	(3)
Other operating income	-	11	13	-	-	24	-	3	27
Other operating expenses	-	(16)	(32)	(1)	-	(49)	(3)	1	(51)
Operating profit	**-**	**48**	**81**	**1**	**2**	**132**	**(4)**	**(3)**	**125**
Finance income	-	7	-	-	-	7	*103	*(91)	19
external finance revenues	-	7	-	-	-	7	12	-	19
inter-segment finance revenues	-	-	-	-	-	-	*91	*(91)	-
Finance expense	-	(16)	(3)	(2)	-	(21)	(64)	20	(65)
Profit (loss) from derivative financial instruments	-	(3)	-	-	-	(3)	(6)	-	(9)
Gain (loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	57	2	-	-	59	4	-	63
Profit (loss) before income tax	**-**	**93**	**80**	**(1)**	**2**	**174**	***33**	***(74)**	**133**
Income tax expenses	-	(4)	(15)	(1)	-	(20)	1	-	(19)
Profit (loss) for the year before discontinued operations	**-**	**89**	**65**	**(2)**	**2**	**154**	***34**	***(74)**	**114**
Profit (loss) from discontinued operations	3	(15)	-	-	-	(12)	34	-	22
Profit (loss) for the year	**3**	**74**	**65**	**(2)**	**2**	**142**	***68**	***(74)**	**136**

* *EUR 71 million is attributable to intra-group dividends primarily recognised by EP Energy, a.s.*

Other financial information:									
Adjusted EBITDA[1]	-	145	149	4	2	300	(4)	(3)	293

1) Adjusted EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortisation of intangible assets (negative goodwill not included, if applicable). For Adjusted EBITDA reconciliation to the closest IFRS measure explanation see below.

For the year ended 31 December 2015

In millions of EUR	Mining (discontinued)	Heat Infra	Power Distribution and Supply	Renewables	Other	Total segments	Holding	Inter-segment eliminations	Consolidated Financial Information
Sales: Energy	-	417	1,648	5	-	2,070	-	(153)	1,917
external revenues	-	*336*	*1,576*	*5*	-	*1,917*	-	-	*1,917*
inter-segment revenues	-	*81*	*72*	-	-	*153*	-	*(153)*	-
Sales: Other	-	12	29	-	5	46	-	(2)	44
external revenues	-	*12*	*28*	-	*4*	*44*	-	-	*44*
inter-segment revenues	-	-	*1*	-	*1*	*2*	-	*(2)*	-
Gain (loss) from commodity derivatives from trading with electricity and gas, net	-	-	10	-	-	10	-	-	10
Total sales	**-**	**429**	**1,687**	**5**	**5**	**2,126**	**-**	**(155)**	**1,971**
Cost of sales: Energy	-	(237)	(1,346)	-	-	(1,583)	-	100	(1,483)
external cost of sales	-	*(218)*	*(1,265)*	-	-	*(1,483)*	-	-	*(1,483)*
inter-segment cost of sales	-	*(19)*	*(81)*	-	-	*(100)*	-	*100*	-
Cost of sales: Other	-	(12)	(67)	-	(4)	(83)	-	50	(33)
external cost of sales	-	*(12)*	*(17)*	-	*(4)*	*(33)*	-	-	*(33)*
inter-segment cost of sales	-	-	*(50)*	-	-	*(50)*	-	*50*	-
Personnel expenses	-	(46)	(47)	-	(1)	(94)	(1)	-	(95)
Depreciation and amortisation	-	(84)	(71)	(3)	-	(158)	-	-	(158)
Repairs and maintenance	-	(6)	(3)	(1)	-	(10)	-	1	(9)
Emission rights, net	-	(4)	-	-	-	(4)	-	-	(4)
Negative goodwill	-	33	-	-	-	33	-	-	33
Taxes and charges	-	10	(1)	-	-	9	-	-	9
Other operating income	-	12	12	-	-	24	-	2	26
Other operating expenses	-	(10)	(40)	(1)	-	(51)	(2)	2	(51)
Operating profit	**-**	**85**	**124**	**-**	**-**	**209**	**(3)**	**-**	**206**
Finance income	-	2	-	-	-	2	*134	*(94)	42
external finance revenues	-	-	-	-	-	-	*42*	-	*42*
inter-segment finance revenues	-	*2*	-	-	-	*2*	**92*	**(94)*	-
Finance expense	-	(14)	(4)	(2)	-	(20)	(89)	20	(89)
Profit (loss) from derivative financial instruments	-	-	-	-	-	-	(2)	-	(2)
Gain (loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-	-	-	-	-	(1)	-	(1)
Profit (loss) before income tax	**-**	**73**	**120**	**(2)**	**-**	**191**	***39**	***(74)**	**156**
Income tax expenses	-	(7)	(29)	(1)	-	(37)	(17)	-	(54)
Profit (loss) for the year before discontinued operations	**-**	**66**	**91**	**(3)**	**-**	**154**	***22**	***(74)**	**102**
Profit (loss) from discontinued operations	29	(49)	-	-	-	(20)	-	-	(20)
Profit (loss) for the year	**29**	**17**	**91**	**(3)**	**-**	**134**	***22**	***(74)**	**82**

* *EUR 74 million is attributable to intra-group dividends primarily recognised by EP Energy, a.s.*

Other financial information:									
Adjusted EBITDA[1]	-	136	195	3	-	334	(3)	-	331

1) *Adjusted EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortisation of intangible assets (negative goodwill not included, if applicable). For Adjusted EBITDA reconciliation to the closest IFRS measure explanation see below.*

Adjusted EBITDA reconciliation to the closest IFRS measure

It must be noted that Adjusted EBITDA is not a measure that is defined under IFRS. This measure is construed as determined by the Board of Directors and is presented to disclose additional information to measure the economic performance of the Group's business activities. This term should not be used as a substitute to net income, revenues or operating cash flows or any other measure as derived in accordance with IFRS. This non-IFRS measure should not be used in isolation. This measure may not be comparable to similarly titled measures used by other companies.

For the year ended 31 December 2016

In millions of EUR	**Mining (discontinued)**	**Heat Infra**	**Power distribution and supply**	**Renewables**	**Other**	**Total segments**	**Holding**	**Inter-segment eliminations**	**Consolidated financial information**
Profit from operations	**-**	**48**	**81**	**1**	**2**	**132**	**(4)**	**(3)**	**125**
Depreciation and amortisation	-	97	68	3	-	168	-	-	168
Adjusted EBITDA	**-**	**145**	**149**	**4**	**2**	**300**	**(4)**	**(3)**	**293**

For the year ended 31 December 2015

In millions of EUR	**Mining (discontinued)**	**Heat Infra**	**Power distribution and supply**	**Renewables**	**Other**	**Total segments**	**Holding**	**Inter-segment eliminations**	**Consolidated financial information**
Profit from operations	**-**	**85**	**124**	**-**	**-**	**209**	**(3)**	**-**	**206**
Depreciation and amortisation	-	84	71	3	-	158	-	-	158
Negative goodwill	-	(33)	-	-	-	(33)	-	-	(33)
Adjusted EBITDA	**-**	**136**	**195**	**3**	**-**	**334**	**(3)**	**-**	**331**

Segment assets and liabilities

For the year ended 31 December 2016

In millions of EUR	Mining (discontinued)	Heat Infra	Power Distribution and Supply	Renewables	Other	Total segments	Holding	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	-	1,051	1,221	38	5	2,315	822	(539)	2,598
Reportable segment liabilities	-	(548)	(427)	(45)	(2)	(1,022)	(1,268)	538	(1,752)
Additions to tangible and intangible assets[1]	-	82	62	-	-	144	-	-	144
Additions to tangible and intangible assets (excl. emission rights)	-	64	62	-	-	126	-	-	126
Equity accounted investees	-	14	2	-	-	16	-	-	16

1) This balance includes additions to emission rights

For the year ended 31 December 2015

In millions of EUR	Mining (discontinued)	Heat Infra	Power Distribution and Supply	Renewables	Other	Total segments	Holding	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	862	1,409	1,253	53	3	3,580	1,277	(1,123)	3,734
Reportable segment liabilities	(807)	(941)	(454)	(57)	(1)	(2,260)	(1,479)	1,123	(2,616)
Additions to tangible and intangible assets[1]	72	[2]158	53	-	-	283		-	283
Additions to tangible and intangible assets (excl. emission rights)	66	[3]123	53	-	-	242		-	242
Equity accounted investees	-	7	1	-	-	8		-	8

1) This balance includes additions to emission rights
2) Thereof relating to discontinued operations EUR 25 million
3) Thereof relating to discontinued operations EUR 10 million.

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 2016

In millions of EUR	Czech Republic	Slovakia	Germany	Hungary	Other	Total segments
Property, plant and equipment	672	848	-	44	-	1,564
Intangible assets	132	21	-	4	-	157
Investment property	-	-	-	-	-	-
Total	**804**	**869**	**-**	**48**	**-**	**1,721**

In millions of EUR	Czech Republic	Slovakia	Germany	Hungary	Other	Total segments
Sales: Electricity	309	816	26	61	81	1,293
Sales: Heat	281	-	-	73	1	355
Sales: Gas	92	37	2	-	1	132
Sales: Coal	20	1	4	-	2	27
Sales: Other	23	6	-	-	5	34
Gain (loss) from commodity derivatives from trading with electricity and gas, net	1	-	-	-	-	1
Total	**726**	**860**	**32**	**134**	**90**	**1,842**

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

For the year ended 31 December 2015

In millions of EUR	Czech Republic	Slovakia	Germany	Hungary	Other	Total segments
Property, plant and equipment	715	840	-	51	-	1,606
Intangible assets	135	24	-	51	-	180
Investment property	3	-	-	-	-	3
Total	**753**	**864**	**-**	**72**	**-**	**1,789**

In millions of EUR	Czech Republic	Slovakia	Germany	Hungary	Other	Total segments
Sales: Electricity	259	890	20	11	121	1,301
Sales: Heat	285	-	-	10	-	295
Sales: Gas	155	54	11	-	26	246
Sales: Coal	29	2	6	1	37	75
Sales: Other	25	7	-	1	11	44
Gain (loss) from commodity derivatives from trading with electricity and gas, net	10	-	-	-	-	10
Total	**763**	**953**	**37**	**23**	**195**	**1,971**

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

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 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 and fair value adjustments. 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. VTE Moldava II, a.s. (former EP Renewables a.s.) and its subsidiaries (acquired by EPH on 1 September 2010)
    e. ROLLEON a.s.(3) 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 1 LIMITED merged with EP Energy, a.s. as at 4 November 2013. EP Energy, a.s. is the successor company.

(3) REOLLEON a.s. and its subsidiaries were disposed by the Group as of 2 December 2015

(a) Acquisitions

i. December 2016

In 2016 the Group did not acquire any subsidiaries, joint-ventures or associates.

ii. 31 December 2015

In millions of EUR	**Date of acquisition**	**Purchase price**	**Cash paid**	**Other consideration**	**Equity interest acquired %**	**Equity interest after acquisition %**
New subsidiaries						
LokoTrain s.r.o.	21/07/2015	1	(1)	-	65	65
Optimum Energy, s.r.o.	01/08/2015	5	(5)	-	100	100
Budapesti Erömü Zrt. (BERT)	10/12/2015	(2)6	-	(1)(2)(6)	95.62	95.62
Total		**12**	**(6)**	**(6)**	**-**	**-**

(1) Represents estimated deferred consideration contingent on meeting future operating results of BERT. In 2016 the deferred consideration was released to income as it is no longer probable it will be settled.

(2) The purchase price does not include EUR 29 million paid by the Group in exchange for a loan receivable from BERT assigned by the seller to the acquirer. The loan receivable is not presented in the Note 6(b) – Effect of acquisitions resulting in a change of control detailed table as it is eliminated in consolidation together with respective liability of BERT towards the acquirer.

Acquisition of non-controlling interest

On 28 January 2015 NPTH, a.s. acquired a 0.35% share and on 30 March 2015 additional 0.07% share in Pražská teplárenská a.s. This transaction resulted in change of ownership interest from 73.40% to 73.82% share and derecognition of non-controlling interest in amount of EUR 1 million.

On 16 September 2015 EPE acquired a 40% share in EP Cargo a.s. for EUR 4 million and became a 100% shareholder. As a result of this transaction the Group derecognised non-controlling interest in amount of EUR 2 million.

(b) Effect of acquisitions

i. 31 December 2016

There were no acquisitions and step-acquistions in the period from 1 January 2016 to 31 December 2016.

ii. 31 December 2015

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date of LokoTrain s.r.o., Optimum Energy, s.r.o. and Budapesti Erömü Zrt. (BERT) are provided in the following table.

In millions of EUR	**Carrying amount[1]**	**Fair value adjustment**	**2015 Total[1]**
Property, plant, equipment, land, buildings	100	(49)	51
Intangible assets	3	17	20
Trade receivables and other assets	30	-	30
Financial instruments – assets	1	-	1
Inventories	6	-	6
Cash and cash equivalents	14	-	14
Provisions	(6)		(6)
Deferred tax liabilities	(1)	(8)	(9)
Loans and borrowings	(69)	40	(29)
Financial instruments – liabilities	(4)	-	(4)
Trade payables and other liabilities	(32)	-	(32)
Net identifiable assets and liabilities	**42**	**-**	**42**
Non-controlling interest			(2)
Goodwill on acquisitions of a subsidiary			5
Negative goodwill on acquisition of new subsidiaries			(33)
Cost of acquisition			**12**
Consideration paid, satisfied in cash (A)			6
Consideration, other			6
Total consideration transferred			12
Less: Cash acquired (B)			14
Net cash inflow (outflow) (C) = (B – A)			**8**

(1) Represents values at 100% share.

For details on major acquisitions please refer to Appendix 1 – Business combinations.

iii. Rationale for acquisitions

The Group strategic rationale for acquisitions realised in the preceding period 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;

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 reported goodwill in a total amount of EUR 98 million. For the development of historical goodwill, please refer to Note 17 – Intangible assets (including goodwill).

In 2016 the Group did not recognise any negative goodwill (2015: EUR 33 million from the acquisition of BERT). 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 ended 31 December 2015.

In millions of EUR	**2015 Total**
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	32
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	4

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 2015); this financial information was derived from the statutory or IFRS financial statements of the acquired entities.

In millions of EUR	**2015 Total**
Revenue of the acquirees recognised in the year ended 31 December 2015 (subsidiaries)*	197
Profit (loss) of the acquires recognised in the year ended 31 December 2015 (subsidiaries)*	(25)

* *Before intercompany elimination; based on local statutory financial information*

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

(c) Business combinations – acquisition accounting 2016 and 2015

The acquiree's identifiable assets, liabilities and contingent liabilities were recognised and measured at their fair values at the acquisition date by the Group (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.

There were no acquisitions in 2016 therefore the Group did not recognise any fair value adjustment resulting from the business combinations.

Fair value adjustments resulting from business combinations in 2015 are presented in the following table:

In millions of EUR	**Intangible assets**	**Property, plant and equipment**	**Other**	**Deferred tax asset/ (liability)**	**Total net effect on financial position**
Subsidiary					
Budapesti Erömü Zrt. (BERT)	17	(49)	40	(8)	-
Total	**17**	**(49)**	**40**	**(8)**	**-**

The fair value adjustments resulting from the purchase price allocation of LokoTrain s.r.o. and Optimum Energy, s.r.o. were not significant and therefore management of the Group decided not to recognise any fair value adjustment resulting from these business combinations in 2015.

(d) Disposal of investments in 2016 and 2015

i. 31 December 2016

During the year 2016 the Group disposed of its investments in:

In millions of EUR	**Date of disposal**	**Sales price**	**Equity interest disposed**	**Equity interest after disposal**
			%	**%**
Subsidiaries disposed				
EOP & HOKA s.r.o. and its subsidiary	29/02/2016	5	99.79	-
EP COAL TRADING POLSKA S.A.	29/02/2016	-	100	-
PGP Terminal, a.s. and its associate	29/02/2016	-	60	-
JTSD Braunkohlebergbau GmbH and its subsidiaries and associates*	01/04/2016	156	100	-
LokoTrain s.r.o.	04/04/2016	2	65	-
EP Cargo Deutschland GmbH	05/04/2016	-	100	-
EP CARGO POLSKA s.a.	05/04/2016	1	100	-
ADCONCRETUM REAL ESTATE ltd	04/05/2016	3	100	-
Pražská teplárenská LPZ, a.s.	31/05/2016	82	100	-
Total		**249**	**-**	**-**

* *JTSD Braunkohlebergbau GmbH and its subsidiaries and associates were classified as discontinued operations and the effect of disposal is presented within Profit (loss) from discontinued operations.*

The effects of disposals are provided in the following table:

In millions of EUR	**Net assets sold in 2016**
Property, plant, equipment, land, buildings	27
Investment property	3
Trade receivables and other assets	5
Financial instruments – assets	1
Cash and cash equivalents	14
Deferred tax liabilities	(3)
Loans and borrowings	(1)
Trade payables and other liabilities	(10)
Assets held for sale	14
Liabilities held for sale	(11)
Net identifiable assets and liabilities	**39**
Non-controlling interest	(9)
Net assets value disposed	**30**
Sales price	93
Gain (loss) on disposal	**63**

For details on major disposals please refer also to Appendix 3.

The effect of discontinued operations disposal is provided in the following table:

In millions of EUR	**Net assets sold in 2016**
Assets held for sale	1,251
Liabilities held for sale	(1,146)
Net identifiable assets and liabilities	**105**
Non-controlling interest	(2)
Translation reserve recycled to statement of comprehensive income	19
Net assets value disposed	**122**
Sales price	156
Gain (loss) on disposal[1]	**34**

(1) The total balance of Profit (loss) from discontinued operations, net of tax, amounting to EUR 22 million comprises the effect of disposal of discontinued operations in the amount of EUR 34 million and the loss from discontinued operations in the amount of EUR 12 million (see Appendix 2).

ii. 31 December 2015

On 2 April 2015 the Group disposed Reatex a.s. v likvidaci and on 2 December 2015 the Group accounted for disposal of its 100% investment in ROLLEON a.s. and ENERGZET, a.s. The effects of disposals are provided in the following table:

In millions of EUR	**Net assets sold in 2015**
Property, plant and equipment	4
Trade receivables and other assets	1
Cash and cash equivalents	1
Deferred tax liabilities	(1)
Net identifiable assets and liabilities	**5**
Sales price	4
Gain (loss) on disposal	**(1)**

7. Sales

In millions of EUR	**2016**	**2015**
Sales: Energy		
Electricity	1,293	1,301
Heat	355	295
Gas	132	246
Coal	27	75
Total Energy	**1,807**	**1,917**
Sales: Other	**34**	**44**
Gain (loss) from commodity derivatives for trading with electricity and gas, net	**1**	**10**
Total for continuing operations	**1,842**	**1,971**

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

8. Cost of sales

In millions of EUR	**2016**	**2015**
Cost of Sales: Energy		
Cost of sold electricity	921	959
Cost of sold/consumed gas and other energy products	137	313
Cost of coal and other material	95	108
Consumption of energy	94	87
Other cost of sales	118	16
Total Energy	**1,365**	**1,483**
Cost of Sales: Other		
Cost of goods sold	11	18
Consumption of material	6	5
Consumption of energy	4	4
Other cost of sales	8	6
Total Other	**29**	**33**
Total for continuing operations	**1,394**	**1,516**

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 millions of EUR	**2016**	**2015**
Wages and salaries	72	65
Compulsory social security contributions	25	22
Board members' remuneration (including boards of subsidiaries)	2	2
Expenses and revenues related to employee benefits (IAS 19)	1	1
Other social expenses	8	5
Total for continuing operations	**108**	**95**

The average number of employees during 2016 was 3,767 (2015: 3,677), of which 97 (2015: 100) were executives.

10. Emission rights

In millions of EUR	**2016**	**2015**
Deferred income (grant) released to profit and loss	9	14
Creation of provision for emission rights	(24)	(18)
Use of provision for emission rights	22	20
Consumption of emission rights	(22)	(20)
Total for continuing operations	**(15)**	**(4)**

The Ministries of the Environment of the Czech Republic, Slovakia and Hungary set a limit on the amount of a pollutant that can be emitted. Companies are granted emission rights and are required to hold an equivalent number of allowances that 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 rights must buy credits from those who pollute less or from other market participants. The transfer of rights 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., Stredoslovenská energetika, a.s., Elektrárny Opatovice, a.s. and Budapesti Erömü Zrt.

German entities JTSD Braunkohlebergbau GmbH and Helmstedter Revier GmbH also participate in the emission rights programme. These entities were classified as discontinued operations and disposed in 2016 therefore effect of transactions with emission rights is presented under line Profit (loss) from discontinued operations (net of tax).

11. Taxes and charges

In millions of EUR	**2016**	**2015**
Property and real estate transfer tax	2	1
Other taxes and charges	1	1
Gift tax refunds (gain)	-	(11)
Total for continuing operations	**3**	**(9)**

In February 2015 the European Court of Justice issued preliminary ruling on gas emission rights taxation in the Czech Republic. The Czech Republic levied a gift tax at a rate of 32% on greenhouse gas emission allowances acquired free of charge for electricity production in years 2011 and 2012. The European Court of Justice concluded that European law (namely Article 10 of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003) precludes the imposition of such tax if it does not respect the 10% ceiling on the allocation of emission rights for consideration laid down in cited article. Based on this ruling, the Supreme Administrative Court of the Czech Republic set out principles for determining an amount in which the tax shall be refundable (judgement of 9th July 2015, case no: 1 Afs 6/2013-184). Applying the Supreme Administrative Court ruling, Tax Appeal Board approved tax refund in December 2015. The refund of EUR 11 million was recognised as income by the Group in the year ended 31 December 2015 and collected in 2015 and 2016.

Related amount of penalty due from the state for withholding the gift tax in amount of EUR 2 million was recognised in Other operating income (for more details refer to Note 12 – Other operating income).

12. Other operating income

In millions of EUR	**2016**	**2015**
Property acquired free-of-charge and fees from customers	7	4
Rental income	6	5
Consulting fees	3	4
Compensation from insurance and other companies	3	3
Profit from disposal of tangible and intangible assets	2	2
Profit from sale of material	1	1
Fee and commission income – intermediation	1	-
Contractual penalties	-	(1)3
Other	4	4
Total for continuing operations	**27**	**26**

(1) Balance includes penalty received for a gift tax on emission rights in amount of EUR 2 million recognised in 2011 and 2012 (for more details refer to Note 11 – Taxes and charges).

