EP Energy, a.s.

Consolidated annual report for the year 2017

CONTENT

I. Introduction by the Chairman of the Board of Directors

Dear investors, customers and partners,

In 2017, the EP Energy Group achieved **revenues of EUR 1,833 million**, with **EBITDA reaching EUR 380 million**, which is by 30% higher than in 2016. Results and performance of EP Energy was driven by increasing prices of electricity and positive effect of accounting for compensation of losses resulting from subsidies paid by the SSE Group to renewable energy producers, which are compensated to the SSE Group with a delay.

The *Heat Infra* segment generated in 2017 **revenues of EUR 555 million, with EBITDA of EUR 153 million**, was up by more than EUR 8 million compared to the previous year. Better results stem predominantly from higher power prices and positive influence of weather pattern leading to higher heat offtake, almost fully balancing out heat deliveries disposed by selling off low-margin LPZ in June 2016. LPZ comprised of several non-strategic assets including a set of smaller scale local heat sources and related distribution network islands located predominantly on the left bank of Vltava river in Prague. Results of the segment were also positively influenced by EUR 7 million profit from disposal of other non-core assets such as land plots and not-utilized real estate.

In December 2017, EP Energy successfully finalized purchase of minority shareholding in Pražská teplárenská from Prague municipality, which increased our shareholding to 98% in this strategic asset.

EP Energy has remained the largest heat supplier to final consumers in the Czech Republic and one of the largest domestic electricity producer.

The *Power Distribution and Supply* segment reached **revenues of EUR 1,425 million and EBITDA of EUR 223 million** – up by EUR 74 million - positively affected by accounting for compensation of losses reported by the SSE Group as a result of subsidies paid by SSE Group to renewable energy producers, which are compensated to the SSE Group with a delay. On the other hand, the segment (as well as the other competitors) was impacted by negative margin realized on power supply portfolio esp. in peak hours in January and partially in February 2017 caused primarily by spiking power and gas spot prices and low liquidity of Slovak power market during extremely cold weather in conjunction with problems of French nuclear fleet.

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

Finally, let me mention than in June 2017 Fitch affirmed the EP Energy's Group rating at **BB+** with **stable outlook**. We are set to continue in current business strategy supporting the BB+ rating.

On behalf of the Board of Directors and everyone at EP Energy, I would like to thank you for your ongoing support as we strive to continue creating the shareholder value while keeping our low risk-profile.

Yours faithfully,

Tomáš David

Chairman of the Board of Directors and CEO

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

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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.

Report on the Audit of the Financial Statements

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 2017, 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 2017 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. This recognition is based on periodic meter readings and includes an estimate of the value of electricity and consumption after the date of the last meter reading of the year, determined based on estimates of daily consumption, adjusted to take into account weather conditions and other factors.** **In our opinion, the estimate of these revenues is a key audit matter since the there is a risk of inappropriately recognised sales due to having improperly set the estimate determination process.**	In this area, our audit procedures included especially the following: We tested the implementation, set up and effectiveness of manual and automatic controls in the process of revenue recognition. We tested the relevant controls for the determination of amounts of energy not yet invoiced, and we in particular verified the functionality of recalculations being performed on a monthly basis directly in the customer systems. This included the verification of the logic and mathematical accuracy of this recalculation. Furthermore, we performed detailed tests of the balance equation as at the reporting date and verified the accuracy of the data used by the Company. We took a very close look on the estimated average prices and distribution network losses. Analytical procedures related to revenues, EBITDA, various categories of income were carried out based on a comparison with the plan and with previous periods. In addition, for a sample, we compared invoices issued after the reporting date with the estimated revenues as at 31 December 2017.

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 has a significant portfolio of long-term interest rate, currency and commodity contracts that are booked as derivatives. Some of them are traded on the regulated market (stock exchange), others are negotiated outside of the regulated market (over-the-counter, OTC). **The accounting framework requires that the Company revalue these contracts at fair value as at the reporting date. The fair value of unlisted derivatives depends, inter alia, on the determination of several assumptions and estimates that have significant influence on fair value, e.g. the yield curve.** **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 especially the following: With the help of our internal specialists in financial instruments valuation, we critically evaluated the Company's procedures and models for the valuation of financial assets and liabilities. For selected derivative contracts, we determined our own estimate of the fair value of the derivatives, compared those estimates to the amounts recorded in the general ledger and critically evaluated any resulting differences. Furthermore, we critically evaluated the description of the methods of fair value determination with respect to the financial instruments as described in the notes to the financial statements.