13. Other operating expenses

In millions of EUR	**2016**	**2015**
Impairment losses/reversals	15	3
Of which relates to: Property, plant and equipment and intangible assets	*10*	-
Trade receivables and other assets	*5*	*3*
Outsourcing and other administration fees	13	9
Consulting expenses	8	6
Office equipment and other material	7	14
Rent expenses	6	11
Information technology costs	5	6
Creation and reversal of provision	4	1
Advertising expenses	3	3
Transport expenses	3	2
Insurance expenses	2	1
Gifts and sponsorship	2	1
Contractual penalties	1	3
Loss from receivables written-off	1	1
Shortages and damages	1	-
Own work capitalised to fixed assets	(26)	(13)
Other	6	3
Total	**51**	**51**

No material research and development expenses were recognised in profit and loss during the year 2016 and 2015.

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

Recognised in profit or loss

In millions of EUR	**2016**	**2015**
Interest income	11	42
Revenue from released deferred earn-out	6	-
Other finance income	2	-
Finance income	**19**	**42**
Interest expense incl. various financing and refinancing related fees	(62)	(69)
Net foreign exchange loss	-	(15)
Fees and commissions expense for other services	(3)	(5)
Finance costs	**(65)**	**(89)**
Profit (loss) from interest rate derivatives for trading	(7)	-
Profit (loss) from sale/settlement of assets at fair value	(5)	-
Profit (loss) from financial assets at fair value	4	-
Profit (loss) from securities	-	(1)
Profit (loss) from currency derivatives for trading	(1)	(1)
Profit (loss) from financial instruments	**(9)**	**(2)**
Net finance (expense) recognised in profit or loss	**(55)**	**(49)**

15. Income tax expenses

Income taxes recognised in profit or loss

In millions of EUR	**2016**	**2015**
Current taxes:		
Current year	(33)	(51)
Adjustment for prior periods	-	-
Withholding tax	-	-
Total current taxes	**(33)**	**(51)**
Deferred taxes:		
Origination and reversal of temporary differences[(1)]	14	(3)
Total deferred taxes	**14**	**(3)**
Total income tax expense from continuing operations recognised in profit or loss	**(19)**	**(54)**

(1) For details refer to Note 19 – Deferred tax assets and liabilities.

Deferred taxes are calculated using currently enacted tax rates expected to apply when the asset is realised or the liability settled. According to Czech and Hungarian legislation the corporate income tax rate is 19% for fiscal years 2016 and 2015. The Slovak corporate income tax rate is 22% for fiscal years 2016 and 2015. Current year income tax line includes also special sector tax effective in Slovakia and Hungary.

Since 2017 corporate income tax rate in Hungary is 9% and in Slovakia 21%. These rates were applied for the deferred tax recalculation for 2016.

Income tax recognised in other comprehensive income

In millions of EUR	2016		
	Gross	**Income tax**	**Net of income tax**
Foreign currency translation differences for foreign operations	5	-	5
Foreign currency translation differences from presentation currency	(6)	-	(6)
Effective portion of changes in fair value of cash-flow hedges	4	(1)	3
Total	**3**	**(1)**	**2**

In millions of EUR	2015		
	Gross	**Income tax**	**Net of income tax**
Foreign currency translation differences for foreign operations	(21)	-	(21)
Foreign currency translation differences from presentation currency	59	-	59
Effective portion of changes in fair value of cash-flow hedges	19	12	31
Fair value reserve included in other comprehensive income	(4)	-	(4)
Total	**53**	**12**	**65**

The foreign currency translation differences related to non-controlling interest are presented under Other comprehensive income.

Reconciliation of the effective tax rate

In millions of EUR		2016		2015
	%		**%**	
Profit before tax		133		155
Income tax using the Company's domestic rate	19.0%	25	19.0%	30
Effect of tax rates in foreign jurisdictions	1.4%	2	1.9%	3
Change in tax rate	(3.9)%	(5)	-	-
Non-deductible expenses[1]	27.1%	36	12.9%	20
Other non-taxable income	(30.9%)	[2] (41)	(1.3%)	(2)
Recognition of previously unrecognised tax losses	-	-	(0.7%)	(1)
Effect of special levy for business in regulated services	0.8%	1	2.6%	4
Change in unrecognised temporary differences	0.8%	1	-	-
Income taxes recognised in profit or loss	**14.3%**	**19**	**34.8%**	**54**

(1) The basis consists mainly of non-deductible interest expense of EUR 32 million (2015: EUR 50 million) and net book value of disposed investments of EUR 135 million (2015: EUR 0 million).

(2) The basis represents mainly sales price of disposed investments of EUR 249 million

16. Property, plant and equipment

In millions of EUR	**Land and buildings**	**Technical equipment, plant and machinery**	**Other equipment, fixtures and fittings**	**Under construction**	**Total**
Cost					
Balance at 1 January 2016	**1,352**	**761**	**6**	**67**	**2,186**
Additions	47	45	-	28	**120**
Disposals	(4)	(5)	(1)	(6)	**(16)**
Disposed entities	(32)	(10)	-	-	**(42)**
Transfer from disposal group held for sale	6	19	-	-	**25**
Transfers	10	46	-	(56)	**-**
Balance at 31 December 2016	**1,379**	**856**	**5**	**33**	**2,273**
Depreciation and impairment losses					
Balance at 1 January 2016	**(307)**	**(266)**	**(1)**	**(6)**	**(580)**
Depreciation charge for the year	(78)	(65)	(1)	-	**(144)**
Disposals	4	4	-	2	**10**
Disposed entities	9	6	-	-	**15**
Impairment losses recognised/released in profit or loss	(4)	(6)	-	-	**(10)**
Balance at 31 December 2016	**(376)**	**(327)**	**(2)**	**(4)**	**(709)**
Carrying amounts					
At 1 January 2016	**1,045**	**495**	**5**	**61**	**1,606**
At 31 December 2016	**1,003**	**529**	**3**	**29**	**1,564**

In millions of EUR	**Land and buildings**	**Technical equipment, plant and machinery**	**Other equipment, fixtures and fittings**	**Under construction**	**Total**
Cost					
Balance at 1 January 2015	**1,383**	**1,515**	**2**	**70**	**2,970**
Effects of movements in foreign exchange rates	9	17	-	-	**26**
Additions through business combinations	24	23	3	-	**51**
Additions	65	96	-	75	**236**
Disposals	(5)	(13)	-	(1)	**(19)**
Disposed entities	(4)	-	-	-	**(4)**
Transfer to disposal group held for sale	-	(5)	-	-	**(5)**
Transfer to discontinued operations	(150)	(893)	-	(26)	**(1,069)**
Transfer to investment property	(1)	-	-	-	**(1)**
Transfers	31	21	-	(52)	**-**
Balance at 31 December 2015	**1,352**	**761**	**5**	**67**	**2,185**
Depreciation and impairment losses					
Balance at 1 January 2015	**(238)**	**(480)**	**(1)**	**(5)**	**(724)**
Effects of movements in foreign exchange rates	(3)	(3)	-	-	**(6)**
Depreciation charge for the year	(90)	(60)	-	-	**(150)**
Depreciation charge for the year related to discontinued operations	(14)	(102)	-	-	**(115)**
Disposals	3	12	-	-	**15**
Disposed entities	-	-	-	-	**-**
Transfer to discontinued operations	32	367	-	-	**399**
Transfer of impairment losses to discontinued operations	2	-	-	-	**2**
Balance at 31 December 2015	**(307)**	**(266)**	**(1)**	**(5)**	**(579)**
Carrying amounts					
At 1 January 2015	**1,145**	**1,035**	**1**	**65**	**2,246**
At 31 December 2015	**1,045**	**495**	**4**	**62**	**1,606**

Idle assets

As at 31 December 2016 and also as at 31 December 2015 the Group had no significant idle assets.

Finance lease liabilities

As at 31 December 2016 and also as at 31 December 2015 the Group had no significant finance lease liabilities.

Security

At 31 December 2016 property, plant and equipment with a carrying value of EUR 395 million (2015: EUR 374 million) is subject to pledges to secure bank loans.

Insurance of property, plant and equipment

As at 31 December 2016 the following items of property, plant and equipment were insured against the risks presented in the table below:

In millions of EUR

Description of property	Carrying amount of property	Sum insured			
		Natural disaster	General machine risks	Liability for damage	Other risks
Land	85	65	-	1	-
Buildings	918	752		86	141
Machinery and equipment	529	1,137	65	13	1,005
Fixtures and fittings	3	3	85	-	-
Long-term tangible assets under construction	29	3	3	-	-
Investment property	-	-	-	-	-
Total	**1,564**	**1,960**	**153**	**100**	**1,146**

As at 31 December 2015 the following items of property, plant and equipment were insured against the risks presented in the table below:

In millions of EUR

Description of property	Carrying amount of property	Sum insured			
		Natural disaster	General machine risks	Liability for damage	Other risks
Land	96	-	-	-	-
Buildings	949	880	-	101	50
Machinery and equipment	495	1,199	71	15	564
Fixtures and fittings	4	3	85	-	-
Long-term tangible assets under construction	62	3	3	-	25
Investment property	3	-	-	-	-
Total	**1,609**	**2,085**	**159**	**116**	**639**

17. Intangible assets (including goodwill)

In millions of EUR	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2016	**106**	**43**	**31**	**33**	**2**	**215**
Additions	-	4	18	-	2	**24**
Disposals	-	(1)	(22)	(17)	-	**(40)**
Balance at 31 December 2016	**106**	**46**	**27**	**16**	**4**	**199**
Amortisation and impairment losses						
Balance at 1 January 2016	**(8)**	**(19)**	**-**	**(8)**	**-**	**(35)**
Amortisation for the year	-	(5)	-	(19)	-	**(24)**
Disposals	-	-	-	17	-	**17**
Balance at 31 December 2016	**(8)**	**(24)**	**-**	**(10)**	**-**	**(42)**
Carrying amount						
At 1 January 2016	**98**	**24**	**31**	**25**	**2**	**180**
At 31 December 2016	**98**	**22**	**27**	**6**	**4**	**157**

In millions of EUR	**Goodwill**	**Software**	**Emission rights**	**Customer relationship and other contracts**	**Other intangible assets**	**Total**
Cost						
Balance at 1 January 2015	**104**	**44**	**56**	**109**	**4**	**317**
Effect of movements in foreign exchange rates	2	-	1	-	-	**3**
Additions	-	4	41	-	2	**47**
Additions through business combinations	5	-	2	17	-	**24**
Disposals	-	-	(41)	-	-	**(41)**
Transfer to discontinued operations	(5)	(6)	(28)	(93)	(3)	**(135)**
Transfers	-	1	-	-	(1)	**-**
Balance at 31 December 2015	**106**	**43**	**31**	**33**	**2**	**215**
Amortisation and impairment losses						
Balance at 1 January 2015	**(8)**	**(16)**	**-**	**(42)**	**-**	**(66)**
Effect of movements in foreign exchange rates	-	-	-	-	-	**(1)**
Amortisation for the year	-	(6)	-	(2)	-	**(8)**
Amortisation for the year related to discontinued operations	-	(1)	-	(9)	-	**(10)**
Transfer to discontinued operations	-	4	-	45	-	**49**
Balance at 31 December 2015	**(8)**	**(19)**	**-**	**(8)**	**-**	**(35)**
Carrying amount						
At 1 January 2015	**96**	**28**	**56**	**67**	**4**	**251**
At 31 December 2015	**98**	**24**	**31**	**25**	**2**	**180**

In 2016, the EPE Group purchased emission rights of EUR 9 million (2015: EUR 27 million). The remaining part of EUR 9 million (2015: EUR 14 million) was allocated to the Group by the Ministry of the Environment of the Czech Republic and Hungary.

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

Other intangible assets comprise valuable rights.

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

Impairment testing for cash-generating units containing goodwill

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

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

In millions of EUR	**31 December 2016**
Elektrárny Opatovice, a.s.	85
EP Cargo a.s.	5
EP ENERGY TRADING, a.s. (1)	5
Plzeňská energetika a.s.	3
Total goodwill	**98**

In millions of EUR	**31 December 2015**
Elektrárny Opatovice, a.s.	85
EP Cargo a.s.	5
EP ENERGY TRADING, a.s. (1)	5
Plzeňská energetika a.s.	3
Total goodwill	**98**

(1) Optimum Energy, s.r.o. merged with EP ENERGY TRADING, a.s. as of 1 January 2016. EP ENERGY TRADING, a.s. is the successor company

In 2016 the EPE group did not acquire any new subsidiaries, joint-ventures or associates. In 2016 the EPE group did not recognise any goodwill impairment (2015: EUR 0 million).

Goodwill and impairment testing

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

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

Cash-flows were projected based on past experience, actual operating results and the one-year business plan followed by additional four years of modelled projections followed by projected results based on estimated growth factor plus a terminal value if relevant. Cash flows for a terminal period were extrapolated using a constant growth rate of 0% – 2% (2015: 0.5% – 2%), which does not exceed the long-term average growth rate for the industry. Other key assumptions considered by management include forecasts of commodity market prices, future electricity and gas prices, investment activity, changes in working capital and changes in the regulatory framework.

The discount rates used in estimating value in use were estimated based on the principle of an average market participant using peer companies (i.e. companies operating in a comparable industry and listed on world markets) as a standard for observing respective betas, debt to equity ratios and size adjustment parameters used for calculation. The resulting discount rates ranged from 5.22% to 6.30% (2015: 6.23% to 6.92%).

The 2016 and 2015 year testing showed no need for impairment as no CGU with the recoverable value lower than the carrying value including goodwill was identified.

Additional information on CGU with significant goodwill assigned:

The recoverable amount of Elektrárny Opatovice, a.s. was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of Elektrárny Opatovice, a.s. Value in use in 2016 was determined in a similar manner as in 2015. Management estimated that the recoverable amount for Elektrárny Opatovice, a.s. exceeded its carrying amount (including goodwill) by

EUR 270 million (2015: EUR 426 million). Key assumptions used in the calculation of value in use were the discount rate, the terminal value growth rate and the planned Adjusted EBITDA. These selected assumptions were as follows:

	2016	2015
Discount rate	6.02%	6.23%
Terminal value growth rate	2.00%	2.00%

The EPE Group uses weighted average cost of capital (WACC). The discount rate is a pre-tax measure. Cost of equity is based on the risk-free rate adjusted for a risk premium to reflect both the increase risk of investing in equities generally and the systemic risk of Elektrárny Opatovice, a.s.

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

a. expected refurbishments necessary to comply with applicable regulations (impact especially on electricity output/sales, OPEX and CAPEX);

b. market expectations regarding power and CO2 prices, development based on historical trends;

c. a slight decrease in heat supplies and modest increase of heat prices;

d. the inflation driven development of various other positions, especially overhead costs.

If Adjusted EBITDA were (Adjusted EBITDA represents profit from operations plus depreciation of property, plant and equipment and amortisation of intangible assets) 10% less than the management estimates (with all other indicators being constant), the value in use would decrease by EUR 187 million, which would not indicate any impairment loss.

If the discount rate were higher by one percentage point than currently used (with all other indicators being constant), the value in use would decrease by EUR 113 million, which would not indicate any impairment loss.

If the terminal value growth rate were one percentage point less than the management estimates (with all other indicators being constant), the value in use would decrease by EUR 92 million, which would not indicate any impairment loss.

18. Equity accounted investees

The Group has the investments in associates that are stated in the table below. All these associates are in line with the Group strategic activities.

In millions of EUR		Ownership 31 December 2016	Carrying amount 31 December 2016
Associates	**Country**	**%**	
Pražská teplárenská Holding a.s.	Czech Republic	49.00	14
Energotel, a.s	Slovakia	20.00	2
Total[2]			**16**

In millions of EUR		Ownership 31 December 2015	Carrying amount 31 December 2015
Associates	**Country**	**%**	
Pražská teplárenská Holding a.s.	Czech Republic	49.00	7
Energotel, a.s.	Slovakia	*20.00*	1
Total			**8**

The Group had no significant share in the profit (loss) from continuing operations of associates both for the year ended 31 December 2016 and 31 December 2015.

Summary financial information for significant standalone associates presented at 100% as 31 December 2016 and for the year then ended:

In millions of EUR

Associates	Revenue	Profit (loss)	Other compre-hensive income	Total compre-hensive income	Assets	Liabilities	Equity
Pražská teplárenská Holding a.s.	28	[1]28	-	[1]28	115	-	[2]115
Energotel, a.s.	13	2	-	2	15	6	9
	41	**30**	**-**	**30**	**120**	**6**	**124**

In millions of EUR

Associates	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Pražská teplárenská Holding a.s.	86	29	-	-
Energotel, a.s.	7	8	-	6
	93	**37**	**-**	**6**

(1) Profit and Loss item represents primarily dividend income from an associate.
(2) Carrying amount covers investment in Pražská teplárenská a.s., which is eliminated in consolidation.

Summary financial information for standalone associates presented at 100% ownership as at and for the year ended 31 December 2015:

In millions of EUR

Associates	Revenue	Profit (loss)	Other compre-hensive income	Total compre-hensive income	Assets	Liabilities	Equity
Pražská teplárenská Holding a.s.	14	[1]13	-	[1]13	100	-	100
Energotel, a.s.	14	2	-	2	14	6	8
	28	**15**	**-**	**15**	**114**	**6**	**108**

In millions of EUR				
Associates	**Non-current assets**	**Current assets**	**Non-current liabilities**	**Current liabilities**
Pražská teplárenská Holding a.s.	93	7	-	-
Energotel, a.s.	8	6	4	2
	101	**13**	**4**	**2**

* *Profit (loss) primarily represents dividend income from Pražská teplárenská a.s.*

19. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

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

In millions of EUR	**31 December 2016**			**31 December 2015**		
Temporary difference related to:	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Property, plant and equipment	1	(173)	(172)	2	(190)	(188)
Intangible assets	1	-	1	3	(1)	2
Financial instruments at fair value through profit or loss	-	-	-	1	-	1
Trade receivables and other assets	2	-	2	2	-	2
Provisions	4	-	4	6	-	6
Employee benefits (IAS 19)	2	-	2	2	-	2
Loans and borrowings	2	(10)	(8)	2	(14)	(12)
Derivatives	1	(2)	(1)	1	(3)	(2)
Tax losses	4	-	4	9	-	9
Other items	1	-	1	-	(1)	(1)
Subtotal	**18**	**(185)**	**(167)**	**28**	**(209)**	**(181)**
Set-off tax	(18)	18	-	(26)	26	-
Total	**-**	**(167)**	**(167)**	**2**	**(183)**	**(181)**

Movements in deferred tax during the year

In millions of EUR

Balances related to:	**Balance at 1 January 2016**	**Recognised in profit or loss**	**Recognised in other compre-hensive income**	**Acquired in business combi-nations**	**Transfer to disposal group held for sale[1]**	**Transfer to discontinued operations**	**Disposed entities[2]**	**FX differences**	**Balance at 31 December 2016**
Property, plant and equipment	(188)	14	-	-	(1)	-	3	(1)	(173)
Intangible assets	2	-	-	-	-	-	-	-	2
Financial instruments at fair value through profit or loss	1	(1)	-	-	-	-	-	-	-
Trade receivables and other assets	1	-	-	-	-	-	-	-	1
Provisions	6	(2)	-	-	-	-	-	-	4
Employee benefits (IAS 19)	2	-	-	-	-	-	-	-	2
Loans and borrowings	(12)	5	-	-	-	-	-	-	(7)
Derivatives	(1)	1	(1)	-	-	-	-	-	(1)
Tax losses	9	(6)	-	-	-	-	-	-	3
Other	(1)	3	-	-	-	-	-	-	2
Total	**(181)**	**14**	**(1)**	**-**	**(1)**	**-**	**3**	**(1)**	**(167)**

(1) Specific assets and liabilities reported by Stredoslovenská energetika, a.s.
(2) The disposal of Pražská teplárenská LPZ, a.s.

In millions of EUR

Balances related to:	**Balance at 1 January 2015**	**Recognised in profit or loss**	**Recognised in other comprehensive income**	**Acquired in business combinations[1]**	**Transfer to disposal group held for sale[2]**	**Transfer to discontinued operations[3]**	**FX differences**	**Balance at 31 December 2015**
Property, plant and equipment	(253)	(6)	-	(9)	1	71	8	(188)
Intangible assets	(3)	16	-	3	-	(12)	(2)	2
Financial instruments at fair value through profit or loss	-	-	-	1	-	-	-	1
Trade receivables and other assets	1	-	-	-	-	-	-	1
Provisions	15	1	-	2	-	(12)	-	6
Employee benefits (IAS 19)	2	-	-	-	-	-	-	2
Loans and borrowings	6	(11)	10	(14)	-	(3)	-	(12)
Derivatives	-	(3)	2	-	-	-	-	(1)
Tax losses	-	-	-	9	-	-	-	9
Other	-	-	-	(1)	-	-	-	(1)
Total	**(232)**	**(3)**	**12**	**(9)**	**1**	**44**	**6**	**(181)**

(1) The purchase of Budapesti Erömü Zrt. and Optimum Energy, s.r.o.
(2) The disposal of EOP & HOKA s.r.o., EP COAL TRADING S.A. and specific assets and liabilities reported by Stredoslovenská energetika, a.s.
(3) Transfer of JTSD Braunkohlebergbau GmbH and its subsidiaries and associates to discontinued operations.

Unrecognised deferred tax assets

The EPE Group reports the following tax losses carried forward:

In millions of EUR	**31 December 2016**	**31 December 2015**
Tax losses carried forward	4	5
Total	**4**	**5**

A deferred tax asset that has not been recognised in respect of the tax losses is attributable to the following entities:

In millions of EUR	**31 December 2016**	**31 December 2015**
PT Holding Investment B.V.	4	4
EP ENERGY TRADING, a.s.	-	1
Total	**4**	**5**

Considering the nature of revenues and expenses, the companies do not expect taxable profit growth to a considerable extent, so no deferred tax was recognised. If a sufficient taxable profit had been achieved in 2017 then the associated tax income (savings) would have been up to EUR 1 million (2015: EUR 1 million).

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

	2015	**2016**	**2017**	**2018**	**2019**	**After 2020**	**Total**
Tax losses	-	-	-	-	-	4	**4**

Tax losses expire over a period of 5 years in the Czech Republic, 4 years in Slovakia and 9 years in the Netherlands for standard tax losses. Under current tax legislation, in some countries tax losses are carried forward indefinitely. Deferred tax assets have not been recognised in respect of these items because, due to the varying nature of the sources of these profits, it is not probable that future taxable profit against which the Group can utilise the benefits from the deferred tax assets will be available.

20. Inventories

In millions of EUR	**31 December 2016**	**31 December 2015**
Fossil fuel	34	33
Raw material and supplies	6	7
Spare parts	6	6
Work in progress	2	1
Total	**48**	**47**

As at 31 December 2016 inventories in the amount of EUR 29 million (2015: EUR 28 million) were subject to pledges.

21. Trade receivables and other assets

In millions of EUR	**31 December 2016**	**31 December 2015**
Trade receivables	161	167
Accrued income	73	77
Advance payments	38	40
Estimated receivables	29	20
Uninvoiced supplies	19	19
Other receivables and assets	6	7
Allowance for bad debts	(18)	(13)
Total	**308**	**317**
Non-current	13	22
Current	295	295
Total	**308**	**317**

In 2016, receivables of EUR 1 million were written off through profit or loss (2015: EUR 1million).

As at 31 December 2016 trade receivables with a carrying value of EUR 62 million are subject to pledges (2015: EUR 71 million).

As at 31 December 2016 trade receivables and other assets amounting to EUR 300 million are not past due (2015: EUR 292 million); the remaining balance of EUR 8 million is overdue (2015: EUR 24 million).

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables is disclosed in Note 35 – Risk management policies and disclosures.

22. Cash and cash equivalents

In millions of EUR	**31 December 2016**	**31 December 2015**
Current accounts with banks	464	130
Term deposits	-	2
Total	**464**	**132**

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

As at 31 December 2016 cash equivalents of EUR 75 million are subject to pledges (2015: EUR 45 million). According to the bond documentation cash balances at specific entities are pledged in favour of the bondholders in case the Company defaults on bonds payments. As such, the pledged cash is readily available to the EPE Group and does not represent restricted cash.

Significant investing and financing activities not requiring cash:

In millions of EUR	**31 December 2016**	**31 December 2015**
Investing activities	311	264
Financing activities	-	12
Total	**311**	**276**

For the year 2016 non-cash investing activities include EPE loan provided to EP Infrastructure, a.s. which was set-off against dividends declared by EP Energy, a.s. in amount of EUR 311 million.

For the year 2015 non-cash investing activities include EPE loan provided to EPH which was set-off against decrease of share capital of EUR 264 million.

Non-cash financing activities for the year 2015 was represented by EPE loan provided to EPH in amount of EUR 12 million, which was set-off.

23. Tax receivables

In millions of EUR	**31 December 2016**	**31 December 2015**
Value added tax receivables	6	14
Current income tax receivables	15	3
Energy tax	2	2
Other tax receivables	-	1
Total	**23**	**20**

24. Assets and liabilities held for sale

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

In millions of EUR	**31 December 2016**	**31 December 2015**
Property, plant and equipment	-	593
Equity accounted investees	-	109
Land and buildings	5	100
Intangible assets	-	86
Inventories	-	58
Trade receivables and other assets	-	52
Financial instruments and other financial assets	-	44
Cash and cash equivalents	-	34
Tax receivables	-	9
Deferred tax asset	-	8
Prepaid expenses	-	1
Total	**5**	**1,094**

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

In millions of EUR	**31 December 2016**	**31 December 2015**
Provisions	-	424
Trade payables and other liabilities	-	151
Deferred tax liability	1	54
Loans and borrowings	-	19
Total	**1**	**648**

As at 31 December 2016 balances of assets held for sale and liabilities held for sale are represented by Nový Veleslavín, a.s. and Nová Invalidovna, a.s.

As at 31 December 2015 balances of assets held for sale and liabilities held for sale are represented by EOP & HOKA s.r.o. and specific assets and liabilities of Stredoslovenska energetika, a.s. (which were later in 2016 again reclassified to continuing assets and liabilities as the intention to sell these assets ceased) and discontinued operations related to JTSD Braunkohlebergbau GmbH and its subsidiaries and associates.

As part of the reorganization of the EP Infrastructure Group (previously CE Energy Group) in 2016, the Company sold-off its power generation activities in Germany as well as its mining operations in Germany to its ultimate parent company EPH (effective on 1 April 2016). The decision to sell-off these activities, which comprise an isolated geographical segment (Germany), was reached at the end of 2015. Due to the fact that these operations were predominantly representing the whole German operations, mining operations and condensation power production, the Company presents these activities as discontinued operations as of and for the year ending 31 December 2015.

For the detailed version of the consolidated statement of comprehensive income from discontinued operations refer to Appendix 3.

In millions of EUR	**31 December 2016 Discontinued**	**31 December 2015 Discontinued**
Revenues	129	607
Expenses	(131)	(596)
Profit (loss) from operations	**(2)**	**11**
Net finance income (expense)	(7)	(33)
Income tax income (expenses)	(2)	3
Profit (loss) for the year	**(12)**	**(20)**
Profit from disposal of discontinued operations	34	-
Total profit (loss) from discontinued operations	**22**	**(20)**

In 2016 the Group recognized loss from discontinued operations of EUR 12 million, which was fully attributable to owners of the Company (2015: loss of EUR 20 million, which was fully attributable to the owners of the Company) and was represented by loss of JTSD and its subsidiaries and associates (for detail refer to Note 37 – Group entities).

Cash flows from (used in) discontinued operations

Cash flows from discontinued operations presented in the table below are included in the total amounts of cash flows presented in the consolidated statement of cash flows.

In millions of EUR	**2016**	**2015**
Net cash from (used in) operating activities	9	122
Net cash from (used in) investing activities	18	(148)
Net cash from (used in) financing activities	7	(2)
Net cash flows for the year	**34**	**(28)**

25. Equity

Share capital and share premium

The authorised, issued and fully paid share capital as at 31 December 2016 consisted of 19,549,548 ordinary shares with a par value of CZK 657 each (2015: 19,549,548 ordinary shares with a par value of CZK 657 each).

The shareholder is entitled to receive dividends and to cast 1 vote per 1 share of nominal value CZK 657 at meetings of the Company's shareholders.

31 December 2016	**Number of shares 657 CZK**	**Ownership %**	**Voting rights %**
EP Infrastructure, a.s. (former CE Energy, a.s.)	19,549,548	100.00	100.00
Total	**19,549,548**	**100.00**	**100.00**

31 December 2015	**Number of shares 657 CZK**	**Ownership %**	**Voting rights %**
EP Infrastructure, a.s. (former CE Energy a.s.)	19,549,548	100.00	100.00
Total	**19,549,548**	**100.00**	**100.00**

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

	Number of shares	
	31 December 2016	**31 December 2015**
Shares outstanding at the beginning of the period	19,549,548	19,549,548
Shares outstanding at the end of the period	**19,549,548**	**19,549,548**

Reserves recognised in equity comprise the following items:

In millions of EUR	**31 December 2016**	**31 December 2015**
Non-distributable reserves	1	1
Fair value reserve	-	(14)
Translation reserve	(35)	(14)
Hedging reserve	(51)	(54)
Other capital reserves	(320)	(320)
Total	**(405)**	**(401)**
Other capital funds from capital contributions	23	23
Reserves	**(382)**	**(378)**

Non-distributable reserves

The creation of a legal reserve fund in the Czech Republic was prior to 1 January 2014 required at a minimum of 20% (10% for limited liability companies) of net profit (annually) and up to a minimum of 10% (5% for limited liability companies) of the registered share capital (cumulative balance). The legal reserve fund could have only been used to cover losses of the Company and may not have been distributed as a dividend. The calculation of the legal reserve was based on local statutory regulations. The legal reserve of EUR 1 million was reported as at 31 December 2016 (2015: EUR 1 million). From 1 January 2014, in relation to the newly enacted legislation, legal reserve fund and its creation are no longer, under certain circumstances, obligatory. Similarly, legal reserve fund can be from 1 January 2014, under certain conditions, distributed in a form of dividend.

Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations of the Group and translation of the consolidated financial statements to presentation currency.

Other capital reserves

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

In 2010 other capital reserves decreased by EUR 47 million in relation to the disposal of Pražská energetika, a.s. (associate), previously acquired under common control. The amount corresponds to pricing differences assigned directly to the disposed associate and its direct parent company (Honor Invest, a.s.). The increase in other capital reserves was recognised against retained earnings.

In 2011 other capital reserves decreased by EUR 32 million in relation to the acquisition of LIGNITE INVESTMENTS 1 LIMITED which was contributed by EPH to the Company's share capital.

In 2013 other capital reserves decreased by EUR 1 million in relation to the disposal of 47.06% share in PRVNÍ MOSTECKÁ a.s. as a part of the step acquisition process and the increase in share capital originating from the revaluation of Czech Energy Holding, a.s. during the merger with EP Energy, a.s.

Hedging reserves

The effective portion of fair value changes in financial derivatives designated as cash flow hedges are recognised in equity. The balance as of 31 December 2016 represents primarily derivative agreements to hedge an electricity price and a foreign exchange rate concluded by EP ENERGY TRADING, a.s. and an effect from a cash flow hedge recognised on the EPE Group level.

26. Earnings per share

Basic earnings per share

Basic earnings per share in EUR per 1 share of CZK 657 (2015: in EUR per 1 share of CZK 657) nominal value equal 4.50 (2015: 1.87).

The calculation of basic earnings per share as at 31 December 2016 was based on profit attributable to ordinary shareholders of EUR 88 million (2015: EUR 37 million), and a weighted average number of ordinary shares outstanding of 19,550 thousand (2015: 19,550 thousand).

Basic earnings per share from continuing operations in EUR per 1 share of CZK 657 (2015: in EUR per 1 share of CZK 657) nominal value equal 3.38 (2015: 2.91).

The calculation of basic earnings per share from continuing operations as at 31 December 2016 was based on profit attributable to ordinary shareholders of EUR 66 million (2015: EUR 57 million), and a weighted average number of ordinary shares outstanding of 19,550 thousand (2015: 19,550 thousand).

Weighted average number of ordinary shares 2016

In thousands of pieces	**Nominal**	**Weighted**
Issued ordinary shares	19,550	19,550
Total	**19,550**	**19,550**

Weighted average number of ordinary shares 2015

In thousands of pieces	**Nominal**	**Weighted**
Issued ordinary shares	19,550	19,550
Total	**19,550**	**19,550**

Dilutive earnings per share

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

27. Non-controlling interest

31 December 2016 *In millions of EUR*	**Pražská teplárenská a.s. and its subsidiaries**	**Stredoslovenská energetika, a.s. and its subsidiaries**	**Other individually immaterial subsidiaries**	**Total**
Non-controlling percentage	**26.18%**	**51.00%**		
Business activity	Production and distribution of heat	Distribution of electricity		
Country[1]	Czech Republic	Slovakia		
Carrying amount of NCI at 31 December 2016	**78**	**379**	**7**	**464**
Profit (loss) attributable to non-controlling interest	**21**	**27**	**-**	**48**
Dividends declared	**(15)**	**(34)**	**-**	**(49)**
Statement of financial position information[2]				
Total assets	365	1,043		
of which: non-current	*267*	*857*		
current	*98*	*186*		
Total liabilities	66	301		
of which: non-current	*32*	*137*		
current	*34*	*164*		
Net assets	**299**	**742**	**-**	**-**
Statement of comprehensive income information[2]				
Total revenues	326	914		
of which: dividends received	-	-		
Profit after tax	72	53		
Total other comprehensive income for the year, net of tax	-	-		
Total comprehensive income for the year[2]	**72**	**53**	**-**	**-**
Net cash inflows (outflows)[2]	**34**	**(31)**		

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 37 – Group entities).
(2) Financial information derived from financial statements prepared in accordance with local statutory accounting standards.

31 December 2015 *In millions of EUR*	**Pražská teplárenská a.s. and its subsidiaries**	**Stredoslovenská energetika, a.s. and its subsidiaries**	**Other individually immaterial subsidiaries**	**Total**
Non-controlling percentage	**26.18%**	**51.00%**		
Business activity	Production and distribution of heat	Distribution of electricity		
Country[1]	Czech Republic	Slovakia		
Carrying amount of NCI at 31 December 2015	**86**	**386**	**3**	**475**
Profit (loss) attributable to non-controlling interest	**5**	**39**	**1**	**45**
Dividends declared	**(8)**	**(29)**	**-**	**(37)**
Statement of financial position information[2]				
Total assets	383	1,083		
of which: non-current	*327*	*850*		
current	*56*	*233*		
Total liabilities	69	327		
of which: non-current	*39*	*179*		
current	*30*	*148*		
Net assets	**314**	**756**	**-**	**-**
Statement of comprehensive income information[2]				
Total revenues	242	948		
of which: dividends received	-	-		
Profit after tax	21	76		
Total other comprehensive income for the year, net of tax	-	-		
Total comprehensive income for the year[2]	**21**	**76**	**-**	**-**
Net cash inflows (outflows)[2]	**1**	**17**		

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 37 – Group entities).
(2) Financial information derived from financial statements prepared in accordance with local statutory accounting standards.

28. Loans and borrowings

In millions of EUR	**31 December 2016**	**31 December 2015**
Issued debentures at amortised cost	1,098	1,097
Loans payable to credit institutions	38	223
Loans payable to other than credit institutions	14	10
of which owed to the parent company/ultimate parent company	-	*3*
of which owed to other related companies	*14*	*7*
Bank overdraft	-	20
Total	**1,150**	**1,350**
Non-current	1,140	1,304
of which owed to the parent company/ultimate parent company	-	-
of which owed to other related companies	*14*	*7*
Current	10	46
of which owed to the parent company/ultimate parent company	-	*3*
Total	**1,150**	**1,350**

The weighted average interest rate on loans and borrowings (excl. debentures) for 2016 was 2.53% (2015: 2.49%).

Issued debentures at amortised costs

Details about debentures issued as at 31 December 2016 are presented in the following table:

In millions of EUR	**Principal**	**Accrued interest**	**Unamortised fee**	**Maturity**	**Interest rate (%)**	**Effective interest rate (%)**
EP Energy 2018 notes	598	4	(3)	01/05/2018	4.375	4.691
EP Energy 2019 notes	499	5	(5)	01/11/2019	5.875	6.301
Total	**1,097**	**9**	**(8)**	**-**	**-**	**-**

i. 2019 notes

The Senior Secured Notes were issued on 31 October 2012, are listed on the Irish Stock Exchange and comprise EUR 500 million Senior Secured Notes due 2019 (the "2019 Notes"). The 2019 Notes bear interest at 5.875% per annum, payable semi-annually in arrears on 1 May and 1 November of each year.

The Company may redeem some or all of the 2019 Notes at a redemption price equal to 100% of the principal amount of the 2019 Notes redeemed, plus accrued and unpaid interest and additional amounts, if any, plus a "make whole" premium. Further, the Company may redeem all, but not part, of the 2019 Notes at a price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax law. Upon the occurrence of a certain change of control triggering events, the Company may be required to offer to redeem the 2019 Notes at 101% of the principal amount redeemed, plus accrued and unpaid interest and additional amounts, if any.

Unless redeemed prematurely, the 2019 Notes will be redeemed by the Group in their principal amount on 1 November 2019.

The 2019 Notes are guaranteed by certain subsidiaries of EPE on a senior secured basis. The 2019 Notes and the guarantees thereof are secured by first ranking liens on certain assets that secure EPE's and the guarantors' obligations.

The indenture pursuant to which the 2019 Notes were issued contains a number of restrictive covenants, including limitations on restricted payments, transactions with affiliates, liens and sales of collateral. The Company has to monitor the relationship between the total amount of debt and Adjusted EBITDA; under certain circumstances, a specific limit must not be exceeded when considering additional debt. The level of debt must be also considered before certain profit distributions.

The 2019 Notes are stated at net of debt issue costs of EUR 12 million (at inception). These costs are allocated to the profit and loss account over the term of the 2019 Notes through the effective interest rate of 6.301%.

In 2016 principal and accrued interest in total amount of EUR 1 million were settled.

ii. 2018 notes

On 18 April 2013 EPE issued additional Senior Secured Notes due in 2018 (the "2018 Notes"). These second notes are listed on the Irish Stock Exchange and amount to EUR 600 million. The 2018 Notes bear interest at 4.375% per annum, payable semi-annually in arrears on 1 May and 1 November of each year.

The Company may redeem some or all of the 2018 Notes at a redemption price equal to 100% of the principal amount of the 2018 Notes redeemed, plus accrued and unpaid interest and additional amounts, if any, plus a "make whole" premium. Further, the Company may redeem all, but not part, of the 2018 Notes at a price equal to 100% of the aggregate principal amounts thereof plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of certain changes in applicable tax law. Upon the occurrence of a certain change of control triggering events, the Company may be required to offer to redeem the 2018 Notes at 101% of the principal amount redeemed, plus accrued and unpaid interest and additional amounts, if any.

Unless redeemed prematurely, the 2018 Notes will be redeemed by the Group in their principal amount on 1 May 2018.

The 2018 Notes rank pari passu with the EPE Senior Secured Notes due 2019 issued on 31 October 2012 (the "2019 Notes"). The 2018 Notes and 2019 Notes share the same security package and are guaranteed by certain subsidiaries of EPE on a senior secured basis. The 2018 Notes and the guarantees thereof are also secured by first ranking liens on the same assets that secure EPE's and the guarantors' obligations under the 2019 Notes.

The indenture pursuant to which the 2018 Notes were issued contains similar covenants as the indenture of the 2019 Notes.

The 2018 Notes are stated at net of debt issue costs of EUR 8 million (at inception). These costs are allocated to the profit and loss account over the term of the 2018 Notes through the effective interest rate of 4.691%.

In 2016 principal and accrued interest in total amount of EUR 2 million were settled.

Other loans and borrowings

Terms and debt repayment schedule

Terms and conditions of outstanding other loans and borrowing as at 31 December 2016 were as follows:

In millions of EUR	**Currency**	**Nominal interest rate**	**Year of maturity (up to)**	**Balance at 31 December 2016**	**Due within 1 year**	**Due in 1–5 years**	**Due in following years**
Secured bank loan	CZK	variable*	2021	1	-	1	-
Secured bank loan	EUR	fixed	2023	2	-	-	2
Secured bank loan	CZK	fixed	2021	1	-	1	-
Unsecured bank loan	EUR	fixed	2023	34	9	20	5
Unsecured loan	CZK	fixed	2019	14	-	14	-
Total interest-bearing liabilities				**52**	**9**	**36**	**7**

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

Terms and conditions of outstanding other loans and borrowing as at 31 December 2015 were as follows:

In millions of EUR	**Cur-rency**	**Nominal interest rate**	**Year of maturity (up to)**	**Balance at 31 December 2015**	**Due within 1 year**	**Due in 1–5 years**	**Due in following years**
Secured bank loan	EUR	variable*	2022	175	-	100	75
Secured bank loan	CZK	variable*	2021	7	1	5	1
Secured bank loan	EUR	fixed	2023	6	4	1	1
Secured bank loan	CZK	fixed	2021	1	-	-	1
Unsecured bank loan	EUR	fixed	2023	32	8	17	7
Unsecured bank loan	EUR	variable*	2016	1	1	-	-
Unsecured loan	CZK	fixed	2018	7	-	7	-
Unsecured loan	EUR	fixed	2016	3	3	-	-
Bank overdraft	EUR	variable*		20	20	-	-
Total interest-bearing liabilities				**252**	**37**	**130**	**85**

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

Fair value information

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

In millions of EUR	**31 December 2016**		**31 December 2015**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Issued debentures at amortised costs	1,098	1,129	1,097	1,136
Loans payable to credit institutions	38	41	223	226
Loans payable to other than credit institutions	14	14	10	10
Bank overdraft	-	-	20	20
Total	**1,150**	**1,184**	**1,350**	**1,392**

29. Provisions

In millions of EUR	**Employee benefits**	**Provision for emission rights**	**Provision for restoration and decommissioning**	**Other**	**Total**
Balance at 1 January 2016	**12**	**22**	**3**	**2**	**39**
Provisions made during the year	2	24	-	7	**33**
Provisions used during the year	(1)	(22)	-	-	**(23)**
Provisions reversed during the year	(1)	-	-	-	**(1)**
Balance at 31 December 2016	**12**	**24**	**3**	**9**	**48**
Non-current	**12**	**-**	**2**	**3**	**17**
Current	**-**	**24**	**1**	**6**	**31**

In millions of EUR	**Employee benefits**	**Warranties**	**Provision for emission rights**	**Provision for lawsuits and litigations**	**Provision for restoration and decommissioning**	**Other**	**Total**
Balance at 1 January 2015	**91**	**-**	**36**	**-**	**314**	**2**	**443**
Provisions made during the year	3	-	18	8	-	1	**30**
Provisions made during the year related to discontinued operations	19	-	22	-	9	-	**50**
Provisions used during the year	(1)	-	(20)	-	-	-	**(21)**
Provisions used during the year related to discontinued operations	(22)	-	(16)	-	(5)	(1)	**(44)**
Provisions reversed during the year	(2)	-	-	-	-	-	**(2)**
Provisions reversed during the year related to discontinued operations	-	-	-	-	(7)	-	**(7)**
Additions through business combinations[(1)]	-	-	4	-	1	1	**6**
Unwinding of discount*	1	-	-	-	7	-	**8**
Transfer to discontinued operations[(2)]	(77)	-	(22)	(8)	(316)	(1)	**(424)**
Balance at 31 December 2015	**12**	**-**	**22**	**-**	**3**	**2**	**39**
Non-current	**12**	**-**	**-**	**-**	**2**	**2**	**16**
Current	**-**	**-**	**22**	**-**	**1**	**-**	**23**

* *Unwinding of discount fully relates to discontinued operations and is recognised in Profit (loss) from discontinued operations.*

(1) The purchase of Budapesti Erömü Zrt.

(2) Transfer of JTSD Braunkohlebergbau GmbH and its subsidiaries and associates to disposal group held for sale

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

Employee benefits

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

As at 31 December 2016 the provision for employee benefits in amount of EUR 12 million (2015: EUR 12 million) was recorded by United Energy, a.s., Elektrárny Opatovice, a.s., Pražská teplárenská a.s., Stredoslovenská energetika, a.s., PT měření, a.s. and Budapesti Erömü Zrt.

The provision recorded by Stredoslovenská energetika, a.s. amounts to EUR 10 million (2015: EUR 9 million). The SSE Group has the following retirement plan with defined benefit and defined contribution plans:

Pension Plans

This program has a defined contribution pension plan under which the Group pays fixed contributions to third parties or government. The Group has no legal or constructive obligation to pay further funds, if the amount of plan assets is insufficient to pay all the performance of employees who are eligible for the current and prior periods.

The amount of benefits depends on several factors, such as age, years of service and salary.