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 Company recognises significant balances of long-term assets. The return on certain long-term assets including assets producing electricity, heat (included in Property, plant and equipment) as well as goodwill depends on the 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 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-in-use or fair value less costs of sale. The result of this impairment testing may differ when using different assumptions and estimates (e.g. discount rate and growth rate).** **Owing to the above, we consider the impairment testing of tangible and intangible long-term assets to be significant for our audit.**	In this area, our audit procedures included especially the following: We critically reviewed the calculation of the value-in-use. This included an evaluation of projected cash flow included in the calculation of impairment testing for individual assets or cash-generating units or discount rates used by Company. We evaluated the historical reliability of the estimates of future development by comparing the estimates of the financial plans for 2017 included in the value-in-use calculation prepared in 2016 to actuals for 2017. We also compared financial plans of the cash-flows included in the value-in-use calculation prepared for 2017 to the financial plans for 2016. We critically evaluated any significant differences. With the help of our internal business valuation specialists, we assessed whether the assumptions used by the management of the Company were in line with external information and our expectations based on our knowledge of the individual sectors in which the Company operates. 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 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 separate and 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 separate and consolidated financial statements is, in all material respects, consistent with the separate and 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 Supervisory Board 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.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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

Karel Charvát is the statutory auditor responsible for the audit of the consolidated financial statements of EP Energy, a.s. as at 31 December 2017, based on which this independent auditor's report has been prepared.

Prague
28 March 2018

KPMG Česká republika Audit

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

Karel Charvát
Partner
Registration number 2032

III. Other Information

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

In 2018, the 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

In May 2018, the notes totalling EUR 598 million become due. Currently, management intends to repay the notes by a combination of own funds and intercompany loan.

In December 2017, the City of Pilsen approved the key terms and conditions of a potential future merger of Plzeňská energetika a.s. and Plzeňská teplárenská, a.s. ("PLTEP"), a 100 per cent subsidiary of the City of Pilsen, resulting in PLTEP as joint-venture successor company in which the Group would have a 35 per cent interest and management control. The transaction is being negotiated as of the date of this annual report and the City of Pilsen is scheduled to finally approve the merger in May 2018. If approved, the merger may become effective later in 2018. Structuring considerations concerning this transaction are yet to be finalized.

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 2017, the EPE Group did not carry out any significant research and development activities and as a result did not incur any material research and development costs.

Acquisition of own shares or own ownership interests

During the 2017, the 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 2017, 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.

The 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, the EPE Group is subject to regulations imposing strict limits on emissions of CO2, sulphur oxides (SOx), nitrogen oxides (NOx), carbon monoxide (CO) and solid dust particles emissions (SDP).

Although the 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 to maintain its compliance with the environmental legislative requirements. In 2017, the Group invested considerable amounts into the restructuring of several plants.
For example, Plzeňská energetika a.s. has invested into the modernization of technology of the control system on K3 boiler, installation of the new block transformer TG9, increased performance of TG10 boiler or new hot water distribution and connection.

Elektrárny Opatovice, a.s. has installed two new mufflers to the engine room and boiler expander to reduce the produced noise.

Pražská teplárenská, a.s. finished the construction of the new modern hot-water source THOL4 and realised several significant hot-water connections in 2017.

In 2017 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.

The EPE Group 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.

In 2017, no reportable damage or harm was caused to the environment during the performance of the EPE Group business activities.

Employment relations

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 labour, social and wage related issues. Safety and quality management covers health protection at work, safety management systems, technology and human resources all of which are an integral part of the management of the EPE Group. The management believes that the EPE Group, its companies and equipment are in compliance with all legislative requirements and best practice methods. Moreover, they are constantly striving to improve the safety level of the Group’s activities by introducing measures focused on risk assessment, elimination, mitigation and prevention. The EPE Group also provides general training programs on employee safety and when selecting or assessing potential suppliers the Group also takes into account their approach and attitude towards security issues.

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 2017 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

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 treating 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., the Corporations Act

On 30 November 2017, a project of merger by acquisition between the acquiring company, EP Energy, a.s., and the company being acquired, EP Hungary, a.s. was recorded. The decisive day of the merger was 1 January 2017.

In 2017, no other 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 entered into between EP Energy, a.s. and other related entities

V.1.1.

In 2017, 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, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement.

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, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement.

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, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement.

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, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement.

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, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement.

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, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement.

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, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement. 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, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement. On 26 September 2012, the receivable was assigned to EP Renewables a.s. based on a receivable assignment agreement. In 2015, EP Energy, a.s. became the legal successor of EP Renewables 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, the receivable was assigned to EP Energy, a.s. based on a receivable assignment agreement.

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 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, the receivable was assigned to EP Renewables a.s. based on a receivable assignment agreement. 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 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 26 June 2013, a loan agreement, including valid amendments, was signed by and between EP Energy, a.s., as a 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 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 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 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 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 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 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.