Unfunded pension plan with defined benefit

According to the Corporate Group collective agreement for the period 2015 – 2016, the Group is obliged to pay its employees upon age pension or disability pension, depending on seniority, the following multiples of the average monthly salary:

	Multiples of average monthly wage
10 years or less	2
11 – 15 years	4
16 – 20 years	5
21 – 25 years	6
25 years and more	7

The minimum requirement of the Labour Code to post the retirement, equal to one average monthly salary, is included in the above multiples.

Other benefits

The Group also pays benefits for work and life anniversaries:

- one monthly wage after 25 years of service;
- 40% to 110% of the employee's monthly salary depending on seniority in the Group at the age of 50.

Provision for emission rights

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 end of the reporting period.

30. Deferred income

In millions of EUR	**31 December 2016**	**31 December 2015**
Government grants	32	34
Other deferred income	64	50
Total	**96**	**84**
Non-current	75	72
Current	21	12
Total	**96**	**84**

Balance of government grants in amount of EUR 32 million (2015: EUR 34 million) is mainly represented by Elektrárny Opatovice, a.s. of EUR 21 million (2015: EUR 22 million), Alternative Energy, s.r.o. of EUR 4 million (2015: EUR 5 million) and United Energy, a.s. of EUR 5 million (2015: EUR 5 million). These companies were provided with government grants to reduce emission pollutions and to build a biogas facility.

Balance of other deferred income in amount of EUR 64 million (2015: EUR 50 million) is mainly represented by Stredoslovenská energetika, a.s. This balance consists of deferred income related to the following items: fee for grid connection paid by customers (EUR 26 million; 2015 EUR 25 million), contributions for the acquisitions of tangible assets paid by customers (EUR 21 million; 2015: EUR 16 million), property acquired free-of-charge (EUR 5 million; 2015: EUR 5 million) and contributions paid by customers for the restoration of tangible assets related to distribution network (EUR 3 million; 2015: 4 million).

31. Financial instruments

Financial instruments and other financial assets

In millions of EUR	**31 December 2016**	**31 December 2015**
Assets carried at amortised cost		
Loans to other than credit institutions	6	312
of which owed by the parent company/ultimate parent company[(1)]	-	*306*
of which owed by other Group related companies	*6*	*5*
Shares available for sale held at cost	1	2
Total	**7**	**314**
Assets carried at fair value		
Hedging: *of which*	1	1
Interest rate swaps cash flow hedge	-	*1*
Commodity derivatives cash flow hedge	*1*	
Risk management purpose: *of which*	-	7
Currency forwards reported as trading	-	*4*
Commodity derivatives reported as trading	-	*3*
Total	**1**	**8**
Non-current	6	8
Current	2	314
Total	**8**	**322**

(1) Loans provided to related parties as at 31 December 2015 represents loan provided by EP Energy, a.s. to Energetický a průmyslový holding, a.s. The loan was repaid by set-off in December 2016.

The weighted average interest rate on loans to other than credit institutions as at 31 December 2016 was 4.00% (2015: 3.85%).

Financial instruments and other financial liabilities

In millions of EUR	**31 December 2016**	**31 December 2015**
Liabilities carried at fair value		
Hedging: ***of which***	5	5
Commodity derivatives cash flow hedge	-	*5*
Interest rate swaps cash flow hedge	*4*	-
Currency forwards cash flow hedge	*1*	-
Risk management purpose: *of which*	10	1
Currency forwards reported as trading	-	*1*
Commodity derivatives reported as trading	*3*	-
Interest rate swaps reported as trading	*7*	-
Total	**15**	**6**
Non-current	11	1
Current	4	5
Total	**15**	**6**

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

In millions of EUR	**31 December 2016 Nominal amount buy**	**31 December 2016 Nominal amount sell**	**31 December 2016 Positive fair value**	**31 December 2016 Negative fair value**
Hedging: *of which*	128	(128)	1	(5)
Interest rate swaps cash flow hedge	*100*	*(100)*	-	*(4)*
Commodity derivatives cash flow hedge	*1*	-	*1*	-
Currency forwards cash flow hedge	*23*	*(24)*	-	*(1)*
Interest rate swaps fair value hedge	*4*	*(4)*	-	-
Risk management purpose: *of which*	649	(649)	-	(10)
Currency forwards reported as trading	*102*	*(102)*	-	-
Interest rate swaps reported as trading	*200*	*(200)*	-	*(7)*
Commodity derivatives reported as trading	*347*	*(347)*	-	*(3)*
Total	**777**	**(777)**	**1**	**(15)**

In millions of EUR	**31 December 2015 Nominal amount buy**	**31 December 2015 Nominal amount sell**	**31 December 2015 Positive fair value**	**31 December 2015 Negative fair value**
Hedging: *of which*	209	(204)	1	(5)
Interest rate swaps cash flow hedge	*100*	*(100)*	*1*	-
Commodity derivatives cash flow hedge	*109*	*(104)*	-	*(5)*
Risk management purpose: *of which*	394	(392)	7	(1)
Currency forwards reported as trading	*107*	*(108)*	*4*	*(1)*
Commodity derivatives reported as trading	*287*	*(284)*	*3*	-
Total	**603**	**(596)**	**8**	**(6)**

Swap derivatives are recognised in respect of interest rate swaps as described in detail in Note 35 – Risk management policies and disclosures.

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

Sensitivity analysis relating to the fair values of financial instruments is included in the Note 35 – Risk management policies and disclosures.

Fair value hierarchy for financial instruments carried at fair value

In general, financial instruments carried at fair value are measured based on quoted market prices at the reporting date. If the market for a financial instrument is not active, fair value is established using valuation

techniques. In applying valuation techniques, management uses estimates and assumptions that are consistent with available information that market participants would use in setting a price for the financial instrument.

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included in Level 1 that are observable on the market 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).

	2016			
In millions of EUR	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value:				
Hedging: *of which*	-	1	-	**1**
Commodity derivatives cash flow hedge	-	*1*	-	***1***
Total	**-**	**1**	**-**	**1**
Financial liabilities carried at fair value:				
Hedging: *of which*	-	5	-	**5**
Currency forwards cash flow hedge	-	*1*	-	***1***
Interest rate swaps cash flow hedge	-	*4*	-	***4***
Risk management purpose: *of which*	-	10	-	**10**
Interest rate swaps reported as trading	-	*7*	-	***7***
Commodity derivatives reported as trading	-	*3*	-	***3***
Total	**-**	**15**	**-**	**15**

	2015			
In millions of EUR	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value:				
Hedging: *of which*	-	1	-	**1**
Interest rate swaps cash flow hedge	-	1	-	**1**
Risk management purpose: *of which*	-	7	-	**7**
Currency forwards reported as trading	-	*4*	-	***4***
Commodity derivatives reported as trading	-	*3*	-	***3***
Total	**-**	**8**	**-**	**8**
Financial liabilities carried at fair value:				
Hedging: *of which*	-	5	-	**5**
Commodity derivatives cash flow hedge	-	*5*	-	***5***
Risk management purpose: *of which*	-	1	-	**1**
Currency forwards reported as trading	-	*1*	-	***1***
Total	**-**	**6**	**-**	**6**

There were no transfers between fair value levels in either 2016 or 2015.

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

In millions of EUR	**Carrying value amount**	**Fair value**
Financial assets	**31 December 2016**	**31 December 2016**
Loans to other than credit institutions	6	6
Shares available for sale	1	(1) -
Financial instruments held at amortised costs	**7**	**6**
Financial liabilities		
Loans and borrowings	**1,150**	**1,184**

In millions of EUR	**Carrying value amount**	**Fair value**
Financial assets	**31 December 2015**	**31 December 2015**
Loans to other than credit institutions	312	313
Shares available for sale	2	(1) -
Financial instruments held at amortised costs	**314**	**313**
Financial liabilities		
Loans and borrowings	**1,350**	**1,392**

(1) These equity instruments do not have a quoted price in an active market and their fair value cannot be otherwise measured reliably, therefore they are held at cost and disclosure of fair value is not required.

All financial instruments held at amortised costs are categorised within Level 2 of the fair value hierarchy (for more details of valuation methods refer to Note 2(d) i – Assumption and estimation uncertainties).

The fair value of trade receivables and other assets and trade payables is equal to their carrying amount.

Transactions with emission rights

The following information pertains to contracts on delivery or sale of emission rights. These contracts do not meet the IAS 39 criteria for derivatives (refer to the Note 3(e) – Derivative financial instruments – Transactions with emission rights and energy) and are reported as off-balance sheet items, not derivatives. The management carefully assessed conditions of the contracts and concluded that all contracts are intended to be settled via physical delivery needed for consumption or physically delivered quantities shall be sold as part of its ordinary business, therefore the contracts are not reported as derivatives.

Forward operations

As at 31 December 2016 the EPE Group is contractually obliged to purchase 2,668,113 pieces (2015: 2,172,971 pieces) of emission rights at an average price 6.78 EUR/piece (2015: 8.40 EUR/piece).

32. Trade payables and other liabilities

In millions of EUR	**31 December 2016**	**31 December 2015**
Trade payables	142	158
Advance payments received	62	62
Estimated payables	26	30
Payroll liabilities	17	19
Other tax liabilities	13	8
Liability from deferred earn-out	-	(1)5
Accrued expenses	3	4
Uninvoiced supplies	1	1
Other liabilities	8	6
Total	**272**	**293**
Non-current	2	7
Current	270	286
Total	**272**	**293**

(1) In 2015 the EPE Group acquired Budapesti Erömü Zrt. In addition to the purchase price paid, EPE Group recognised an additional liability in amount of EUR 5 million as probable future payment to previous owner if agreed criteria are met. As these criteria are not probably met anymore, the liability from deferred earn-out was released to profit and loss.

Trade payables and other liabilities have not been secured as at 31 December 2016, or as at 31 December 2015.

The Group's exposure to currency and liquidity risk related to trade payables and other liabilities is disclosed in Note 35 – Risk management policies and disclosures.

Liabilities to social fund

In millions of EUR	**2016**	**2015**
Balance at 1 January	1	1
Charged to expenses	1	1
Disposal/decrease in principal	(1)	(1)
Balance at 31 December	**1**	**1**

Liabilities to the social fund are presented under payroll liabilities.

33. Financial commitments and contingencies

Off balance sheet liabilities

In millions of EUR	**31 December 2016**	**31 December 2015**
Granted pledges – securities	855	1,013
Guarantees given	117	179
Other granted pledges	886	1,677
Total	**1,858**	**2,869**

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

Guarantees given

Guarantees given mainly include contracts for the future supply of energy for EUR 113 million (2015: EUR 173 million).

Other granted pledges

In millions of EUR	**31 December 2016**	**31 December 2015**
Loans granted[(1)]	325	1,157
Property, plant and equipment	395	374
Cash and cash equivalents	75	45
Trade receivables	62	72
Inventories	29	28
Investment property	-	1
Total	**886**	**1,677**

(1) Total balance of pledged granted loans includes intercompany loans of EUR 319 million (2015: EUR 925 million).

Off balance sheet assets

In millions of EUR	**31 December 2016**	**31 December 2015**
Received promises	395	263
Other received guarantees and warranties	4	4
Total	**399**	**267**

Received promises

Received promises mainly comprise the contracts for the future purchase of energy in amount of EUR 197 million (2015: EUR 120 million), loan commitment received recognised by EP Energy, a.s. of EUR 50 million (2015: EUR 30 million) and regulatory contingent assets related to green energy of EUR 138 million (2015: EUR 73 million) recognised by SSE Group, which are represented by the contingent assets related to green energy.

Received promises also include a contingent asset amounting to EUR 8 million recognized by EP Cargo a.s. EP Cargo a.s. has agreed with one of its clients on compensation of losses arising from a long term contract relating to rental of transportation equipment. The part of the compensation that has not been paid prior to end of year 2016 has been recognized by EP Cargo a.s. as contingent asset.

Regulatory contingent assets related to green energy

The SSE Group is legally bound to connect producers of green energy, if they comply with requirements set by RONI and to purchase the green electricity generated, which is used to cover network losses. The purchase tariff for green energy is set by RONI and is covered by the Tariff for system operation ("TPS").

For the year ended 31 December 2016 the SSE Group recognised a loss of EUR 57 million (2015: EUR 27 million) as the difference between the costs of purchased green energy and costs related to the subvention of electricity produced from coal and revenues from TPS in the period from 1 January 2016 to 31 December 2016. The loss disregards effects from recognition and releasing of accrued income as described below.

Based on the current Regulatory Framework the losses incurred in 2015 and 2016 will be compensated in two years' time, i.e. relevant amounts in 2017 and 2018 through an increase of revenues from TPS. The 2016 loss is included in the contingent asset of EUR 138 million (2015: EUR 73 million) specified above.

Based on a RONI decision from December 2016 the resulting asset of EUR 73 million originating in the year 2015 was recognised as accrued income in the consolidated statement of financial position as of 31 December 2016 and will be fully collected in the course of 2017.

Similarly, based on the RONI decision from December 2015 the resulting asset of EUR 77 million originating in the year 2014 was recognised as accrued income in the consolidated statement of financial position as of 31 December 2015 and was collected in the course of 2016.

The loss for 2016 of EUR 138 million has not yet been recognised as the asset does not yet meet the recognition criteria set by IFRS as adopted by the EU and will be recognised during the course of 2017 once RONI confirmation on the exact amount is received.

34. Operating leases

During the year ended 31 December 2016 EUR 6 million (2015: EUR 11 million) was recognised as an expense in profit or loss in respect of operating leases.

During the year ended 31 December 2016 EUR 6 million (2015: EUR 5 million) was recognised as income in profit or loss in respect of operating leases and rent of property.

35. Risk management policies and disclosures

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

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

(a) Credit risk

i. Exposure to credit risk

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

The Group has established a credit policy under which each new customer requesting products/services over a certain limit (which is based on the size and nature of the particular business) is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group uses credit databases for analysis of creditworthiness of new customers and after deemed creditworthy they are also subject to Risk committee approval. The Group's policy is also to require suitable collateral to be provided by customers such as a bank guarantee or a parent company guarantee. The exposure to credit risk is monitored on an ongoing basis.

Additional aspects mitigating credit risk

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

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

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

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

Credit risk by type of counterparty

As at 31 December 2016

In millions of EUR	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Other	Total
Assets						
Cash and cash equivalents	-	-	-	464	-	**464**
Restricted cash	-	-	-	1		**1**
Trade receivables and other assets	295	1	-	-	12	**308**
Financial instruments and other financial assets	8	-	-	-	-	**8**
Total	**303**	**1**	**-**	**465**	**12**	**781**

As at 31 December 2015

In millions of EUR	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Other	Total
Assets						
Cash and cash equivalents	1	-	2	129	-	**132**
Trade receivables and other assets	303	3	-	-	11	**317**
Financial instruments and other financial assets	10	-	310	2	-	**322**
Total	**314**	**3**	**312**	**131**	**11**	**771**

Credit risk by location of debtor

As at 31 December 2016

In millions of EUR	Czech Republic	Slovakia	Cyprus	Poland	United Kingdom	Germany	Hungary	Netherlands	Other	Total
Assets										
Cash and cash equivalents	437	24	-	1	-	-	2	-	-	**464**
Restricted cash	-	-	-	-	-	-	1	-	-	**1**
Trade receivables and other assets	125	158	-	-	3	3	18	-	1	**308**
Financial instruments and other financial assets	7	-	-	-	-	-	-	-	1	**8**
Total	**569**	**182**	**-**	**1**	**3**	**3**	**21**	**-**	**2**	**781**

As at 31 December 2015

In millions of EUR	Czech Republic	Slovakia	Cyprus	Poland	United Kingdom	Germany	Hungary	Netherlands	Other	Total
Assets										
Cash and cash equivalents	75	56	-	-	-	-	-	1	-	**132**
Restricted cash	-	-	-	-	-	-	-	-	-	**-**
Trade receivables and other assets	129	165	1	-	1	5	13	-	3	**317**
Financial instruments and other financial assets	320	-	-	-	-	-	1	1	-	**322**
Total	**524**	**221**	**1**	**-**	**1**	**5**	**14**	**2**	**3**	**771**

ii. Impairment losses

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

Credit risk – impairment of financial assets

As at 31 December 2016 *In millions of EUR*	**Loans to other than credit institutions**	**Trade receivables and other assets**	**Total**
Before maturity (net)	6	300	**306**
After maturity (net)	-	8	**8**
Total	**6**	**308**	**314**
A – Assets for which a provision has been created (overdue and impaired)			
- Gross	-	21	**21**
- specific loss allowance[1]	-	(18)	**(18)**
Net	**-**	**3**	**3**
B – Assets for which a provision has not been created (overdue but not impaired)			
- after maturity <30 days	-	4	**4**
- after maturity 31–180 days	-	1	**1**
Net	**-**	**5**	**5**
Total	**-**	**8**	**8**

1) *All companies within the Group carry out the detailed analysis of trade receivables and other assets and based on the results of this analysis create a specific loss allowance.*

The movements in the allowance for impairment in respect of financial assets during the year ended 31 December 2016 were as follows:

In millions of EUR	**Loans to other than credit institutions**	**Trade receivables and other assets**	**Total**
Balance at 1 January 2016	**-**	**(13)**	**(13)**
Impairment losses recognised during the year	-	(7)	**(7)**
Reversals of impairment losses recognised during the year	-	2	**2**
Balance at 31 December 2016	**-**	**(18)**	**(18)**

As at 31 December 2015 *In millions of EUR*	**Loans to other than credit institutions**	**Trade receivables and other assets**	**Total**
Before maturity (net)	312	292	**604**
After maturity (net)	-	25	**25**
Total	**312**	**317**	**629**
A – Assets for which a provision has been created (overdue and impaired)			
- Gross	-	35	**35**
- specific loss allowance	-	(13)	**(13)**
Net	**-**	**22**	**22**
B – Assets for which a provision has not been created (overdue but not impaired)			
- after maturity <30 days	-	3	**3**
Net	**-**	**3**	**3**
Total	**-**	**25**	**25**

The movements in the allowance for impairment in respect of financial assets during the year ended 31 December 2015 were as follows:

In millions of EUR	**Loans to other than credit institutions**	**Trade receivables and other assets**	**Total**
Balance at 1 January 2015	**-**	**(10)**	**(10)**
Impairment losses recognised during the year	-	(3)	**(3)**
Reversals of impairment losses recognised during the year	-	1	**1**
Differences due to foreign currency translation	-	(1)	**(1)**
Balance at 31 December 2015	**-**	**(13)**	**(13)**

Impairment losses on trade receivables and other assets at 31 December 2016 and 31 December 2015 relate to several customers that have indicated that they do not expect to be able to pay their outstanding balances, mainly due to economic circumstances. The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on extensive analyses of the underlying ratings of the customers.

Based on historic default rates, management believes that, apart from the above, no significant collective impairment allowance is necessary in respect of trade receivables and other assets that are not past due or past due.

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

(b) Liquidity risk

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

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

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

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

Maturities of financial assets and liabilities

As at 31 December 2016

In millions of EUR	**Carrying amount**	**Contractual cash flows**[1]	**Up to 3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Undefined maturity**
Assets							
Cash and cash equivalents	**464**	464	464	-	-	-	-
Restricted cash	**1**	1	-	1	-	-	-
Trade receivables and other assets	[2]**270**	270	209	55	1	-	5
Financial instruments and other financial assets	**8**	11	1	-	-	9	1
out of which Derivatives - inflow	*1*	*33*	*5*	*10*	*18*	-	-
outflow	-	*(32)*	*(5)*	*(10)*	*(17)*	-	-
Total	**743**	**746**	**674**	**56**	**1**	**9**	**6**
Liabilities							
Loans and borrowings	**1,150**	1,274	10	38	1,219	7	-
Trade payables and other liabilities	[3]**242**	241	199	18	-	-	24
Financial instruments and other financial liabilities	**15**	15	-	3	-	12	-
out of which Derivatives - inflow	-	*744*	*33*	*337*	*70*	*304*	-
outflow	*(15)*	*(745)*	*(32)*	*(338)*	*(69)*	*(306)*	-
Total	**1,407**	**1,530**	**209**	**59**	**1,219**	**19**	**24**
Net liquidity risk position	**(664)**	**(784)**	**465**	**(3)**	**(1,218)**	**(10)**	**(18)**

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.
(2) Prepaid expenses and advances provided in total amount of EUR 38 million are excluded from the carrying amount as these items will cause no future cash inflow.
(3) Advances received in amount of EUR 30 million are excluded from the carrying amount as these items will cause no future cash outflow.

As at 31 December 2015

In millions of EUR	**Carrying amount**	**Contractual cash flows**[1]	**Up to 3 months**	**3 months to 1 year**	**1-5 years**	**Over 5 years**	**Undefined maturity**
Assets							
Cash and cash equivalents	**132**	132	132	-	-	-	-
Trade receivables and other assets	[2]**279**	280	215	58	1	2	4
Financial instruments and other financial assets	**322**	336	163	160	1	10	2
out of which Derivatives - inflow	*8*	*494*	*3*	*228*	*163*	*100*	-
outflow	-	*(486)*	*(3)*	*(222)*	*(161)*	*(100)*	-
Total	**733**	**748**	**510**	**218**	**2**	**12**	**6**
Liabilities							
Loans and borrowings	**1,350**	1,538	24	64	1,355	95	-
Trade payables and other liabilities	[3]**250**	250	221	7	6	-	16
Financial instruments and other financial liabilities	**6**	6	1	4	1	-	-
out of which Derivatives - inflow	*6*	*109*	*30*	*52*	*27*	-	-
outflow	-	*(109)*	*(30)*	*(52)*	*(27)*	-	-
Total	**1,606**	**1,794**	**246**	**75**	**1,362**	**95**	**16**
Net liquidity risk position	**(873)**	**(1,046)**	**264**	**143**	**(1,360)**	**(83)**	**(10)**

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.
(2) Prepaid expenses and advances provided in total amount of EUR 38 million are excluded from the carrying amount as these items will cause no future cash inflow.
(3) Advances received in amount of EUR 43 million are excluded from the carrying amount as these items will cause no future cash outflow.

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

(c) Interest rate risk

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

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

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

Financial information relating to interest bearing and non-interest bearing assets and liabilities and their contractual maturity or re-pricing dates as at 31 December 2016 is as follows:

In millions of EUR	**Up to 1 year**	**1 year to 5 years**	**Over 5 years**	**Undefined maturity (or non-interest bearing)**	**Total**
Assets					
Cash and cash equivalents	464	-	-	-	**464**
Restricted cash	-	-	-	1	**1**
Trade receivables and other assets	-	-	-	308	**308**
Financial instruments and other financial assets[1]	-	-	6	2	**8**
out of which Derivatives - inflow	-	-	-	*33*	*33*
outflow	-	-	-	*(32)*	*(32)*
Total	**464**	**-**	**6**	**311**	**781**
Liabilities					
Loans and borrowings	19	1,122	7	2	**1,150**
Trade payables and other liabilities	-	-	-	272	**272**
Financial instruments and financial liabilities[1]	14	-	-	1	**15**
out of which Derivatives - inflow	*674*	*70*	-	-	*744*
outflow	*(674)*	*(69)*	-	*(2)*	*(745)*
Total	**33**	**1,122**	**7**	**275**	**1,437**
Net interest rate risk position	**431**	**(1,122)**	**(1)**	**36**	**(656)**

1) The Group contractually agreed to swap float interest rate for a fixed rate (at some of its bank loans).

Notional amounts of financial instruments are included in Note 31 – Financial instruments.

Interest rate risk exposure as at 31 December 2015 is as follows:

In millions of EUR	**Up to 1 year**	**1 year to 5 years**	**Over 5 years**	**Undefined maturity (or non-interest bearing)**	**Total**
Assets					
Cash and cash equivalents	132	-	-	-	**132**
Trade receivables and other assets	23	-	-	294	**317**
Financial instruments and other financial assets[1]	312	-	5	5	**322**
out of which Derivatives - inflow	*331*	*163*	-	-	*494*
outflow	*(225)*	*(161)*	*(100)*	-	*(486)*
Total	**467**	**-**	**5**	**299**	**771**
Liabilities					
Loans and borrowings	221	1,116	13	-	**1,350**
Trade payables and other liabilities	45	5	-	243	**293**
Financial instruments and financial liabilities[1]	1	1	-	4	**6**
out of which Derivatives - inflow	*82*	*27*	-	-	*109*
outflow	*(82)*	*(27)*	-	-	*(109)*
Total	**267**	**1,122**	**13**	**247**	**1,649**
Net interest rate risk position	**200**	**(1,122)**	**(8)**	**52**	**(878)**

1) The Group contractually agreed to swap float interest rate for a fixed rate (at some of its bank loans).

Notional amounts of financial instruments are included in Note 31 – Financial instruments.

Sensitivity analysis

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

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

In millions of EUR	**2016**	**2015**
Decrease in interest rates by 100 bp	-	2
Increase in interest rates by 100 bp	-	(2)

The analysis stated above does not cover the impact of change in market interest rates on the fair value of derivatives.

(d) Foreign exchange risk

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

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

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

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

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

As at 31 December 2016, the exposure to foreign exchange risk translated to millions of EUR was as follows:

In millions of EUR	**CZK**	**HUF**	**EUR**	**PLN**	**Other**	**Total**
Assets						
Cash and cash equivalents	113	16	333	2	-	**464**
Trade receivables and other assets	100	17	191	-	-	**308**
Financial instruments and other financial assets	7	-	1	-	-	**8**
	220	**33**	**525**	**2**	**-**	**780**
Off balance assets						
Received promises and guarantees	14	-	248	-	-	**262**
Receivables from derivative operations	76	-	701	-	-	**777**
	90	**-**	**949**	**-**	**-**	**1,039**
Liabilities						
Loans and borrowings	16	-	1,134	-	-	**1,150**
Financial instruments and other financial liabilities	-	-	15	-	-	**15**
Trade payables and other liabilities	116	25	130	1	-	**272**
	132	**25**	**1,279**	**1**	**-**	**1,437**
Off balance liabilities						
Granted pledges	1,369	-	673	-	-	**2,042**
Guarantees given	4	-	-	-	-	**4**
Payables related to derivative operations	76	24	677	-	-	**777**
	1,449	**24**	**1,350**	**-**	**-**	**2,823**
Net foreign exchange risk position	**88**	**8**	**(754)**	**1**	**-**	**(657)**

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 31 – Financial instruments for more details).

As at 31 December 2015, the exposure to foreign exchange risk translated to millions of EUR was as follows:

In millions of EUR	**CZK**	**HUF**	**EUR**	**PLN**	**Other**	**Total**
Assets						
Cash and cash equivalents	62	-	69	-	1	**132**
Trade receivables and other assets	100	17	200	-	-	**317**
Financial instruments and other financial assets	12	1	309	-	-	**322**
	174	**18**	**578**	**-**	**1**	**771**
Off balance assets						
Received promises and guarantees	21	-	246	-	-	**267**
Receivables from derivative operations	209	-	394	-	-	**603**
	230	**-**	**640**	**-**	**-**	**870**
Liabilities						
Loans and borrowings	15	-	1,335	-	-	**1,350**
Financial instruments and other financial liabilities	2	4	-	-	-	**6**
Trade payables and other liabilities	122	20	151	-	-	**293**
	139	**24**	**1,486**	**-**	**-**	**1,649**
Off balance liabilities						
Granted pledges	1,430	-	1,260	-	-	**2,690**
Guarantees given	-	1	178	-	-	**179**
Payables related to derivative operations	284	-	312	-	-	**596**
	1,714	**1**	**1,750**	**-**	**-**	**3,465**
Net foreign exchange risk position	**35**	**(6)**	**(908)**	**-**	**1**	**(878)**

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 31 – Financial instruments for more details).

The following significant exchange rates applied during the period:

	31 December 2016		**31 December 2015**	
CZK	**Average rate**	**Reporting date spot rate**	**Average rate**	**Reporting date spot rate**
EUR 1	27.033	27.020	27.283	27.025
HUF 1	0.08682	0.08721	0.08557	0.08807
PLN 1	6.198	6.126	6.525	6.340

Sensitivity analysis

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

Effect in millions of EUR	**2016 Profit (loss)**	**2015 Profit (loss)**
EUR (5% strengthening)	(15)	(7)
HUF (5% strengthening)	(1)	-
PLN (5% strengthening)	-	-

Effect in millions of EUR	**2016 Other comprehensive income**	**2015 Other comprehensive income**
EUR (5% strengthening)	55	55

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

(e) Commodity risk

The Group's exposure to commodity risk principally consists of exposure to fluctuations in the prices of commodities, especially energy, gas and emission rights, both on the supply and the demand side. The Group's primary exposure to commodity price risks arises from the nature of its physical assets, namely power plants and to a lesser extent from proprietary trading activities.

In case of favourable power prices, the Group manages the natural commodity risk connected with its electricity generation by selling the power it expects to produce in the cogeneration power plants and in ancillary services on an up to two-year forward basis. In case of low power prices, instead of entering into such forward contracts, the Group uses the flexibility of its own power generating capacities to react to current power prices with the aim to achieve better average selling price.

In addition, the Group purchases emission rights on a forward basis.

The Group aims to reduce exposure to fluctuations in commodity prices through the use of swaps and various other types of derivatives.

The Group manages the commodity price risks associated with its proprietary trading activities by generally trading on a back-to-back basis, i.e., purchasing from the market where it has a customer in place to purchase the commodity.

Commodity derivatives primarily represents forwards on purchase or sale of electricity (for more details refer to Note 31 – Financial instruments).

Sensitivity analysis

An increase/decrease in the price of electricity by 5% would have no material impact on profit from the related commodity derivatives presented in Note 31 – Financial instruments.

(f) Regulatory risk

The Group is exposed to risks resulting from the state regulation of electricity selling prices by the states in which it undertakes business activities. In Slovakia electricity prices for households and small enterprises is regulated providing for a capped profit margin per MWh.

In Slovakia the sale of electricity to mid-sized and large customers is the subject matter of composite electricity supply contracts. Such contracts usually determine the price for the supply of the commodity. The price of the distribution and other components is determined based on the RONI's price decisions for distribution companies and the market and transmission system operator. For small enterprises and households, composite electricity supply contracts define the products for which price lists are issued in accordance with the RONI's price decisions for the regulated entity as a supplier of electricity. The RONI sets a maximum margin per MWh to be charged by the supplier. Improper regulation could negatively influence operating performance and cash flows.

The Czech Energy Regulatory Office ("ERO") issues pricing decisions that set forth mandatory guidelines applicable to the calculation of heat prices. These rates are comprised of (i) the economically justified costs necessary for production and distribution of heat, (ii) appropriate profit, and (iii) VAT. Furthermore, the ERO sets the limit price for heat which allows the Company's subsidiaries to set their own heat price on the condition that it is lower than the limit price and follows the calculation principles. Nevertheless, the ERO also has the right to review retroactively the operations of a heat producer for the previous 5 years with respect to the heat price setting mechanism applied by that particular entity. If the entity is not able fully to support the pricing mechanism applied, ERO can impose significant penalties which might have a material adverse effect on the Group's business, financial condition, results of operations, cash flows and prospects. The fact that the price of heat is not set by the ERO as a fixed amount per unit, gives rise to a degree of uncertainty on the part of the operator as there is the possibility that the calculation it carried out will be assessed as incorrect by the ERO.

As regards electricity produced by cogeneration plants, the ERO also stipulates the amount of subsidy for electricity from high-efficiency cogeneration sources in its price decision in the form of a green bonus, which is set per MWh and granted on an annual or hourly basis. The price decision distinguishes between a basic tariff (which applies to cogeneration plants in general) and additional tariff (which applies only to some of them). The respective tariff is set in the price decision in CZK per MWh and has different levels depending on the size of the plant, overall time of its use during a year and the fuel it uses. It is common that the ERO issues the price decision annually, in the autumn for the coming calendar year.

(g) Capital management

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

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

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

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

In millions of EUR	**31 December 2016**	**31 December 2015**
Total liabilities	1,752	2,616
Less: cash and cash equivalents	464	132
Net debt	**1,288**	**2,484**
Total equity attributable to equity holders of the Company	382	643
Less: amounts accumulated in equity relating to cash flow hedges	(51)	(54)
Adjusted capital	**433**	**697**
Debt to adjusted capital	**2.97**	**3.56**

(h) Hedge accounting

The balance as at 31 December 2016 represents primarily derivative agreements to hedge on interest rate concluded by POWERSUN a.s. and EP Energy, a.s., an electricity price and a foreign exchange rate concluded by EP ENERGY TRADING, a.s. and the effect from a cash flow hedge recognised on the EPE Group level.

The effective portion of fair value changes in financial derivatives designated as cash flow hedges are recognised in equity.

Cash flow hedges – hedge of foreign currency risk with non-derivative financial liability

The Group applies hedge accounting for financial instruments designed to hedge the foreign currency risk cash-flows denominated in foreign currency (EUR). The hedging instruments are bonds issued in EUR in total amount of EUR 1,097 million. The hedged cash inflows in EUR arising from EUR denominated transactions (primarily at Elektrárny Opatovice, a.s., United Energy, a.s., Plzeňská energetika a.s., EP ENERGY TRADING, a.s.) are expected to occur and impact profit or loss in periods of 2020 to 2029. As a result of the hedging relationship on the Group consolidated level, the Group reported a negative foreign currency cash flow hedge reserve of EUR 49 million (2015: negative EUR 49 million) as of 31 December 2016. The management concluded that the entities which cash-flows are hedged are expected to a high degree of probability remain in the Group and therefore the hedged cash-flows are probable to materialize in the expected time horizon.

Cash flow hedges – hedge of foreign currency risk and commodity price risk of revenues of power production with non-derivative financial liability and financial derivatives

The Group applies hedge accounting for hedging instruments designed to hedge the commodity price risk and the foreign currency risk of cash-flows from Group's power production sold to third parties. This includes commodity derivatives with net settlement, for commodity risk and Group's liabilities denominated in EUR. As a result of the hedge relationship on the Group level, the Group reported an

increase in foreign currency cash flow hedge reserve of EUR 7 million (2015: EUR 1 million). For risk management policies, refer to Note 35 (d) and (e) – Risk management policies and disclosures.

36. Related parties

Identity of related parties

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

(a) The summary of outstanding balances with related parties as at 31 December 2016 and 31 December 2015 was as follows:

In millions of EUR	Accounts receivable and other financial assets 2016	Accounts payable and other financial liabilities 2016	Accounts receivable and other financial assets 2015	Accounts payable and other financial liabilities 2015
Ultimate shareholders	-	-	309	3
Companies controlled by ultimate shareholders	7	16	8	14
Companies under significant influence by ultimate shareholders	4	15	-	-
Associates	6	14	5	7
Other related parties	-	-	-	-
Total	**17**	**45**	**322**	**24**

In addition, in 2016 the Group reported EUR 14 million off-balance sheet in loan commitments, out of which EUR 8 million were from companies controlled by ultimate shareholders and EUR 6 million from companies under significant influence by ultimate shareholders.

(b) The summary of transactions with related parties during the year ended 31 December 2016 and 31 December 2015 was as follows:

In millions of EUR	Revenues 2016	Expenses 2016	Revenues 2015	Expenses 2015
Ultimate shareholders	3	-	12	2
Companies controlled by ultimate shareholders	36	116	24	83
Companies under significant influence by ultimate shareholders	19	50	-	-
Associates	7	-	14	-
Other related parties	-	-	-	-
Total	**65**	**166**	**50**	**85**

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

Transactions with the key management personnel

For the financial years ended 31 December 2016 and 2015 the EPE Group´s key management personnel is represented by members of the Board of Directors of the following major entities: EP Energy, a.s., Stredoslovenská energetika, a.s., Elektrárny Opatovice, a.s., Pražská teplárenská a.s., United Energy, a.s., Plzeňská energetika a.s. and EP ENERGY TRADING, a.s.

Total compensation and related social and health insurance charges incurred by the respective entities were as follows:

In millions of EUR	**2016**	**2015**
Nr. of personnel	56	41
Compensation, fees and rewards	2	2
Total	**2**	**2**

Other remuneration of Group management (management of all components within the Group) is included in Note 9 – Personnel expenses.

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

37. Group entities

The list of the Group entities as at 31 December 2016 and 31 December 2015 is set out below:

		31 December 2016		31 December 2015		2016	2015
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso-lidation method	Conso-lidation method
EP Energy, a.s.	Czech Republic	-	-	-	-	-	-
AISE, s.r.o.	Czech Republic	80	Direct	80	Direct	Full	Full
PT Holding Investment B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Pražská teplárenská Holding a.s. *	Czech Republic	49	Direct	49	Direct	Equity	Equity
Pražská teplárenská a.s.	Czech Republic	47.42	Direct	47.42	Direct	Full	Full
Pražská teplárenská Trading, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Termonta Praha a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Energotrans SERVIS, a.s.	Czech Republic	95	Direct	95	Direct	Full	Full
Pražská teplárenská LPZ, a.s.	Czech Republic	-	-	100	Direct	-	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Real Estate, a.s.	Czech Republic	47.42	Direct	-	-	Full	-
RPC, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nový Veleslavín, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	Full
Pod Juliskou, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	Full
Michelský trojúhelník, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nové Modřany, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties I, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties II, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties III, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties IV, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT měření, a.s.	Czech Republic	47.42	Direct	47.42	Direct	Full	Full
United Energy, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy Moldova, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
United Energy Invest, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EVO – Komořany, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Severočeská teplárenská, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Sourcing, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EOP & HOKA s.r.o.	Czech Republic	-	-	99.79	Direct	-	IFRS5
EOP HOKA POLSKA SPOŁKA Z OGRANICZONA ODPOWIEDZIALNOSCIA	Poland	-	-	100	Direct	-	IFRS5
EP COAL TRADING POLSKA S.A	Poland	-	-	100	Direct	-	IFRS5
EP ENERGY TRADING, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Optimum Energy, s.r.o.(1)	Czech Republic	-	-	100	Direct	-	Full
ADCONCRETUM REAL ESTATE ltd	Serbia	-	-	100	Direct	-	Full
Plzeňská energetika a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
VTE Moldava II, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
MR TRUST s.r.o. *	Czech Republic	99.50	Direct	99.50	Direct	Full	Full
Arisun, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Greeninvest Energy, a.s.	Czech Republic	41.70	Direct	41.70	Direct	IFRS 5	IFRS 5
POWERSUN a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Triskata, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
MR TRUST s.r.o. *	Czech Republic	0.50	Direct	0.50	Direct	Full	Full
VTE Pchery, s.r.o.	Czech Republic	64	Direct	64	Direct	Full	Full
CHIFFON ENTERPRISES LIMITED *	Cyprus	100	Direct	100	Direct	Full	Full
Claymore Equity, s. r. o. *	Slovakia	80	Direct	80	Direct	Full	Full
Alternative Energy, s.r.o.	Slovakia	90	Direct	90	Direct	Full	Full
EBEH Opatovice, a.s. v likvidaci	Czech Republic	100	Direct	100	Direct	Full	Full
Elektrárny Opatovice, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
V A H O s.r.o.	Czech Republic	100	Direct	100	Direct	At cost	At cost
NPTH, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
Pražská teplárenská a.s.	Czech Republic	50.58	Direct	50.58	Direct	Full	Full
Pražská teplárenská Trading, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Termonta Praha a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Energotrans SERVIS, a.s.	Czech Republic	95	Direct	95	Direct	Full	Full

		31 December 2016		31 December 2015		2016	2015
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso-lidation method	Conso-lidation method
Pražská teplárenská LPZ, a.s.	Czech Republic	-	-	100	Direct	-	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Real Estate, a.s.	Czech Republic	50.58	Direct	-	-	Full	-
RPC, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nový Veleslavín, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	Full
Pod Juliskou, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	Full
Michelský trojúhelník, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nové Modřany, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties I, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties II, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties III, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties IV, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT měření, a.s.	Czech Republic	50.58	Direct	50.58	Direct	Full	Full
JTSD Braunkohlebergbau GmbH	Germany	-	-	100	Direct	-	IFRS 5
Mitteldeutsche Braunkohlengesellschaft mbH	Germany	-	-	100	Direct	-	IFRS 5
MIBRAG Consulting International GmbH	Germany	-	-	100	Direct	-	IFRS 5
GALA-MIBRAG-Service GmbH	Germany	-	-	100	Direct	-	IFRS 5
Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	-	-	50	Direct	-	IFRS 5
Fernwärme GmbH Hohenmölsen – Webau	Germany	-	-	48.96	Direct	-	IFRS 5
Ingenieurbüro für Grundwasser GmbH	Germany	-	-	25	Direct	-	IFRS 5
Bohr & Brunnenbau GmbH	Germany	-	-	100	Direct	-	IFRS 5
Helmstedter Revier GmbH	Germany	-	-	100	Direct	-	IFRS 5
Norddeutsche Gesellschaft zur Ablagerung von Mineralstoffen mbH	Germany	-	-	51	Direct	-	IFRS 5
Terrakomp GmbH	Germany	-	-	100	Direct	-	IFRS 5
MIBRAG Neue Energie GmbH	Germany	-	-	100	Direct	-	IFRS 5
EP Germany GmbH *	Germany	-	-	100	Direct	-	IFRS 5
Saale Energie GmbH	Germany	-	-	100	Direct	-	IFRS 5
Kraftwerk Schkopau GbR	Germany	-	-	41.90	Direct	-	IFRS 5
Kraftwerk Schkopau Betriebsgesellschaft mbH	Germany	-	-	44.40	Direct	-	IFRS 5
Stredoslovenská energetika, a.s.	Slovakia	49	Direct	49	Direct	Full	Full
Stredoslovenská energetika – Distribúcia, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
Elektroenergetické montáže, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
SSE - Metrológia s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Stredoslovenská energetika - Projekt Development, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SSE-Solar, s.r.o.	Slovakia	100	Direct	100	Direct	Full	IFRS 5
SPX, s.r.o.	Slovakia	33.33	Direct	33.33	Direct	Equity	Equity
Energotel,a.s.	Slovakia	20	Direct	20	Direct	Equity	Equity
SSE CZ, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
EP ENERGY HR d.o.o.	Croatia	100	Direct	100	Direct	Full	Full
EP Cargo a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
LokoTrain s.r.o.	Czech Republic	-	-	65	Direct	-	Full
EP Cargo Deutschland GmbH	Germany	-	-	100	Direct	-	Full
EP CARGO POLSKA s.a.	Poland	-	-	100	Direct	-	Full
PGP Terminal, a.s.	Czech Republic	-	-	60	Direct	-	IFRS 5
PLAZMA LIPTOV, a.s.	Slovakia	-	-	50	Direct	-	IFRS 5
EP Hungary, a.s.*	Czech Republic	100	Direct	100	Direct	Full	Full
Budapesti Erömü Zrt.	Hungary	95.62	Direct	95.62	Direct	Full	Full
BE-Optimum Kft.	Hungary	-	-	100	Direct	-	Full
KÖBÁNYAHÖ Kft.	Hungary	25	Direct	25	Direct	At cost	At cost
ENERGZET SERVIS a.s.	Czech Republic	100	Direct	100	Direct	Full	Full

* *Holding entity*

(1) *Optimum Energy, s.r.o. merged with EP ENERGY TRADING, a.s. as of 1 January 2016. EP ENERGY TRADING, a.s. is the successor company .*

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

38. Litigations and claims

Elektrárny Opatovice, a.s.

Elektrárny Opatovice, a.s. is involved in a dispute with its former minority shareholders who claim that compensation received for their shares through a compulsory sell-out procedure ("squeeze-out") was inadequate, and who are challenging the underlying expert valuation. As the compensation was not paid by Elektrárny Opatovice, a.s. but instead by its former majority shareholder (International Holdings, B.V.), any resulting liability is thus expected to be the responsibility of the former shareholder.

United Energy, a.s.

United Energy, a.s. is involved in several disputes with its former shareholders, who claim that compensation received for their shares subject to a compulsory buy-out procedure ("squeeze-out") was inadequate, and who are challenging the validity of the underlying resolution of the general shareholders meeting. The outcome of this matter is unforeseeable and United Energy, a.s. intends to defend itself.

In May 2014, Court of appeal came to the conclusion that one claim challenging the validity of the underlying resolution of the general shareholders meeting is not relevant and UE believes that this conclusion may serve as a precedent for the other claims. Next court hearing is planned to be held during 2017.

The parallel dispute regarding inadequate compensation is still ongoing with no clear outcome. Next court hearing is expected to be held during 2017.

Plzeňská energetika a.s.

In August 2012, Škoda Investment a.s. (SI) filed a claim for unjust enrichment against Plzeňská energetika a.s. (PE) for approximately EUR 2 million. This unjust enrichment claim allegedly arises from the fact that Plzeňská energetika a.s. owns and operates utility distribution systems (e.g., for gas, water and heat), which lie on the property of Škoda Investment a.s., thereby illegally restricting the ownership of Škoda Investment a.s. In February 2016 both parties, i.e. PE as well as SI, received an official request from the court to settle the dispute by mediation. Following this request the hearing has been adjourned until further notice. In June 2016 SI has filed an additional claim for unjust enrichment against PE for approximately EUR 1 million. Additional claim covers period 2013 – 2014. EPE Group's management believes that the claim is unfounded and should be dismissed by the court. For this reason Plzeňská energetika a.s. did not create a provision for this litigation as at 31 December 2016.