On 19 January 2017, a loan agreement was signed by and between EP Energy, a.s. as the creditor and ARISUN, s.r.o. as the debtor.

On 19 January 2017, a loan agreement was signed by and between EP ENERGY, a.s. as the creditor and Triskata, s.r.o. as the debtor.

On 31 January 2017, a loan agreement was signed by and between EP Hungary, a.s. as the creditor and BUDAPESTI ERŐMŰ ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG as the debtor. EP ENERGY, a.s. became the legal successor of EP Hungary a.s.

On 19 April 2017, a loan agreement was signed by and between EP Energy, a.s. as the creditor and Greeninvest Energy, a.s. as the debtor.

On 15 May 2017, a loan agreement was signed between EP Energy, a.s. as the creditor and EP Infrastructure, a.s. as the debtor.

On 21 May 2017, a loan agreement was signed between EP Energy, a.s. as the creditor and EP Infrastructure, a.s. as the debtor.

On 31 July 2017, a loan agreement was signed between EP Energy, a.s. as the creditor and MR TRUST, a.s. as the debtor.

On 12 October 2017, a loan agreement was signed between EP Energy, a.s. as the creditor and EP Infrastructure, a.s. as the debtor.

On 11 December 2017, a loan agreement was signed between EP Energy, a.s. as the creditor and PT-Holding Investment B.V. as the debtor.

V.1.2.

In 2017, the following agreements on the set-off of receivables and payables were concluded:

On 18 May 2017, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and EP Infrastructure, a.s.

On 26 July 2017, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and PT-Holding Investment B.V.

On 1 August 2017, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and MR TRUST, s.r.o.

On 13 October 2017, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and EP Infrastructure, a.s.

On 20 December 2017, an agreement on the set-off of receivables was signed by and between EP Energy, a.s. and BUDAPESTI ERŐMŰ ZÁRTKÖRŰEN MŰKÖDŐ RÉSZVÉNYTÁRSASÁG.

V.1.3.

Other agreements effective in 2017:

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

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 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.

On 2 May 2017, 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 AISE, s.r.o.

On 19 December 2017, an agreement on a short-term deposit was signed by and between EP Energy, a.s. and Pražská teplárenská Holding a.s.

V.1.4.

In 2017, the following operating agreements were effective:

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

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

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

An agreement on controlling and analytical advisory services signed by and between Elektrárny Opatovice, a.s. and EP Energy, a.s. on 29 November 2013. The agreement terminated as at 31 March 2017.

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. The agreement terminated as at 31 March 2017.

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. The agreement terminated as at 31 March 2017.

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

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

A technical advisory agreement signed by and between Plzeňská energetika a.s. and EP Energy, a.s. on 2 January 2014 including all amendments.

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

A cooperation agreement signed 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 21 February 2017.

A sublease agreement signed by and between EP Investment Advisors, s.r.o. and EP Energy, a.s. on 15 June 2017 including all amendments.

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 2017 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 2017 to 31 December 2017, 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, 28 March 2018

....	....
Marek Spurny	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 2017

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 2017
In millions of EUR ("MEUR")

	Note	2017	2016
Sales: Energy	7	1,812	1,807
of which: Electricity		*1,301*	*1,293*
Heat		*341*	*355*
Gas		*157*	*132*
Coal		*13*	*27*
Sales: Other	7	27	34
Gain (loss) from commodity derivatives for trading with electricity and gas, net		(6)	1
Total sales		**1,833**	**1,842**
Cost of sales: Energy	8	(1,291)	(1,365)
Cost of sales: Other	8	(21)	(29)
Total cost of sales		**(1,312)**	**(1,394)**
Subtotal		**521**	**448**
Personnel expenses	9	(110)	(108)
Depreciation and amortisation	16, 17	(138)	(168)
Repairs and maintenance		(5)	(5)
Emission rights, net	10	(20)	(15)
Taxes and charges	11	(3)	(3)
Other operating income	12	38	27
Other operating expenses	13	(41)	(51)
Profit (loss) from operations		**242**	**125**
Finance income	14	2	19
Finance expense	14	(78)	(65)
Profit (loss) from financial instruments	14	-	(9)
Net finance income (expense)		**(76)**	**(55)**
Share of profit (loss) of equity accounted investees, net of tax	18	(1)	-
Gain (loss) on disposal of subsidiaries, special purpose entities, joint-ventures and associates	6	-	63
Profit (loss) before income tax		**165**	**133**
Income tax expenses	15	(46)	(19)
Profit (loss) from continuing operations		**119**	**114**
Profit (loss) from discontinued operations, net of tax		-	22
Profit (loss) for the year		**119**	**136**
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences from foreign operations	15	(39)	5
Foreign currency translation differences from presentation currency	15	42	(6)
Effective portion of changes in fair value of cash flow hedges, net of tax	15	43	3
Other comprehensive income for the year, net of tax		**46**	**2**
Total comprehensive income for the year		**165**	**138**
Profit (loss) attributable to:			
Owners of the Company			
Profit for the year from continuing operations		53	66
Profit/loss for the year from discontinued operations		-	22
Profit for the year attributable to owners of the company		**53**	**88**
Non-controlling interest			
Profit for the year from continuing operations		66	48
Profit for the year from discontinued operations		-	-
Profit for the year attributable to non-controlling interest		**66**	**48**
Profit (loss) for the year		**119**	**136**
Total comprehensive income attributable to:			
Owners of the Company		97	89
Non-controlling interest	27	68	49
Total comprehensive income for the year		**165**	**138**
Basic and diluted earnings per share in EUR – continuing operations	26	**2.71**	**3.38**
Basic and diluted earnings per share in EUR	26	**2.71**	**4.50**

The notes presented on pages 9 to 96 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2017
In millions of EUR ("MEUR")

	Note	2017	2016
Assets			
Property, plant and equipment	16	1,555	1,564
Intangible assets	17	60	59
Goodwill	17	104	98
Equity accounted investees	18	1	16
Financial instruments and other financial assets	31	7	6
of which receivables from the parent company/ultimate parent company		-	-
Trade receivables and other assets	21	23	13
Prepayments and other deferrals		1	1
Deferred tax assets	19	2	-
Total non-current assets		**1,753**	**1,757**
Inventories	20	41	48
Trade receivables and other assets	21	375	295
Financial instruments and other financial assets	31	8	2
of which receivables from the parent company/ultimate parent company		-	-
Prepayments and other deferrals		8	3
Tax receivables	23	16	23
Cash and cash equivalents	22	371	464
Restricted cash		1	1
Assets/disposal groups held for sale	24	4	5
Total current assets		**824**	**841**
Total assets		**2,577**	**2,598**
Equity			
Share capital	25	511	505
Share premium		116	116
Reserves		(344)	(382)
Retained earnings		82	143
Total equity attributable to equity holders		**365**	**382**
Non-controlling interest	27	405	464
Total equity		**770**	**846**
Liabilities			
Loans and borrowings	28	515	1,140
of which owed to the parent company/ultimate parent company		-	-
Financial instruments and financial liabilities	31	11	11
Provisions	29	18	17
Deferred income	30	119	75
Deferred tax liabilities	19	176	167
Trade payables and other liabilities	32	4	2
Total non-current liabilities		**843**	**1,412**
Trade payables and other liabilities	32	272	270
Loans and borrowings	28	614	10
of which owed to the parent company/ultimate parent company		-	-
Financial instruments and financial liabilities	31	8	4
Provisions	29	37	31
Deferred income	30	13	21
Current income tax liability		19	3
Liabilities from disposal groups held for sale	24	1	1
Total current liabilities		**964**	**340**
Total liabilities		**1,807**	**1,752**
Total equity and liabilities		**2,577**	**2,598**

The notes presented on pages 9 to 96 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2017

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 2017 (A)	**505**	**116**	**23**	**1**	**(35)**	**-**	**(320)**	**(51)**	**143**	**382**	**464**	**846**
Total comprehensive income for the year:												
Profit or loss (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**53**	**53**	**66**	**119**
Other comprehensive income:												
Foreign currency translation differences for foreign operations	-	-	-	-	(18)	-	-	-	-	**(18)**	(21)	**(39)**
Foreign currency translation differences from presentation currency	-	-	-	-	19	-	-	-	-	**19**	23	**42**
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	-	-	-	43	-	**43**	-	**43**
Total other comprehensive income (C)	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**43**	**-**	**44**	**2**	**46**
Total comprehensive income for the year (D) = (B + C)	**-**	**-**	**-**	**-**	**1**	**-**	**-**	**43**	**53**	**97**	**68**	**165**
Contributions by and distributions to owners:												
Increase (decrease) in share capital	6	-	-	-	-	-	(6)	-	-	**-**	-	**-**
Dividends to equity holders	-	-	-	-	-	-	-	-	(78)	**(78)**	(54)	**(132)**
Total contributions by and distributions to owners (E)	**6**	**-**	**-**	**-**	**-**	**-**	**(6)**	**-**	**(78)**	**(78)**	**(54)**	**(132)**
Changes in ownership interests in subsidiaries:												
Effect of changes in ownership of non-controlling interest	-	-	-	-	-	-	-	-	(36)	**(36)**	(73)	**(109)**
Total changes in ownership interests in subsidiaries (F)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(36)**	**(36)**	**(73)**	**(109)**
Total transactions with owners (G) = (E + F)	**6**	**-**	**-**	**-**	**-**	**-**	**(6)**	**-**	**(114)**	**(114)**	**(127)**	**(241)**
Balance at 31 December 2017 (H) = (A + D + G)	**511**	**116**	**23**	**1**	**(34)**	**-**	**(326)**	**(8)**	**82**	**365**	**405**	**770**

The notes presented on pages 9 to 96 form an integral part of these consolidated financial statements.