Stredoslovenská energetika, a.s. Group ("SSE Group")

The SSE Group is a party to various legal proceedings. As at 31 December 2016 and 2015 no legal provisions were recorded. The Group management has decided not to disclose details in respect of material legal claims as they are currently ongoing and disclosure may prejudice the SSE Group.

Regulatory proceedings by ERO against Pražská teplárenská ("PT")

PT is involved in regulatory proceedings commenced in October 2015 by ERO claiming that prices charged to customers of PT's local small-scale heating infrastructures in 2011 were in breach of the Czech Act on Prices. In March 2016, ERO issued a decision ordering PT to pay EUR 9 million (CZK 240 million) consisting of a penalty in the amount of EUR 4.5 million (CZK 120 million) and restitution to affected customers in the amount of EUR 4.5 million (CZK 120 million). PT appealed the decision on 24 March 2016 with supplemental information provided on 14 April 2016. On 7 July 2016 PT received a resolution from ERO by which the Chairman of ERO returned the case again to the first instance for a new hearing. In November 2016 PT received new decision which confirmed the result of the court of the first instance. PT appealed again and on 23 December 2016 ERO issued a decision changing the amount to be paid to EUR 8 million (CZK 222 million) consisting of a penalty in the amount of EUR 4 million (CZK 111 million) and restitution to affected customers in the amount of EUR 4 million (CZK 111 million). Since PT believes that with high probability the legal action against the decision related to restitution to affected customers will be successful only the provision in the amount of EUR 4 million (CZK 111 million) corresponding to the amount of the penalty was recorded.

39. Subsequent events

On 20 January 2017 EP Energy, a.s. granted loans to ARISUN, s.r.o. and Triskata, s.r.o. that used the funds to repay their bank loans of EUR 1 million each.

On 20 January 2017, EP Infrastructure, a.s., the sole shareholder of the Company, declared interim dividend in amount of EUR 10 million (CZK 270 million), which was paid in cash.

On 26 January 2017 Pražská teplárenská, a.s. ("PT") filed a lawsuit at the Regional Court in Brno against the resolution of Energy Regulatory Office ("ERO") from 23 December 2016 in all of its claims. Together with the appeal PT deposited the penalty of EUR 4 million to the ERO bank account and claimed a suspensive effect of the ERO resolution at the Regional Court in Brno. On 23 February 2017 the Regional Court in Brno confirmed the suspensive effect of PT' s claim in the full extent.

On 24 February 2017 EPH completed the previously concluded agreement with a consortium of global institutional investors led by Macquarie Infrastructure and Real Assets (MIRA) on the sale of a 31% stake in EPIF. The remaining 69% of EPIF remains with EPH, which will also retain management control over EPIF.

Following the sale of a minority shareholding in EPIF changes also occurred in the shareholder structure of EPH as follows:

- The current shareholders of EPH concluded a series of transactions, through which Daniel Křetínský (94%) and selected members of the existing management of EPH (6%), became sole owners of EPH going forward.
- The current shareholders, Biques Limited, Milees Limited and EP Investment S.à.r.l. received in total EUR 1.5 billion at closing from EPH for the sale of their shares in EPH representing in aggregate 30% of EPH share capital. Whereas Biques Limited sold all its shares in EPH, Milees Limited and EP Investment S.à.r.l. sold each 2.17 % shares in EPH in this share-buy-back transaction.
- Milees Limited will further receive EUR 1.75 to 2.75 billion (plus interest) over time, whereby the final amount payable to Milees Limited will reflect growth in the underlying value of EPH over the coming years.

On 9 March 2017 Mr. Daniel Křetínský resigned as the Chairman of the Board of Directors of EP Energy, a.s. and Mr. Tomáš David was elected as the new Chairman of the Board of Directors. On 10 March 2017 Mr. Daniel Křetínský was removed from office of member of the Board of Directors and with effect from 11 March 2017 Mr. William Price was elected as the new member of the Board of Directors.

On 9 March 2017 PT Real Estate, a.s. sold its 100% share in Nový Veleslavín, a.s. for EUR 9 million (CZK 256 million).

On 10 March 2017, EP Infrastructure, a.s., the sole shareholder of the Company, declared interim dividend in amount of EUR 10 million (CZK 270 million), which was paid in cash.

Except for the matters described above and elsewhere in the Notes, the Company's management is not aware of any other material subsequent events that could have an effect on the consolidated financial statements as at 31 December 2016.

Appendices*:

Appendix 1 – Business combinations

Appendix 2 – Analysis of results from discontinued operations

Appendix 3 – Disposals of investments and related transactions

* *Information contained in the appendices form part of the complete set of these consolidated financial statements.*

Date:	Signature of the authorised representative	
27 April 2017	**Marek Spurny** Member of the Board of Directors	Pavel Horský Member of the Board of Directors

Appendix 1 – Business combinations

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

Effect of acquisitions

i. 31 December 2015

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

In millions of EUR	**Carrying amount[1]**	**Fair value adjustment**	**2015 Total[1]**
Property, plant, equipment, land, buildings	99	(49)	50
Intangible assets	3	17	20
Trade receivables and other assets	18	-	18
Financial instruments – assets	1	-	1
Inventories	6	-	6
Cash and cash equivalents	12	-	12
Provisions	(6)		(6)
Deferred tax liabilities	(1)	(8)	(9)
Loans and borrowings	(69)	40	(29)
Financial instruments – liabilities	(4)	-	(4)
Trade payables and other liabilities	(18)	-	(18)
Net identifiable assets and liabilities	**41**	**-**	**41**
Non-controlling interest			(2)
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(33)
Pricing differences in equity			-
Cost of acquisition			**6**
Consideration paid, satisfied in cash (A)			-
Consideration, other			6
Total consideration transferred			**6**
Less: Cash acquired (B)			12
Net cash inflow (outflow) (C) = (B – A)			**12**

(1) *Represents values at 100% share.*

In millions of EUR	**2015 Total**
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	25
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	3

In millions of EUR	**2015 Total**
Revenue of the acquirees recognised in the year ended 31 December 2015 (subsidiaries)*	175
Profit (loss) of the acquirees recognised in the year ended 31 December 2015 (subsidiaries)*	(26)

* *Before intercompany elimination; based on local statutory financial information which include a significant one-off non-cash assets write-off.*

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

In millions of EUR	**Carrying amount[1]**	**Fair value adjustment[2]**	**2015 Total[1]**
Trade receivables and other assets	2	-	2
Trade payables and other liabilities	(1)	-	(1)
Net identifiable assets and liabilities	**1**	**-**	**1**
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Cost of acquisition			**1**
Consideration paid (A)			1
Total consideration transferred			**1**
Less: Cash acquired (B)			-
Net cash inflow (outflow) (C) = (B – A)			**(1)**

(1) Represents values at 100% share.

(2) The result of purchase price allocation was not significant and therefore management of the Group decided not to recognise any fair value adjustment resulting from business combinations in 2015.

Consideration paid represents cost paid by the direct parent company EP Cargo a.s. for the acquisition of 65% share in LokoTrain s.r.o.

In millions of EUR	**2015 Total**
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	2
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	-

In millions of EUR	**2015 Total**
Revenue of the acquirees recognised in the year ended 31 December 2015 (subsidiaries)*	4
Profit (loss) of the acquirees recognised in the year ended 31 December 2015 (subsidiaries)*	-

* *Before intercompany elimination; based on local statutory financial information*

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

In millions of EUR	**Carrying amount**	**Fair value adjustment[1]**	**2015 Total**
Trade receivables and other assets	10	-	10
Cash and cash equivalents	2	-	2
Trade payables and other liabilities	(12)	-	(12)
Net identifiable assets and liabilities	**-**	**-**	**-**
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			5
Cost of acquisition			**5**
Consideration paid (A)			5
Total consideration transferred			**5**
Less: Cash acquired (B)			2
Net cash inflow (outflow) (C) = (B – A)			**(3)**

(1) The result of purchase price allocation was not significant and therefore management of the Group decided not to recognise any fair value adjustment resulting from business combinations in 2015.

Consideration paid represents cost paid by the direct parent company EP ENERGY TRADING, a.s. for the acquisition of 100% share in Optimum Energy, s.r.o.

In millions of EUR	**2015 Total**
Revenue of the acquirees recognised since the acquisition date (subsidiaries)	6
Profit (loss) of the acquirees recognised since the acquisition date (subsidiaries)	-

In millions of EUR	**2015 Total**
Revenue of the acquirees recognised in the year ended 31 December 2015 (subsidiaries)*	18
Profit (loss) of the acquirees recognised in the year ended 31 December 2015 (subsidiaries)*	1

* *Before intercompany elimination; based on local statutory financial information*

Appendix 2 – Analysis of results from discontinued operations

For the year ended 31 December 2016
In millions of EUR ("MEUR")

	Discontinued operations for the year ended 31 December 2016	Inter-company eliminations	Discontinued operations after inter-company eliminations
Discontinued operations			
Sales: Energy	121	(12)	109
of which: Coal	*74*	*(12)*	*62*
Electricity	*46*	-	*46*
Heat	*1*	-	*1*
Sales: Other	16	(2)	14
Total sales	**137**	**(14)**	**123**
Cost of sales: Energy	(44)	14	(30)
Cost of sales: Other	(3)	-	(3)
Total cost of sales	**(47)**	**14**	**(33)**
	90	**-**	**90**
Personnel expenses	(43)	-	(43)
Depreciation and amortisation	(31)	-	(31)
Emission rights, net	(6)	-	(6)
Taxes and charges	(3)	-	(3)
Other operating income	18	(12)	6
Other operating expenses	(27)	12	(15)
Profit (loss) from operations	**(2)**	**-**	**(2)**
Finance income	2	(1)	1
Finance expense	(9)	1	(8)
Net finance income (expense)	**(7)**	**-**	**(7)**
Share of profit (loss) of equity accounted investees, net of tax	(1)	-	(1)
Profit (loss) before income tax	**(10)**	**-**	**(10)**
Income tax expenses	(2)	-	(2)
Profit (loss) from discontinued operations	**(12)**	**-**	**(12)**
Profit (loss) attributable to:			
Owners of the Company	(12)	-	(12)
Non-controlling interest	-	-	-
Profit (loss) for the year	**(12)**	**-**	**(12)**

For the year ended 31 December 2015
In millions of EUR ("MEUR")

	Discontinued operations for the year ended 31 December 2015	Inter-company eliminations	Discontinued operations after inter-company eliminations
Discontinued operations			
Sales: Energy	547	(46)	501
of which: Coal	*309*	*(46)*	*263*
Electricity	*236*	-	*236*
Heat	*2*	-	*2*
Sales: Other	75	(11)	64
Total sales	**622**	**(57)**	**565**
Cost of sales: Energy	(197)	57	(140)
Cost of sales: Other	(30)	-	(30)
Total cost of sales	**(227)**	**57**	**(170)**
	395	**-**	**395**
Personnel expenses	(184)	-	(184)
Depreciation and amortisation	(125)	-	(125)
Repairs and maintenance	6	-	6
Emission rights, net	(22)	-	(22)
Taxes and charges	(10)	-	(10)
Other operating income	78	(42)	36
Other operating expenses	(127)	42	(85)
Profit (loss) from operations	**11**	**-**	**11**
Finance income	5	-	5
Finance expense	(38)	-	(38)
Net finance income (expense)	**(33)**	**-**	**(33)**
Share of profit (loss) of equity accounted investees, net of tax	(1)	-	(1)
Profit (loss) before income tax	**(23)**	**-**	**(23)**
Income tax expenses	3	-	3
Profit (loss) from discontinued operations	**(20)**	**-**	**(20)**
Profit (loss) attributable to:			
Owners of the Company	(20)	-	(20)
Non-controlling interest	-	-	-
Profit (loss) for the year	**(20)**	**-**	**(20)**

Appendix 3 – Disposals of investments and related transactions

The following tables provide further information on the amounts of assets and liabilities disposed as at the disposal date for individually significant business disposals.

On 29 February 2016 the Group accounted for disposal of its 99.79% investment in EOP & HOKA s.r.o. and its subsidiary EOP HOKA POLSKA SPOŁKA Z OGRANICZONA ODPOWIEDZIALNOSCIA and EP COAL TRADING POLSKA S.A. The effects of disposal are provided in the following table:

In millions of EUR	**Net assets sold in 2016**
Assets held for sale	13
Liabilities held for sale	(9)
Net identifiable assets and liabilities	**4**
Sales price	5
Gain (loss) on disposal	**1**

On 31 May 2016 the Group accounted for disposal of its 100% investment in Pražská teplárenská LPZ, a.s. The effects of disposal are provided in the following table:

In millions of EUR	**Net assets sold in 2016**
Property, plant and equipment	27
Trade receivables and other assets	4
Cash and cash equivalents	13
Deferred tax liabilities	(3)
Trade payables and other liabilities	(7)
Net identifiable assets and liabilities	**34**
Non-controlling interest	(9)
Net assets value disposed	**25**
Sales price	82
Gain (loss) on disposal	**57**

VI. Independent Auditor´s Report to the Statutory Financial Statements

KPMG Česká republika Audit, s.r.o.
Pobřežní 1a
186 00 Prague 8
Czech Republic
+420 222 123 111
www.kpmg.cz

This document is an English translation of the Czech auditor's report.
Only the Czech version of the report is legally binding.

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

Opinion

We have audited the accompanying financial statements of EP Energy, a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2016, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, and Auditing Standards of the Chamber of Auditors of the Czech Republic, consisting of International Standards on Auditing (ISAs) as amended by relevant application guidelines. Our responsibilities under those regulations are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG

Key Audit Matters

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

Valuation of investments in subsidiaries and associates
Refer to the Note 2 (Significant accounting policies applied by the Company) and 6 (Long-term investments).

Key audit matter	How the key audit matter was addressed
The Company acts as a holding company and its main assets are investments in (unquoted) subsidiaries and associates. **These investments are measured at cost and the management of the Company tests at each balance sheet date whether these investments have been impaired.** **The valuation of these unquoted investments depends on assumptions of future development determined by the management of the Company and especially on estimates of the future financial performance of the investments and discount factors. Hence, the valuation is connected with a significant level of uncertainty.** **As a result, the valuation of the investments constituted a significant area of our audit.**	In this area, we conducted the following audit procedures: Inquiring with the management of the Company, we ascertained why the Company uses concrete assumptions and estimates affecting the used valuation models for the investments. Our internal valuation specialist in the area of enterprise valuation evaluated the methodology used in the valuation, compared it with the methods used in the market, evaluated the main assumptions and estimates used and compared them with market standards in the industry. Furthermore, with Company management, we discussed the financial plans of the significant subsidiaries and associates and critically evaluated the assumptions and estimates used for their compilation. We also evaluated whether the events occurring after the balance sheet date until issuance of the audit report had a significant negative impact on the assumptions and estimates used in the valuation models. Additionally, we evaluated whether the information presented in the notes to the financial statements was adequate and in compliance with Czech accounting legislation.

KPMG

Other Information

In accordance with Section 2(b) of the Act on Auditors, other information is defined as information included in the annual report other than the financial statements and our auditor's report. The statutory body is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable laws and regulations, in particular, whether the other information complies with laws and regulations in terms of formal requirements and the procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with those requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- the other information describing matters that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information has been prepared in accordance with applicable laws and regulations.

In addition, our responsibility is to report, based on the knowledge and understanding of the Company obtained in the audit, on whether the other information contains any material misstatement. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement.

Responsibilities of the Statutory Body and Supervisory Board for the Financial Statements

The statutory body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the supervisory body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the statutory body is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the statutory body either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for the oversight of the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or

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

As part of an audit in accordance with the above regulations, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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

Statutory Auditor Responsible for the Engagement

Vladimír Dvořáček is the statutory auditor responsible for the audit of the financial statements of EP Energy, a.s. as at 31 December 2016, based on which this independent auditor's report has been prepared.

Prague
27 April 2017

KPMG Česká republika Audit

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

Vladimír Dvořáček
Partner
Registration number 2332

VII. Statutory Financial Statements and Notes to the Statutory Financial Statements

BALANCE SHEET
full version

As of
31.12.2016
(in CZK thousand)

EP Energy, a.s.
Corporate ID 292 594 28

Pařížská 130/26
Josefov
110 00 Praha 1

		31.12.2016			31.12.2015
		Gross	**Adjustment**	**Net**	**Net**
	TOTAL ASSETS	**55 299 518**	**766 264**	**54 533 254**	**67 639 540**
A.	**Receivables for subscribed capital**				
B.	**Fixed assets**	**35 357 217**	**713 030**	**34 644 187**	**35 464 443**
B.I.	***Intangible fixed assets***	**277**	**277**		**8**
B.I.2.	*Valuable rights*	**277**	**277**		**8**
B.I.2.1.	Software	277	277		8
B.II.	***Tangible fixed assets***	**469**	**364**	**105**	**212**
B.II.2.	Tangible movable assets and sets of tangible movable assets	469	364	105	212
B.III.	***Non-current financial assets***	**35 356 471**	**712 389**	**34 644 082**	**35 464 223**
B.III.1.	Equity investments - controlled or controlling entity	35 356 471	712 389	34 644 082	35 464 223
C.	**Current assets**	**19 942 301**	**53 234**	**19 889 067**	**32 157 513**
C.II.	***Receivables***	**9 941 545**	**53 234**	**9 888 311**	**31 383 811**
C.II.1.	Long-term receivables	**8 178 995**	**41 314**	**8 137 681**	**21 118 940**
C.II.1.2.	Receivables - controlled or controlling entity	8 172 895	41 314	8 131 581	21 078 851
C.II.1.5.	*Receivables - other*	**6 100**		**6 100**	**40 089**
C.II.1.5.4.	Sundry receivables	6 100		6 100	40 089
C.II.2.	***Short-term receivables***	**1 762 550**	**11 920**	**1 750 630**	**10 264 871**
C.II.2.1.	Trade receivables	42 358	11 920	30 438	15 238
C.II.2.2.	Receivables - controlled or controlling entity	1 610 331		1 610 331	10 021 553
C.II.2.4.	*Receivables - other*	**109 861**		**109 861**	**228 080**
C.II.2.4.3.	State - tax receivables	106 948		106 948	8 842
C.II.2.4.4.	Short-term prepayments made	272		272	4 732
C.II.2.4.6.	Sundry receivables	2 641		2 641	214 506
C.IV.	***Cash***	**10 000 756**		**10 000 756**	**773 702**
C.IV.1.	Cash on hand	40		40	24
C.IV.2.	Cash at bank	10 000 716		10 000 716	773 678
D.	**Other assets**				**17 584**
D.1.	Deferred expenses				17 584

		31.12.2016	31.12.2015
	TOTAL LIABILITIES & EQUITY	**54 533 254**	**67 639 540**
A.	**Equity**	**19 246 295**	**26 648 626**
A.I.	***Share capital***	**12 844 053**	**12 844 053**
A.I.1.	Share capital	12 844 053	12 844 053
A.II.	***Share premium and capital funds***	**3 515 150**	**3 690 927**
A.II.1.	Share premium	3 213 312	3 213 312
A.II.2.	*Capital funds*	**301 838**	**477 615**
A.II.2.1.	Other capital funds	2 279	2 279
A.II.2.2.	Gains or losses from the revaluation of assets and liabilities (+/-)	11 149	186 926
A.II.2.3.	Gains or losses from the revaluation upon transformations of business corporations (+/-)	288 998	288 998
A.II.2.4.	Gains or losses from transformations of business corporations (+/-)	-588	-588
A.IV.	***Retained earnings (+/-)***	**1 245 438**	**8 532 164**
A.IV.1.	Accumulated profits brought forward	1 245 438	8 532 164
A.V.	***Profit or loss for the current period (+/-)***	**2 360 997**	**1 581 482**
A.VI.	Profit share prepayments declared (-)	-719 343	
B.+C.	**Liabilities**	**35 286 959**	**40 990 914**
B.	**Reserves**	**804**	**39 282**
B.2.	Income tax reserve		38 597
B.4.	Other reserves	804	685
C.	**Payables**	**35 286 155**	**40 951 632**
C.I.	***Long-term payables***	**30 727 714**	**35 271 268**
C.I.1.	*Bonds issued*	**29 643 210**	**29 727 500**
C.I.1.2.	Other bonds	29 643 210	29 727 500
C.I.2.	Payables to credit institutions		4 729 375
C.I.8.	Deferred tax liability	800 885	814 393
C.I.9.	*Payables - other*	**283 619**	
C.I.9.3.	Sundry payables	283 619	
C.II.	***Short-term payables***	**4 558 441**	**5 680 364**
C.II.1.	*Bonds issued*	**249 786**	**250 544**
C.II.1.2.	Other bonds	249 786	250 544
C.II.2.	Payables to credit institutions		531 194
C.II.4.	Trade payables	40 553	64 853
C.II.6.	Payables - controlled or controlling entity	4 257 534	4 716 406
C.II.8.	*Other payables*	**10 568**	**117 367**
C.II.8.1.	Payables to partners	28	28
C.II.8.3.	Payables to employees	1 703	1 681
C.II.8.4.	Social security and health insurance payables	431	408
C.II.8.5.	State - tax payables and subsidies	438	621
C.II.8.6.	Estimated payables	1 405	13 403
C.II.8.7.	Sundry payables	6 563	101 226

PROFIT AND LOSS ACCOUNT
structured by the nature of expense method

12 months period ended
31.12.2016
(in CZK thousand)

EP Energy, a.s.
Corporate ID 292 594 28

Pařížská 130/26
Josefov
110 00 Praha 1

		Year ended 31.12.2016	Year ended 31.12.2015
I.	Sales of products and services	4 659	5 981
A.	Purchased consumables and services	74 369	69 895
A.2.	Consumed material and energy	480	447
A.3.	Services	73 889	69 448
D.	Staff costs	37 232	35 243
D.1.	Payroll costs	31 201	28 749
D.2.	Social security and health insurance costs and other charges	6 031	6 494
D.2.1.	Social security and health insurance costs	6 031	6 490
D.2.2.	Other charges		4
E.	Adjustments to values in operating activities	41 426	3 170
E.1.	Adjustments to values of intangible and tangible fixed assets	115	189
E.1.1.	Adjustments to values of intangible and tangible fixed assets - permanent	115	189
E.3.	Adjustments to values of receivables	41 311	2 981
III.	Other operating income	44 584	9 765
III.3.	Sundry operating income	44 584	9 765
F.	Other operating expenses	59 577	16 959
F.3.	Taxes and charges	601	20
F.4.	Reserves relating to operating activities and complex deferred expenses	119	-1 786
F.5.	Sundry operating expenses	58 857	18 725
*	**Operating profit or loss (+/-)**	**-163 361**	**-109 521**
IV.	Income from non-current financial assets - equity investments	6 176 838	2 222 928
IV.1.	Income from equity investments - controlled or controlling entity	6 176 838	2 222 928
G.	Costs of equity investments sold	2 668 294	132 528
VI.	Interest income and similar income	799 547	1 645 943
VI.1.	Interest income and similar income - controlled or controlling entity	796 389	1 645 847
VI.2.	Other interest income and similar income	3 158	96
I.	Adjustments to values and reserves relating to financial activities	20 199	118 974
J.	Interest expenses and similar expenses	1 535 288	1 705 873
J.1.	Interest expenses and similar expenses - controlled or controlling entity	11 744	77 345
J.2.	Other interest expenses and similar expenses	1 523 544	1 628 528
VII.	Other financial income	86 932	767 248
K.	Other financial expenses	275 473	897 300
*	**Financial profit or loss (+/-)**	**2 564 063**	**1 781 444**
**	**Profit or loss before tax (+/-)**	**2 400 702**	**1 671 923**
L.	Income tax	39 705	90 441
L.1.	Due income tax	25 031	112 558
L.2.	Deferred income tax (+/-)	14 674	-22 117
**	**Profit or loss net of tax (+/-)**	**2 360 997**	**1 581 482**
***	**Profit or loss for the current period (+/-)**	**2 360 997**	**1 581 482**
*	Net turnover for the current period	7 112 560	4 651 865

STATEMENT OF CHANGES IN EQUITY

Year ended
31.12.2016
(in CZK thousand)

EP Energy, a.s.
Corporate ID 292 594 28

Pařížská 130/26
Josefov
110 00 Praha 1

	Share capital	Share premium	Gains or losses from the revaluation of assets and liabilities	Gains or losses from the revaluation upon transformations of business corporations	Funds from profit, reserve fund	Other capital funds	Accumulated profits brought forward	Profit or loss for the current period	Profit share prepayments declared	TOTAL EQUITY
Balance at 1 January 2015	**19 569 098**	**3 213 312**	**207 780**	**288 998**	**-588**	**2 279**	**10 999 517**		**-498 420**	**33 781 976**
Change in share capital	-6 725 045									-6 725 045
Profit shares paid							-2 467 353		498 420	-1 968 933
Revaluation of assets and liabilities			-261 010							-261 010
Hedge accounting effect			240 156							240 156
Profit or loss for the current period								1 581 482		1 581 482
Balance at 31 December 2015	**12 844 053**	**3 213 312**	**186 926**	**288 998**	**-588**	**2 279**	**8 532 164**	**1 581 482**		**26 648 626**
Distribution of profit or loss							1 581 482	-1 581 482		
Profit shares paid							-8 868 208			-8 868 208
Revaluation of assets and liabilities			-55 633							-55 633
Hedge accounting effect			-120 144							-120 144
Profit share prepayments declared									-719 343	-719 343
Profit or loss for the current period								2 360 997		2 360 997
Balance at 31 December 2016	**12 844 053**	**3 213 312**	**11 149**	**288 998**	**-588**	**2 279**	**1 245 438**	**2 360 997**	**-719 343**	**19 246 295**

CASH FLOW STATEMENT

Year ended
31.12.2016
(in CZK thousand)

EP Energy, a.s.
Corporate ID 292 594 28

Pařížská 130/26
Josefov
110 00 Praha 1

		Year ended 31.12.2016	Year ended 31.12.2015
P.	**Opening balance of cash and cash equivalents**	**773 702**	**28 644**
Z.	Profit or loss from ordinary activities before tax	2 386 028	1 671 923
A.1.	Adjustments for non-cash transactions	-2 546 888	-1 653 112
A.1.1.	Depreciation of fixed assets	115	189
A.1.2.	Change in provisions and reserves	61 629	120 170
A.1.3.	Profit/(loss) on the sale of fixed assets	-1 580 706	-79 762
A.1.4.	Revenues from profit shares	-1 927 838	-2 010 638
A.1.5.	Interest expense and interest income	735 741	59 930
A.1.6.	Adjustments for other non-cash transactions	164 171	256 999
A.*	**Net operating cash flow before changes in working capital**	**-160 860**	**18 811**
A.2.	Change in working capital	-108 426	43 413
A.2.1.	Change in operating receivables and other assets	22 673	1 804
A.2.2.	Change in operating payables and other liabilities	-131 099	41 609
A.**	**Net cash flow from operations before tax**	**-269 286**	**62 224**
A.3.	Interest paid	-1 531 874	-1 697 835
A.4.	Interest received	724 682	986 043
A.5.	Income tax paid from ordinary operations	-170 383	-187 728
A.***	**Net operating cash flows**	**-1 246 861**	**-837 296**
B.1.	Fixed assets expenditures		-448 923
B.2.	Proceeds from fixed assets sold	4 249 000	96 650
B.3.	Loans and borrowings to related parties	8 905 498	-211 860
	Received profit shares	1 924 219	1 225 207
B.***	**Net investment cash flows**	**15 078 717**	**661 074**
C.1.	Change in payables from financing	-3 514 802	2 559 955
C.2.	Impact of changes in equity	-1 090 000	-1 638 675
C.2.6.	Profit shares paid	-1 090 000	-1 638 675
C.***	**Net financial cash flows**	**-4 604 802**	**921 280**
F.	**Net increase or decrease in cash and cash equivalents**	**9 227 054**	**745 058**
R.	**Closing balance of cash and cash equivalents**	**10 000 756**	**773 702**

EP Energy, a.s.

Notes to the Czech statutory financial statements (non-consolidated, translated from the Czech original)

Year ended 31 December 2016
(amounts are shown in thousands of Czech crowns “TCZK”)

Content

EP Energy, a.s.

Notes to the Czech statutory financial statements (non-consolidated, translated from the Czech original)

Year ended 31 December 2016
(amounts are shown in thousands of Czech crowns "TCZK")

1. Incorporation and Description of the Business

EP Energy, a.s. ("the Company") was established on 16 December 2010 by subscribing the registered capital in the form of a non-monetary contribution of 100% of shares of Plzeňská energetika a.s., Honor Invest, a.s., EP Renewables a.s. (formerly Czech Wind Holding, a.s.), První energetická a.s., ROLLEON a.s., Czech Energy Holding, a.s. and of a 51% share in AISE, s.r.o.

The Company's principal activity is the management of its own assets.

Ownership structure

The shareholders of the Company as at 31 December 2016 are:

EP Infrastructure, a.s., Id. No.: 024 13 507	100%

Registered office

EP Energy, a.s.
Pařížská 130/26
Josefov
110 00 Praha 1
Czech Republic

Identification number

292 59 428

Members of the board of directors and supervisory board as at 31 December 2016

Board of directors	*Supervisory board*
JUDr. Daniel Křetínský (Chairman)	Ing. Ivan Jakabovič (Chairman)
Petr Sekanina (Vice-Chairman)	Martin Fedor
Marek Spurný	Miloš Badida
Pavel Horský	
Jiří Feist	
Tomáš David	

Organisational structure

The Company is not organised into divisions or units.

Changes in the Commercial Register between 1 January 2016 and 31 December 2016

The change in the Company's registered office was recorded in the Commercial Register on 17 June 2016. The original registered office was at Příkop 843/4, Zábrdovice, 602 00 Brno, Czech Republic. The Company's new registered office is at Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic.

The change in the parent company’s name and registered address was recorded in the Commercial Register on 17 June 2016. The original name and registered office of CE Energy, a.s., Příkop 843/4, Zábrdovice, 602 00 Brno was changed to EP Infrastructure, a.s., Pařížská 130/26, Josefov, 110 00 Praha 1.

The Company's file number changed on 19 July 2016. The original file number of B 6278 maintained at the Regional Court in Brno was transferred to the Municipal Court in Prague and changed to B 21733.

On 12 October 2016 Petr Sekanina was elected Vice-Chairman, replacing Jan Špringl in that function. The change was recorded in the Commercial Register on 26 October 2016.

2. Basis of accounting and general accounting policies applied by the Company

The accompanying financial statements have been prepared in compliance with Act No. 563/1991 Coll., on Accounting, as amended, and relevant regulations and decrees applicable to entrepreneurs, in particular Decree No. 500/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting.

The financial statements have been prepared on the historical cost principle.

All amounts are shown in thousands of Czech crowns unless otherwise stated.

(a) Tangible and intangible fixed assets

Fixed assets are understood to be assets with a useful life longer than one year which cost more than TCZK 40 for tangible assets on an individual basis and more than TCZK 60 for intangible assets on an individual basis. Tangible fixed assets costing up to TCZK 40 and intangible fixed assets costing up to TCZK 60 are not recognised in the balance sheet and are expensed in the year that they are acquired.

Purchased tangible and intangible fixed assets are stated at acquisition cost less accumulated depreciation and potential adjustments.

Temporary impairment of tangible and intangible fixed assets is shown through adjustments, which are reported in the correction column of the balance sheet along with depreciation.

The cost of technical improvement increases the cost of tangible and intangible fixed assets. Repair and maintenance costs are charged to current year expenses.

Depreciation

Tangible and intangible fixed assets are depreciated based on their acquisition cost and estimated useful lives on a straight-line and monthly basis. Depreciation starts in the month following the month in which a relevant asset is put into use and ends in the month in which the asset is disposed. For technical improvements that become part of the depreciated assets, depreciation starts in the month in which a relevant technical improvement is put into use (this does not apply to technical improvements made to fixed assets of another).

Assets are depreciated using the following methods over the following periods:

Asset	Number of years
Computer systems	3 - 5 years
Fixtures and fittings	3 - 10 years
Other tangible fixed assets	5 - 20 years
Software	3 years

Gains or losses from the sale or disposal of fixed assets are determined as the difference between revenues from the sale and the net book value of the relevant assets as at the date of the sale and are charged to profit or loss.

(b) Non-current financial assets

Non-current financial assets comprise equity investments in subsidiaries and associated companies, debt securities that the Company has the intent and ability to hold to maturity, and other long-term securities for which the Company's intent is not known upon acquisition.

Securities are initially stated at cost defined under Section 48 of Decree No. 500/2002 Coll. The cost of securities does not comprise interest on loans taken for their acquisition and expenses associated with their holding.

Equity investments contributed to the Company's registered capital were valued by an independent expert appointed by the court.

As at the balance sheet date, equity investments are recognised at acquisition cost, and if a particular investment has been impaired, an adjustment is established.
If securities are held in foreign currencies, they are translated as at the balance sheet date using the current rates of exchange announced by the Czech National Bank against the revaluation of assets and liabilities in equity.

(c) Receivables

Receivables are accounted for at their nominal value. Assigned receivables are stated at acquisition cost including other related costs (Section 25 of Act No. 563/1991 Coll.). As at the balance sheet date, temporary impairment of doubtful receivables is accounted for using adjustments that are debited to expenses and are shown in the correction column in the balance sheet. Adjustments are established to receivables that are more than 180 days overdue and to receivables identified based on an analysis of the credit status of individual customers.
The value of receivables from provided loans is increased by uncollected interest (except for default interest).

(d) Loans received

Short-term and long-term loans are initially recorded at their nominal value. Upon the preparation of the financial statements the loan balances are increased by unpaid interest charged by banks or other parties. The Company classifies as short-term any part of long-term loans that is due within one year of the balance sheet date.

(e) Derivatives

Trading derivatives

As at the balance sheet date, derivatives held for trading are recognised at fair value under "Sundry receivables" or "Sundry payables", and gains (losses) from changes in their fair values are recorded in profit or loss.

Hedging derivatives

The Company uses hedging derivatives (interest rate swaps) to mitigate interest rate risks relating to payments of interest on loans received. Hedging derivatives are recognised at fair value. The hedge is fully in line with the Company's risk management strategy. All interest rate swap transactions are documented and their effectiveness is evaluated on a continuous basis.

The realised portion of financial derivatives is recognised under Other financial expenses/revenues in the income statement. As at the balance sheet date, the unrealised portion is recorded in revaluation of assets and liabilities and recognised as a part of equity.

Cash flow hedges – hedging foreign exchange risk with non-derivative financial liabilities

The Company applies hedge accounting to hedge against foreign exchange risks arising from transactions denominated in foreign currency with defined non-derivative financial liabilities as a hedging instrument. The hedge is fully in line with the Company's risk management strategy. All transactions relating to hedging foreign exchange risk are documented and their effectiveness is evaluated on a continuous basis.

In the case of cash flow hedges, the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised in equity 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, the balance in equity is reclassified to profit or loss.

(f) Foreign currency transactions

The Company applies the Czech National Bank official rate effective on the date of acquisition of an asset or the occurrence of a liability to foreign currency transactions. During the year foreign exchange gains and losses are only recognised when realised at the time of settlement.

As at the balance sheet date, foreign currency monetary assets and liabilities are translated at the prevailing Czech National Bank official rates. All foreign exchange gains and losses are recognised in financial revenues or expenses.

(g) Recognition of expenses and revenues

Revenues and expenses are recognised on an accrual basis, i.e. in the period to which they relate in terms of substance and timing. In compliance with the principle of prudence, provisions and adjustments are created to cover all risks, losses and impairment known as at the balance sheet date and are debited to expenses.

(h) External financing costs

Costs incurred to obtain external financing (including other associated costs) are charged to current year expenses on a one-off basis.

(i) Income tax

Current income tax is calculated using the effective tax rate and the accounting profit increased or decreased by permanent or temporary non-deductible expenses and non-taxable revenues (e.g. the creation and utilisation of other provisions and adjustments, representation costs, differences between accounting and tax depreciation).

An income tax reserve is established as the financial statements are prepared before the tax liability is determined. In the subsequent accounting period, the Company releases this provision and records the actual tax liability determined.

In the balance sheet, the income tax provision is reduced by income tax prepayments, and the net receivable (if any) is recorded in State - tax receivables.

Deferred income tax is determined for companies constituting a group of companies and for all accounting units to which the duty to have their financial statements audited applies. Deferred tax is based on all temporary differences between the carrying and tax value of assets and liabilities, and other temporary differences (tax losses carried forward, if any), multiplied by the tax rate expected to be valid for the period in which the tax asset/liability is utilised.

A deferred tax asset is recognised only if it is probable that it will be utilised in future accounting periods.

(j) Consolidation

The Company prepares its consolidated financial statements in accordance with the International Financial Reporting Standards. The Czech translation of the consolidated financial statements, along with the consolidated annual report, will be published in the Commercial Register.
The consolidated financial statements of the widest group of entities are prepared by Energetický a průmyslový holding, a.s. with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1. The consolidated financial statements for 2016 will be published in accordance with Section 21a of the Accounting Act and stored at the registered office of Energetický a průmyslový holding, a.s.

(k) Loans, bonds and other short-term financial assistance

The Company classifies as short-term any part of long-term loans, bonds and other short-term financial assistance that is due within one year of the balance sheet date.

(l) Dividends

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

3. Change in accounting policies and procedures

In 2016, no changes were made to the Company's accounting policies and procedures.

4. Comparability of accounting periods

On 1 January 2016, Amendment No. 221/2015 to Act No. 563/1991 Coll., on Accounting, ("the Amendment") came into effect. The Amendment resulted in a change in the presentation of balance sheet and income statement items. The Company prepared the financial statements and the comparative accounting period in accordance with Czech Accounting Standard for Business Entities No. 24 and the conversion bridge specified in Section 3.

5. Cash flow statement

The cash flow statement was prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance.

Cash and cash equivalents can be analysed as follows:

(in TCZK)

	Balance at 31/12/2016	Balance at 31/12/2015
Cash on hand	40	24
Cash at bank	10 000 716	773 678
Total cash and cash equivalents	**10 000 756**	**773 702**

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

6. Non-current financial assets

At 31 December 2016 and 31 December 2015

Company name	Total profit (+) / loss (-) for 1/1/2016 - 31/12/2016 (in thousands of CZK/ EUR/HRK)	Equity at 31/12/2016 (in thousands of CZK/ EUR/HRK)	Net amount of investment at 31/12/2016 (in TCZK)	Net amount of investment at 31/12/2015 (in TCZK)
AISE, s.r.o.*	32 310 (CZK)	69 592 (CZK)	34 381	34 381
ARISUN, s.r.o. *	127 (EUR)	100 (EUR)	31 238	31 238
EBEH Opatovice, a.s. in liquidation**	-80 (CZK)	1 421 (CZK)	1 734	1 734
Elektrárny Opatovice, a.s.*	-419 285 (CZK)	4 192 228 (CZK)	8 178 032	8 178 032
EP Cargo, a.s.*	63 635 (CZK)	235 162 (CZK)	266 700	266 700
EP Cargo Deutschland GmbH	-	-	-	2 784
EP Cargo Polska, s.a.	-	-	-	1 306
EP ENERGY HR d.o.o.*	-104 (HRK)	-331 (HRK)	71	71
EP ENERGY TRADING, a.s.*	124 (CZK)	993 (CZK)	1 042 576	1 042 576

Energzet Servis, a.s.*	-264 (CZK)	15 447 (CZK)	2 000	2 000
EP Hungary, a.s.*	66 086 (CZK)	247 999 (CZK)	177 000	177 000
Greeninvest Energy, a.s.*	16 286 (CZK)	23 461 (CZK)	50 817	50 817
CHIFFON ENTERPRISES LIMITED*	-81 (EUR)	-492 (EUR)	0	20 198
VTE Moldava II, a.s.*	-5 505 (CZK)	722 (CZK)	87 695	87 695
JTSD Braunkohlebergbau GmbH	-	-	-	774 133
NPTH, a.s.*	807 383 (CZK)	11 065 326 (CZK)	9 622 510	9 622 510
PGP Terminal, a.s.	-	-	-	20 000
Plzeňská energetika a.s.*	71 403 (CZK)	1 499 791 (CZK)	818 321	818 321
Powersun, a.s.*	11 528 (CZK)	35 542 (CZK)	152 184	152 184
PT Holding Investment B.V.*	6 261 (EUR)	183 658 (EUR)	36 058	36 058
Stredoslovenská energetika, a.s.	75 204 (EUR)	500 229 (EUR)	9 315 678	9 317 398
Triskata, s.r.o.*	138 (EUR)	202 (EUR)	36 086	36 086
United Energy, a.s.*	3 621 (CZK)	1 060 325 (CZK)	4 626 947	4 626 947
VTE Pchery, s.r.o.*	577 (CZK)	10 740 (CZK)	51 602	51 602
EP Sourcing a.s.*	190 918 (CZK)	200 918 (CZK)	112 452	112 452
Total			**34 664 082**	**35 464 223**

* Data derived from non-audited financial statements as at 31 December 2016.

** By the decision of the sole shareholder of EBEH Opatovice, a.s. of 20 September 2016, the company was dissolved by liquidation and entered into liquidation effective as at 1 October 2016.

Except for AISE, s.r.o. (80%), Greeninvest Energy, a.s. (41.7%), Stredoslovenská energetika, a.s. (49%) and VTE Pchery, s.r.o. (64%) all investments are fully owned.

Registered offices of the companies as at 31 December 2016:

AISE, s.r.o.	Pekárenská 400, Zlín, Czech Republic
ARISUN, s.r.o.	Pribinova 25, Bratislava, Slovakia
EBEH Opatovice, a.s. *	Opatovice nad Labem – Pardubice 2, Czech Republic
Elektrárny Opatovice, a.s.	Opatovice nad Labem – Pardubice 2, Czech Republic
EP Cargo, a.s.	náměstí Hrdinů 1693/4a – Praha 4 – Nusle, Czech Republic
EP ENERGY HR d.o.o.	Svačičeva 10, Grad Split, Split, Croatia
EP ENERGY TRADING, a.s.	Klimentská 1216/46, Praha 1, Czech Republic
Energzet Servis, a.s.	Jedovnická 4303/2a, Brno – Židenice, Czech Republic
EP Hungary, a.s.	Pařížská 130/26, Josefov, Praha 1, Czech Republic
Greeninvest Energy, a.s.	Příkop 843/4, Zábrdovice, 602 00 Brno, Czech Republic
CHIFFON ENTERPRISES LIMITED	Akropoleos 59-61, SAVVIDES CENTER 102, Nicosia, Cyprus
VTE Moldava II, a.s.	Pařížská 130/26, Josefov, Praha 1, Czech Republic
NPTH, a.s.	Opatovice nad Labem – Pardubice 2, Czech Republic
Plzeňská energetika a.s.	Tylova 1/57, 316 00 Plzeň, Czech Republic

Powersun, a.s.	Pařížská 130/26, Josefov, Praha 1, Czech Republic
PT Holding Investment B.V.	Weteringschans 26, 1017 SG Amsterdam, the Netherlands
Stredoslovenská energetika, a.s.	Pri Rajčianke 8591/4B, Bratislava, Slovakia
Triskata, s.r.o.	Pribinova 25, 811 09 Bratislava, Slovakia
United Energy, a.s.	Teplárenská 2, 434 03 Most – Komořany, Czech Republic
VTE Pchery, s.r.o.	Pařížská 130/26, Josefov, Praha 1, Czech Republic
EP Sourcing a.s.	Teplárenská 2, 434 03 Most – Komořany, Czech Republic

Adjustments are created to the following investments: EP ENERGY TRADING, a.s. (TCZK 175 061), ARISUN s.r.o. (TCZK 11 161), VTE Moldava II, a.s. (TCZK 201 826), Triskata, a.s. (TCZK 10 381), VTE Pchery, s.r.o. (TCZK 5 703), EBEH Opatovice, a.s. (TCZK 288 058), and to CHIFFON ENTERPRISES LIMITED (TCZK 20 199).

In 2016, non-current financial assets changed as follows:

EP Infrastructure, a.s. ("EPIF"), the parent company, reorganised its group structure in view of the intended sale of its minority share to third parties. The reorganisation also included the matters described below relating to EPE.

German assets sale

German assets include MIBRAG and Saale Energie. MIBRAG is a wholly-owned subsidiary of JTSD, Saale Energie is a wholly-owned subsidiary of EP Germany; both companies, EP Germany and JTSD, were wholly-owned subsidiaries of EPE.

In February 2016, EPE contributed TCZK 1 923 984 to the JTSD's capital funds. The German assets were sold as part of the sale of EPE's 100% interest in JTSD to Energetický a průmyslový holding, a.s. ("EPH") for a consideration of TCZK 4 217 112 (the amount corresponds to the fair value of JTSD's equity). The disposal was completed on 1 April 2016 and the purchase price was fully settled in cash.