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 entities (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 96 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2017

In millions of EUR ("MEUR")	**Note**	**2017**	**2016**
OPERATING ACTIVITIES			
Profit (loss) for the year		119	136
Adjustments for:			
Income taxes	15	46	19
Depreciation and amortisation	16, 17	138	168
Dividend income		(1)	-
Impairment losses on property, plant and equipment and intangible assets	13	1	10
Gain (loss) from commodity derivatives for trading with electricity and gas, net		1	(2)
Gain (loss) on disposal of property, plant and equipment, investment property and intangible assets	12,13	(8)	(2)
Emission rights	10	20	15
Gain on disposal of subsidiaries, special purpose entities, joint-ventures, associates and non-controlling interests	6, 19	-	(63)
Share of profit (loss) of equity accounted investees	18	1	-
Gain on financial instruments	14	-	9
Net interest expense	14	59	51
Revenue from release of deferred earn-out		-	(6)
Change in allowance for impairment to trade receivables and other assets, write-offs		3	6
Change in provisions		(1)	7
Other finance fees, net	14	5	1
Discontinued operations		-	(22)
Unrealised foreign exchange (gains) losses, net		25	-
Operating profit before changes in working capital		**408**	**327**
Change in trade receivables and other assets		(113)	1
Change in inventories (including proceeds from sale)		8	(1)
Change in extracted minerals and mineral products		-	-
Change in assets held for sale and related liabilities		2	(54)
Change in trade payables and other liabilities		34	-
Change in restricted cash		-	(1)
Cash generated from (used in) operations		**339**	**272**
Interest paid		(56)	(63)
Income taxes paid		(32)	(51)
Cash flows generated from (used in) operating activities		**251**	**158**
INVESTING ACTIVITIES			
Dividends received from associates and joint-ventures		1	-
Purchase of financial instruments		-	(11)
Change in financial instruments not at fair value		-	1
Loans provided to the other entities		(58)	-
Repayment of loans provided to other entities		-	1
Repayment of loans from discontinued operations		-	302
Proceeds (outflows) from sale (settlement) of financial instruments		(4)	13
Acquisition of property, plant and equipment, investment property and intangible assets	16, 17, 18	(97)	(126)
Purchase of emission rights	17	(19)	(9)
Proceeds from sale of emission rights		-	1
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		18	9
Acquisition of subsidiaries and special purpose entities, net of cash acquired	6	(1)	-
Net cash inflow from disposal of subsidiaries and special purpose entities including received dividends	6	-	79
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		(108)	-
Interest received		-	11
Cash flows from (used in) investing activities		**(268)**	**427**

Consolidated statement of cash flows (continued)

For the year ended 31 December 2017 In millions of EUR ("MEUR")	**Note**	**2017**	**2016**
FINANCING ACTIVITIES			
Proceeds from loans received		13	15
Repayment of borrowings		(12)	(209)
Repayment of bonds issued		-	(3)
Dividends paid		(87)	(89)
Cash flows from (used in) financing activities		**(86)**	**(286)**
Net increase (decrease) in cash and cash equivalents		*(103)*	*299*
Cash and cash equivalents at beginning of the year		**464**	**165**
Effect of exchange rate fluctuations on cash held		10	-
Cash and cash equivalents at end of the year		**371**	**464**
Of which relates to: continuing operations	23	*371*	*464*
discontinued operations	25	-	-

The notes presented on pages 9 to 96 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 Pařížská 130/26, 110 00 Praha 1, 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 at the establishment 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)

The consolidated financial statements of the Company for the year ended 31 December 2017 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 2017 was as follows:

	Interest in share capital		Voting rights
	MEUR	**%**	**%**
EP Infrastructure, a.s.	511	100.00	100.00
Total	**511**	**100.00**	**100.00**

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 members of the Board of Directors as at 31 December 2017 were:

- Tomáš David (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)
- William David George Price (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 present the contributed entities as if sold by EPH to the 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 28 March 2018.