Other disposals of shares

These include sale of:

1) 60% of shares in PGP Terminal, a.s. by EPE (as the seller) to EPH (as the buyer) for the purchase price of TCZK 9 189 in cash (the sale was completed on 29 February 2016);

2) 100% ownership interest in EP Cargo Deutschland GmbH by EPE (as the seller) to EP Logistics International, a.s. (as the buyer) for the purchase price of TCZK 9 523 in cash (the sale was completed on 4 April 2016);

3) 100% of shares in EP CARGO POLSKA s.a. by EPE (as the seller) to EP Logistics International, a.s. (as the buyer) for the purchase price of TCZK 13 176 in cash (the sale was completed on 4 April 2016).

In late 2015, the Company sold a 100% interest in EP Germany GmbH, its subsidiary, to JTSD. The purchase price was calculated based on the fair value of EP Germany GmbH 's equity of TCZK 115 640. The 100% interest in ROLLEON a.s. of TCZK 96 650 was also sold.

7. Long-term receivables

Long-term receivables – group undertakings primarily comprise loans provided to related parties (see Note 14).

As at 31 December 2015, long-term receivables also included a receivable from derivatives (as shown in the table below). As at 31 December 2016, the derivative is presented in long-term liabilities (see Note 11).

Fixed-term contract presented in Sundry receivables in TCZK	Counterparty	Due date	Fair value at 31/12/2015	Nominal value (in TEUR)
Hedging derivative	ČSOB	3/11/2025	33 989	100 000
Total derivatives			**33 989**	**100 000**

8. Short-term receivables

Short-term receivables primarily comprise loans provided to related parties (see Note 14(b)).

Ageing structure of trade receivables

Based on an internal analysis of the credit status of its customers, the Company created a provision of TCZK 11 920 (as at 31 December 2015: TCZK 11 922).

Other short-term receivables as at 31 December 2015 primarily included a receivable resulting from sale of the equity investment in EP Germany GmbH of TCZK 115 640 to JTSD-Braunkohlebergbau GmbH. As at 31 December 2015, they also included a receivable from derivatives (as shown in the table below). Under EPIF reorganisation, the FX forward concluded with EPH was transferred to EPIF and offset (see below).

Fixed-term contracts reported in Other receivables in TCZK	Counterparty	Due date	Fair value at 31/12/2016	Fair value at 31/12/2015
Forward purchase of EUR	Energetický a průmyslový holding, a.s.	1/12/2016	-	97 640
Total derivatives			**-**	**97 640**

On 4 April 2016, EPE unwound the existing FX forward with EPH and as a result, EPE had a receivable of TCZK 110 697 towards EPH corresponding to the FX forward fair value at the closing date. This receivable was acquired by EP Infrastructure, a.s. for the nominal value thereof, i.e., the Company had

a receivable of TCZK 110 697 towards EP Infrastructure, a.s. The receivable was part of the offset described in Note 14 (b).

9. State - Tax receivables

As at 31 December 2016 and 31 December 2015, the Company reports a receivable relating to value added tax and a receivable relating to corporate income tax prepayments (see Note 20).

10. Equity

The change in the line "Gains or losses from the revaluation of assets and liabilities" is due to a foreign exchange differences arising from the revaluation of foreign currency ownership interests.

On 2 May 2016, Company's general meeting approved the transfer of the 2015 profit to retained earnings. It also approved the payment of dividends totalling TCZK 8 868 208, TCZK 7 778 208 of which was offset against existing receivables from EPIF (see Note 14 (b)). The remaining part of the dividend was paid out in cash.

On 30 November 2016, EPIF, the sole shareholder of EPE, approved a profit share prepayment distribution totalling TCZK 719 343.

Changes in fair value recorded in accounting group 41 (Gains or losses from the revaluation of assets and liabilities) during the accounting period

	Revaluation of equity investments denominated in foreign currency	Cash flow hedges (foreign exchange risk)	Cash flow hedges (foreign exchange risk) – deferred tax	Interest rate swap (hedge)	Interest rate swap (hedge) – deferred tax	Total
Balance at 31/12/2015	**-53 230**	**262 500**	**-49 875**	**33 989**	**-6 458**	**186 926**
Revaluation of foreign currency ownership interests	-55 633	-	-	-	-	**-55 633**
Utilisation of cash flow hedge	-	-14 375	-	-	-	**-14 375**
Revaluation of cash flow hedge	-	-1 375	-	-	-	**-1 375**
Deferred tax – cash flow hedge	-	-	2 992	-	-	**2 992**
Change in fair value of the interest rate swap	-	-	-	-132 575	-	**-132 575**
Deferred tax – interest rate swap	-	-	-	-	25 189	**25 189**
Balance at 31/12/2016	**-108 863**	**246 750**	**-46 883**	**-98 586**	**18 731**	**11 149**

11. Long-term payables

The bonds issued are quoted on the Irish stock exchange. The first tranche is repayable in 2019 and bears an interest rate of 5.875% p.a. The second tranche is repayable in 2018 and bears an interest rate of 4.375% p.a.

On 3 October 2016, the Company repurchased issued bonds totalling TCZK 80 488 including accrued interest; the bonds were then liquidated.

Interests on both tranches are payable twice a year retrospectively on 1 May and 1 November of each year.

Deferred tax liability of TCZK 800 885 (at 31 December 2015: TCZK 814 393) is described in detail in Note 20.

Cash flow hedge – hedging the foreign exchange risk with non-derivative financial liabilities

The Company applies hedge accounting for hedging instruments designated to hedge foreign exchange risk of revenues denominated in foreign currency (EUR). The Company designated relevant parts of the nominal value of bonds denominated in EUR amounting to MEUR 350 as hedging instruments (2015: MEUR 375). Hedged cash flows from dividends from subsidiaries in EUR, considered highly probable by the Company, are expected between 2016 and 2030. The impact on profit or loss is also expected in that period. As at 31 December 2016, TCZK 246 750 (as at 31 December 2015: TCZK 262 500) from this hedge relationship was recognised in the Company's equity including a related deferred tax of TCZK 46 883 (as at 31 December 2015 – TCZK 49 875). In 2016, as a result of the utilisation of cash flow hedge, TCZK 14 375 of the amount recorded in equity in connection with the application of hedge accounting was reclassified to revenues (2015: TCZK 0).

As at 31 December 2016, liabilities from derivatives (sundry payables) are presented in long-term payables (see the table below).

Fixed-term contracts reported in Sundry payables in TCZK	Counterparty	Due date	Fair value at 31/12/2016	Nominal value (in TEUR)
Interest rate swap (hedge)	ČSOB	3/11/2025	98 586	100 000
Interest rate swap (trading)	ČSOB	3/11/2025	97 979	100 000
Interest rate swap (trading)	ČSOB	3/11/2025	87 054	100 000
Total derivatives			**283 619**	

As at 31 December 2015, the Company reported only interest rate swap (hedge).

Cash flow hedge – hedging the interest rate risk with interest rate swap

The Company applies hedge accounting for interest rate swaps that are used for hedging of interest expense on current and planned financing of the Company. Hedged interest expense arising from

financing of Company's operations are considered highly probable and expected between 2018 and 2025. The impact on profit or loss is also expected in that period. As at 31 December 2016, TCZK -98 586 (as at 31 December 2015: TCZK 33 989) from this hedge relationship was recognised in the Company's equity including a related deferred tax of TCZK 18 731 (as at 31 December 2015: TCZK -6 458).

12. Short-term payables

Short-term payables primarily comprise payables to related parties arising from received loans of TCZK 4 257 534 (as at 31 December 2015: TCZK 4 716 406), see Note 14 (c), and accrued interest on issued bonds of TCZK 249 786 (31 December 2015: TCZK 250 544).

Sundry payables as at 31 December 2015 included, in particular, a payable to JTSD-Braunkohlebergbau GmbH of TCZK 94 588 relating to real estate transfer tax.

13. Bank loans

The Company fully repaid its bank loans from ČSOB, HSBC and Commerzbank using the proceeds from the sale of JTSD.

Payables to credit institutions presented as at 31 December 2015:

Bank	Currency	Balance at 31/12/2015 (in TCZK)
HSBC Bank Praha	EUR	1 351 250
Commerzbank	EUR	1 351 250
ČSOB	EUR	2 026 875
Total long-term loans		**4 729 375**
UniCredit Bank (overdraft)	EUR	531 194
Total short-term loans		**531 194**

14. Related parties

In compliance with Section 39b(8) of Decree No. 500/2002 Coll., the Company does not recognise transactions (revenues and expenses) between related entities within EPH consolidation group that are wholly owned by the Company. Prior period balances and transactions were adjusted accordingly to ensure comparability of information.

(a) Long-term receivables from provided loans

31 December 2016

Company name	Due date	Balance at 31/12/2016
Arisun, a.s.	2024	4 995
Alternative Energy, s.r.o.	2021	180 471
Elektrárny Opatovice, a.s.	2019	4 661 815
Elektrárny Opatovice, a.s.	2018	783 580
EP ENERGY TRADING, a.s.	2019	396 174
EP ENERGY TRADING, a.s.	2020	200 000
Greeninvest Energy, a.s.	2022	156 417
Plzeňská energetika a.s.	2018	72 954
POWERSUN a.s.	2024	142 352
Triskata, s.r.o.	2024	4 000
United Energy, a.s.	2019	1 417 158
VTE Moldava II, a.s.	2024	63 414
VTE Pchery, s.r.o.	2024	89 187
Total at 31/12/2016		**8 172 895**

Based on an internal analysis of the credit status of the counterparties, the Company created an adjustment of TCZK 41 314 (as at 31 December 2015: TCZK 0).

31 December 2015

Company name	Due date	Balance at 31/12/2015
Arisun, a.s.	2024	4 825
Elektrárny Opatovice, a.s.	2019	4 662 677
Elektrárny Opatovice, a.s.	2018	783 725
EP ENERGY TRADING, a.s.	2019	396 247
EP ENERGY TRADING, a.s.	2020	200 000
EP Germany GmbH	2019	2 646 095
Greeninvest Energy, a.s.	2022	143 054
JTSD Braunkohlebergbau GmbH	2019	3 702 425
JTSD Braunkohlebergbau GmbH	2024	6 461 678
Plzeňská energetika a.s.	2018	268 899
POWERSUN a.s.	2024	53 872
Triskata, s.r.o.	2024	3 876
United Energy, a.s.	2019	668 029
United Energy, a.s.	2019	938 566
VTE Moldava II, a.s.	2024	59 837
VTE Pchery, s.r.o.	2024	85 046
Total at 31/12/2015		**21 078 851**

JTSD assumed a liability of TCZK 1 670 676 of EP Germany GmbH ("EPG") towards EPE (relating to a loan provided by EPE to EPG in the original amount of TCZK 2 646 095 as at 31 December 2015) for the nominal value of this liability. The liability arising from the loan after JTSD's assumption of EPG's debt was repaid in cash; EPH acquired EPE's outstanding receivable towards EPG for its nominal value of TCZK 6 512 as at the date of JTSD acquisition. EPH paid the nominal amount of the receivable in cash.

On 23 February 2016, JTSD set-off its receivables towards EPE in the amount of TCZK 2 215 010 arising from:

1) a loan of TCZK 458 060 provided by JTSD to EPE, and

2) a receivable of TCZK 1 756 950 relating to a loan provided to EPE by Mitteldeutsche Braunkohlengesellschaft GmbH ("MIBRAG"), which was assumed by JTSD from MIBRAG for its nominal value.

EPE contributed TCZK 1 923 984 to the capital funds of JTSD (see Note 6).

Immediately after the capitalization, the total liabilities of JTSD towards EPE amounted to TCZK 8 244 150. These were settled by JTSD making a payment to EPE in the amount of TCZK 8 244 150 and the outstanding receivable of EPE towards JTSD was acquired by EPH for its nominal value as of the date of the JTSD acquisition by EPH; the consideration was fully settled in cash TCZK 45 692.

(b) Short-term receivables from provided loans and cash pool

31 December 2016

Company name	Balance at 31/12/2016	Balance at 31/12/2015
Short-term receivables from provided loans		
Alternative Energy, a.s.	-	4 055
EP Energy HR d.o.o.	1 216	946
EP ENERGY TRADING, a.s.	6 009	6 262
Elektrárny Opatovice, a.s.	54 303	758 705
Energetický a průmyslový holding, a.s.*	-	8 264 520
EP Coal Trading, a.s.	-	21 822
Chiffon Enterprises Limited	271 359	262 681
JTSD Braunkohlebergbau GmbH**	-	348 678
MR TRUST s.r.o.	1 406	362
Plzeňská energetika, a.s.	101	2 202
United Energy, a.s.	14 382	15 328
Termonta, a.s.	-	6 674
VTE Moldava II, a.s.	123 626	124 849
EP Hungary, a.s.	141 009	204 469
Total - *Short-term receivables from provided loans*	**613 411**	**10 021 553**
Short-term receivables – cash pool		
Subsidiaries	949 420	-
Related companies	47 500	-
Total - *Short-term receivables – cash pool*	**996 920**	**-**
Total	**1 610 331**	**10 021 553**

* As part of the reorganisation, EPIF took over all EPH's debts towards EPE at their nominal values of TCZK 8 349 611 (MEUR 308.7). EPH's debts totalling TCZK 8 349 611 consisted of unpaid principal of TCZK 7 390 477 and unpaid accrued interest of TCZK 959 134.

** The loan was part of the set-off in 2016 (see Note 14(a)).

Receivables towards EPIF

On 2 May 2016, EP Energy, a.s. declared a dividend of TCZK 8 868 208. The liability arising from the declared dividend was partially offset in the amount of TCZK 7 778 208 against receivables arising from EPIF's assumption of EPH's liabilities towards EPE. The offset comprised the following transactions:

• The loans were offset including the principal of TCZK 6 773 173 and interest of TCZK 894 309.

• On 4 April 2016, EP Energy, a.s. terminated the FX forward contract signed with EPH, thus establishing a receivable of TCZK 110 697 (MEUR 4.1), corresponding to the fair value of the FX forward at the termination date. EP Infrastructure, a.s. purchased the receivable for its nominal value.

The offset described above resulted in the outstanding part of the liability arising from the announced dividend of TCZK 1 090 000, which was paid in cash.

On 30 November 2016, EPE offset the outstanding part of its receivable towards EPIF. The loans were offset comprising the principal of TCZK 617 532 and the interest of TCZK 101 811 against the declared profit share prepayment distribution (see Note 10).

(c) Short-term payables from received loans

Company name	Balance at 31/12/2016	Balance at 31/12/2015
Short-term payables from received loans		
Budapesti Erömü Zrt (BERT)	501 409	-
PT Holding Investment B.V.	364 824	-
Elektrárny Opatovice, a.s.	-	602 632
Energotrans SERVIS, a.s.	-	316 404
EP ENERGY TRADING, a.s.	-	51 289
JTSD Braunkohlebergbau GmbH*	-	456 514
Mitteldeutsche Braunkohlengesellschaft GmbH*	-	2 162 802
Plzeňská energetika, a.s.	-	82 378
Pražská teplárenská, a.s.	-	126 027
PT Holding Investment B.V.	-	3 049
Saale Energie GmbH	-	329 746
Severočeská teplárenská, a.s.	-	289 738
United Energy, a.s.	-	295 827
Total - *Short-term payables from received loans*	**866 233**	**4 716 406**
Short-term payables – cash pool		
Subsidiaries	2 449 594	-
Related companies	941 707	-
Total - *Short-term payables – cash pool*	**3 391 301**	**-**
Total	**4 257 534**	**4 716 406**

*The loan was part of the set-off in 2016 (see Note 14(a)).

(d) Interest income and expense

	2016		2015	
	Interest income	Interest expense	Interest income	Interest expense
Controlling entities	114 358	-	334 944	-
Subsidiaries	667 861	11 307	1 297 572	64 995
Related entities	14 171	438	13 331	12 350
Total	**796 389**	**11 744**	**1 645 847**	**77 345**

(e) Income from equity investments - controlled or controlling entity

Dividend income

Company name	2016	2015
Rolleon a.s.	-	5 000
ENERGZET, a.s.	1 499	-
Plzeňská energetika a.s.	30 000	-
Stredoslovenská energetika, a.s.	873 322	691 406
EP Sourcing, a.s.	206 017	
AISE, s.r.o.	10 000	9 600
PT Holding Investment B.V.	-	962 432
NPTH, a.s.	807 000	342 200
Total	**1 927 838**	**2 010 638**

This line also presents proceeds from the sale of non-current financial assets of TCZK 4 249 000 (as at 31 December 2015: TCZK 212 290) described in greater detail in Note 6.

15. Cost of services

These costs primarily include costs incurred for legal and accounting advisory and services rendered by experts.

16. Other interest and similar expense

This line presents primarily interest from bonds and bank loans.

17. Other financial expenses and revenues

Other financial revenues primarily comprise foreign exchange gains of TCZK 53 369 (as at 31 December 2015: TCZK 718 250) and revenues from derivatives of TCZK 22 504 (as at 31 December 2015: TCZK 27 263).

Other financial expenses comprise foreign exchange losses of TCZK 33 784 (as at 31 December 2015: TCZK 788 029), expenses from operations with derivatives of TCZK 194 001 (as at 31 December 2015: TCZK 72 287) and expenses associated with fees for bank loans.

Financial revenues and expenses also comprise cash pool benefits (TCZK 369) and fees (TCZK 19 598).

18. Employees and executives

The Company had sixteen (2015: fourteen) employees as at 31 December 2016.

In 2016 and 2015, the members of the Company's management, supervisory board and the board of directors did not receive any benefits relating to their office (advances, deposits, loans or credits).

Social security and health insurance liabilities are not overdue.

19. Fees payable to statutory auditors

This information will be disclosed in the notes to the consolidated financial statements as at 31 December 2016.

20. Income tax

Current tax

The current income tax estimate and overview of income tax prepayments as at 31 December 2016 and as at 31 December 2015 are shown below:

	Balance at 31/12/2016	Balance at 31/12/2015
Current tax estimate	25 000	113 558
Current income tax prepayments	131 555	74 961
Income tax provision (+) / State - tax receivables (-)	**-106 555**	**38 597**

Expenses of TCZK 25 031 related to current income tax on ordinary activities in 2016 represent the difference between tax liability for 2015 and the release of the income tax provision created as at 31 December 2015 and the recorded provision for 2016 amounting to TCZK 25 000.

Expenses of TCZK 113 558 related to current income tax on ordinary activities in 2015 are decreased by TCZK 1 000 as a result of recording of additional income tax for 2014 and releasing of income tax provision as at 31 December 2014.

Deferred tax

The deferred tax liability consists of the following items:

Deferred tax arising from	Balance at 31/12/2016	Balance at 31/12/2015
Revaluation of fixed assets as part of a merger*	713 959	713 959
Revaluation of the assets of EP Renewables a.s.	67 790	67 790
Long-term investments	-9 015	-23 689
Revaluation of hedging instruments	28 151	56 333
Total	**800 885**	**814 393**

* The deferred tax liability has arisen from the revaluation of assets within the merger of EP Energy, a.s. with Honor Invest, a.s., Czech Energy Holding, a.s., EAST BOHEMIA ENERGY HOLDING LIMITED, LIGNITE INVESTMENT 1 LIMITED and HC Fin3 N. V.

In accordance with the accounting policies described in Note 2 (i), a tax rate of 19% was used to calculate deferred tax (2015 – 19%).

21. Significant off-balance sheet transactions

A total of 50% plus 1 share of the Company and of other selected subsidiaries and cash of TCZK 10 000 756 are pledged in favour of bond holders. A total of 50% minus 1 share of the Company are pledged in favour of the club of banks providing a financing to EP Infrastructure, a.s., the Company's parent.

The Company reports an off-balance sheet liability from derivative transactions in the nominal value of TCZK 8 106 000 (as at 31 December 2015: TCZK 4 717 532). The Company reports an off-balance sheet receivable from derivative transactions in the nominal value of TCZK 8 106 000 (as at 31 December 2015: TCZK 4 829 032).

The Company reports off-balance sheet a liability from guarantees provided to group companies totalling TCZK 1 039 653 and an accepted bank stand-by credit of TCZK 1 351 000.

22. Significant subsequent events

On 20 January 2017 EP Energy, a.s. granted loans to ARISUN, s.r.o. and Triskata, s.r.o. that used the funds to repay their bank loans of EUR 1 million each.

On 20 January 2017, EP Infrastructure, a.s., the sole shareholder of the Company, declared a profit share prepayment of TCZK 270 200, which was paid in cash.

On 24 February 2017 EPH completed the previously concluded agreement with a consortium of global institutional investors led by Macquarie Infrastructure and Real Assets (MIRA) on the sale of a 31% stake in EPIF. The remaining 69% of EPIF remains with EPH, which will also retain management control over EPIF.

Following the sale of a minority shareholding in EPIF changes also occurred in the shareholder structure of EPH as follows:

- The current shareholders of EPH concluded a series of transactions, through which Daniel Křetínský (94%) and selected members of the existing management of EPH (6%), became sole owners of EPH going forward.
- The current shareholders, Biques Limited, Milees Limited and EP Investment S.à.r.l. received in total EUR 1.5 billion at closing from EPH for the sale of their shares in EPH representing in aggregate 30% of EPH share capital. Whereas Biques Limited sold all its shares in EPH, Milees Limited and EP Investment S.à.r.l. sold each 2.17 % shares in EPH in this share-buy-back transaction.
- Milees Limited will further receive EUR 1.75 to 2.75 billion (plus interest) over time, whereby the final amount payable to Milees Limited will reflect growth in the underlying value of EPH over the coming years.

On 9 March 2017 Mr. Daniel Křetínský resigned as the Chairman of the Board of Directors of EP Energy, a.s. and Mr. Tomáš David was elected as the new Chairman of the Board of Directors. On 10 March 2017 Mr. Daniel Křetínský was removed from office of member of the Board of Directors and with effect from 11 March 2017 Mr. William Price was elected as the new member of the Board of Directors.

On 10 March 2017, EP Infrastructure, a.s., the sole shareholder of the Company, declared a profit share prepayment of TCZK 270 200, which was paid in cash.

The board of directors of EP Energy, a.s. is currently considering a merger by acquisition of EP Hungary, a.s. with EP Energy, a.s. with the decisive date of 1 January 2017.

Apart from the events described above and in other notes to these financial statements, the Company's management is not aware of any other significant events that have occurred subsequent to the balance sheet date that would have a material impact on the financial statements as at 31 December 2016.

Prepared on: 27 April 2017

Pavel Horský
Member of the Board of Directors

Marek Spurný
Member of the Board of Directors