(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 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 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 2017 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 2017 and that have thus been applied by the Group for the first time.

Amendments to IAS 7 – Statement of Cash Flows (Effective for annual periods beginning on or after 1 January 2017)

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 amendment has no 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)

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 amendments has no impact on the Group's financial statements because the Group has already measured future taxable profit in a manner consistent with the Amendments.

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 2017 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)

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 will adopt IFRS 15 Revenue from Contracts with Customers in annual period beginning on 1 January 2018. The Group has assessed the estimated impact of the adoption of IFRS 15 on its consolidated financial statements. Based on the result of the assessment the Group expects that the new Standard will not have a material impact on the financial statements; the timing and measurement of the Group's revenues are not expected to change because of the nature of the Group's operations and the types of revenues it earns. There is no estimated material effect to the opening balance of the Group's equity as at 1 January 2018.

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.) and Amendments to IFRS 9 Prepayment Features with Negative Compensation (Effective for annual periods beginning on or after 1 January 2019 (not adopted by EU yet))

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 will adopt IFRS 9 retrospectively from 1 January 2018 with impact recognized directly in equity. Comparative information for 2017 will not be restated. The Group has evaluated the effect that initial application of IFRS 9 will have on its consolidated financial statements and is estimating the following impact:

- Classification of financial assets – under IFRS 9, the Group will classify financial assets into amortized cost, FTOCI or FVTPL category. The new classification requirements will not have a material impact on accounting for trade receivables, loans at amortized cost, derivatives managed on a fair value basis. Investments in equity instruments classified as available for sale under IFRS 9 will be designated as FVOCI with fair value gains and losses reported in OCI.

- Classification of financial liabilities – under IFRS 9, the Group will classify financial liabilities into amortized cost or FVTPL category. The new classification requirements will not have any impact on accounting of financial liabilities of the Group.

- Impairment of financial assets – the new impairment model will include expected credit losses based on forward looking information and will apply to financial assets measured at amortized cost and debt instruments FVOCI. The Group estimates that adjusted impairment model will increase slightly loss allowance for trade receivables and loans at amortized costs. Based on the performed analysis the overall impact on the financial statements will not be material and there will be no material effect to the opening balance of the Group's equity as at 1 January 2018.

- Hedge accounting – for hedge accounting, the Group has chosen to apply requirements of IFRS 9 from 1 January 2018. The Group confirmed that current hedge accounting relationships will meet the requirements of IFRS 9 and are aligned with the Group's risk management strategy and objectives. The Group has assessed the estimated impact of the adoption of IFRS 9 on hedge accounting and does not expect any material impact on the financial statements.

- Disclosures – new disclosure requirements will change the nature and extent of the Group's disclosures about financial instruments.

IFRS 16 Leases (Effective for annual periods beginning on or after 1 January 2019)

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.

IFRIC 22 Foreign Currency Transactions 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 has assessed the estimated impact of the adoption of IFRIC 22 on its consolidated financial statements. Based on the result of the assessment the Group expect that the new Standard will not have a material impact on the financial statements.

IFRIC 23 Uncertainty over Income Tax Treatments (Effective for annual periods beginning on or after 1 January 2019 (not adopted by EU yet))

The Interpretation provides a framework to consider, recognise and measure the accounting impact of taxable profit (tax loss), tax bases, unused tax losses, unused tax credit and tax rates, when there is uncertainty over income tax treatments under IAS 12. The Interpretation also explains when to reconsider the accounting for tax uncertainties.

The Group has assessed the estimated impact of the adoption of IFRIC 23 on its consolidated financial statements. Based on the result of the assessment the Group expect that the new Standard will not have a material impact on the financial statements.

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018)

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 has assessed the estimated impact of the adoption of amendments to IFRS 2 on its consolidated financial statements. Based on the result of the assessment the Group expect that the new Standard will not have a material impact on the financial statements.

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 assessed the estimated impact of the amendments to IAS 40 on its consolidated financial statements. Based on the result of the assessment the Group expect that the new Standard will not have a material impact on the financial statements.

Amendments to IAS 28 – Long term Interests in Associates and Joint Ventures (Effective for annual periods beginning on or after 1 January 2019 (not adopted by EU yet))

The amendment clarifies that companies account for long-term interests in an associate or joint venture to which equity method is not applied using IFRS 9.

The amendment will have no impact on the Group's financial statements.

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 power over the investee, exposure to variable returns from its involvement with the investee and is able to use its power over investee to affect the amount of its returns. The existence and effect of potential voting rights that are substantive is 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 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. At disposals relevant part of translation reserve is recycled to financial income or expense in the statement of comprehensive income

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 risk mitigation purposes but they do not meet the criteria for hedge accounting as stated by IAS 39. These derivatives are designated as held 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 case the future transaction is still expected to occur than the balance remains in equity and is recycled to profit or loss when the transaction occurs.

The hedged item is remeasured for changes in fair value attributable to the hedged risk during the period of the hedging relationship. Any resulting adjustment to the carrying amount of the hedged item related to the hedged risk is recognised in profit or loss, even if such a change would normally be recognised in OCI.

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 manage the volumes of emission rights and energy purchases and sale commitments as 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. Free-of-charge received property

Several items of gas equipment were obtained "free of charge" from municipal and local authorities. This equipment was recorded as property, plant, and equipment at the costs incurred by the municipal and local authorities with a corresponding amount recorded as deferred income. These costs approximate the fair value of the obtained assets. This deferred income is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets acquired free of charge.

iv. 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.

v. 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 2017 and 2016, 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 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. The fair value for allocated emission rights is determined as the price at the date of allocation. Emission rights that are purchased are initially recognised at cost.

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) 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 CO_2 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.

(l) 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.

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 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

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. Revenues from free-of-charge property

Free-of-charge property obtained from the municipal and local authorities was recorded as property, plant, and equipment at the costs incurred by the municipal and local authorities with a corresponding amount recorded as deferred income. These costs approximate the fair value of the obtained assets. This deferred income is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets acquired free of charge.

iv. Rental income

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

(m) 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.

(n) 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.

(o) Dividends

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

(p) 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.

(q) Segment reporting

Due to the fact that the Group has issued debentures (Senior Secured Notes) in 2012 and 2013 which are 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) 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.

(d) 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.

(e) 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.

(f) 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 and in 2016 it was disposed by the Group.

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 (EBITDA) and capital expenditures.

i. Mining (disposed in 2016)

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. Results of Mining segment are presented under line Profit (loss) from discontinued operations (net of tax).

ii. Heat Infra

The Heat Infra segment owns and operates 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 included 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 disposed in 2016. Profit (loss) from activities related to Saale Energie GmbH and Helmstedter Revier GmbH is presented under line Profit (loss) from discontinued operations (net of tax).

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 disposed in 2016. Profit (loss) from renewable activities of MIBRAG is presented under line Profit (loss) from discontinued operations (net of tax).

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. Also, this segment distributes electricity in the central Slovakia region. This segment is mainly represented by Stredoslovenská distribučná, a.s., Stredoslovenská energetika, a.s., EP Sourcing, a.s., EP Cargo a.s. and EP ENERGY TRADING, a.s.

Stredoslovenská distribučná, a.s. (further "SSD", former SSE-Distribúcia, a.s.), 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 (current regulatory period is 2017 – 2021).

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 or disposals of subsidiaries and associates.

Profit or loss

For the year ended 31 December 2017

In millions of EUR	**Heat Infra**	**Power Distribution and Supply**	**Renewables**	**Other**	**Total segments**	**Holding**	**Inter-segment eliminations**	**Consolidated Financial Information**
Sales: Energy	542	1,418	5	-	1,965	-	(153)	1,812
external revenues	450	1,357	5	-	1,812	-	-	1,812
inter-segment revenues	92	61	-	-	153	-	(153)	-
Sales: Other	13	13	-	5	31	-	(4)	27
external revenues	13	10	-	4	27	-	-	27
inter-segment revenues	-	3	-	1	4	-	(4)	-
Gain (loss) from commodity derivatives from trading with electricity and gas, net	-	(6)	-	-	(6)	-	-	(6)
Total sales	**555**	**1,425**	**5**	**5**	**1,990**	**-**	**(157)**	**1,833**
Cost of sales: Energy	(320)	(1,082)	-	-	(1,402)	-	111	(1,291)
external cost of sales	(308)	(983)	-	-	(1,291)	-	-	(1,291)
inter-segment cost of sales	(12)	(99)	-	-	(111)	-	111	-
Cost of sales: Other	(17)	(47)	-	(3)	(67)	-	46	(21)
external cost of sales	(17)	(1)	-	(3)	(21)	-	-	(21)
inter-segment cost of sales	-	(46)	-	-	(46)	-	46	-
Personnel expenses	(56)	(53)	-	(1)	(110)	-	-	(110)
Depreciation and amortisation	(72)	(64)	(2)	-	(138)	-	-	(138)
Repairs and maintenance	(2)	(3)	-	-	(5)	-	-	(5)
Emission rights, net	(20)	-	-	-	(20)	-	-	(20)
Taxes and charges	(2)	(1)	-	-	(3)	-	-	(3)
Other operating income	22	16	-	-	38	-	-	38
Other operating expenses	(7)	(32)	(1)	-	(40)	(1)	-	(41)
Operating profit	**81**	**159**	**2**	**1**	**243**	**(1)**	**-**	**242**
Finance income	1	1	-	-	2	*135	*(135)	2
external finance revenues	-	1	-	-	1	1	-	2
inter-segment finance revenues	1	-	-	-	1	*134	*(135)	-
Finance expense	(8)	(4)	(2)	-	(14)	(90)	26	(78)
Profit (loss) from derivative financial instruments	1	-	-	-	1	(1)	-	-
Share of profit of equity accounted investees	-	(1)	-	-	(1)	-	-	(1)
Profit (loss) before income tax	**75**	**155**	**-**	**1**	**231**	***43**	***(109)**	**165**
Income tax expenses	(13)	(37)	-	-	(50)	4	-	(46)
Profit (loss) for the year before discontinued operations	**62**	**118**	**-**	**1**	**181**	***47**	***(109)**	**119**
Profit (loss) from discontinued operations	-	-	-	-	-	-	-	-
Profit (loss) for the year	**62**	**118**	**-**	**1**	**181**	***47**	***(109)**	**119**

* *EUR 109 million is attributable to intra-group dividends primarily recognised by EP Energy, a.s.*

Other financial information:								
EBITDA[(1)]	153	223	4	1	381	(1)	-	380

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

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:									
EBITDA[1]	-	145	149	4	2	300	(4)	(3)	293

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

EBITDA reconciliation to the closest IFRS measure

It must be noted that EBITDA is not an indicator that is defined under IFRS. This indicator 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 indicator as derived in accordance with IFRS. This non-IFRS indicator should not be used in isolation. This indicator may not be comparable to similarly titled indicators used by other companies.

For the year ended 31 December 2017

In millions of EUR	**Heat Infra**	**Power distribution and supply**	**Renewables**	**Other**	**Total segments**	**Holding**	**Inter-segment eliminations**	**Consolidated financial information**
Profit from operations	**81**	**159**	**2**	**1**	**243**	**(1)**	**-**	**242**
Depreciation and amortisation	72	64	2	-	138	-	-	138
EBITDA	**153**	**223**	**4**	**1**	**381**	**(1)**	**-**	**380**

For the year ended 31 December 2016

In millions of EUR	**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
EBITDA	**145**	**149**	**4**	**2**	**300**	**(4)**	**(3)**	**293**

Segment assets and liabilities

For the year ended 31 December 2017

In millions of EUR	Heat Infra	Power Distribution and Supply	Renewables	Other	Total segments	Holding	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	1,060	1,251	35	3	2,349	828	(600)	2,577
Reportable segment liabilities	(655)	(439)	(41)	(1)	(1,136)	(1,271)	600	(1,807)
Additions to tangible and intangible assets(1)	74	50	-	-	124	-	-	124
Additions to tangible and intangible assets (excl. emission rights and goodwill)	48	49	-	-	97	-	-	97
Equity accounted investees	-	1	-	-	1	-	-	1

1) This balance includes additions to emission rights and goodwill

For the year ended 31 December 2016

In millions of EUR	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 and goodwill)	64	62	-	-	126	-	-	126
Equity accounted investees	14	2	-	-	16	-	-	16

1) This balance includes additions to emission rights and goodwill

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 2017

In millions of EUR	**Czech Republic**	**Slovakia**	**Germany**	**Hungary**	**Other**	**Total segments**
Property, plant and equipment	684	833	-	38	-	1,555
Intangible assets	141	20	-	3	-	164
Investment property	-	-	-	-	-	-
Total	**825**	**853**	**-**	**41**	**-**	**1,719**

In millions of EUR	**Czech Republic**	**Slovakia**	**Germany**	**Hungary**	**Other**	**Total segments**
Sales: Electricity	316	870	21	23	71	1,301
Sales: Heat	273	-	-	68	-	341
Sales: Gas	121	36	-	-	-	157
Sales: Coal	10	1	1	-	1	13
Sales: Other	20	7	-	-	-	27
Gain (loss) from commodity derivatives from trading with electricity and gas, net	(6)	-	-	-	-	(6)
Total	**734**	**914**	**22**	**91**	**72**	**1,833**

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

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 United Kingdom, 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 2017

On 5 April 2017 Stredoslovenská energetika a.s. acquired 100% share in SPV100, s.r.o. for EUR 0.6 million. The value of net assets acquired was approximately zero.

Acquisition of non-controlling interest

On 2 June 2017 Pražská teplárenská, a.s. acquired a 5% share in PT Transit, a.s. (previously Energotrans SERVIS a.s.). This transaction resulted in a total change of ownership interest from 95% to 100% share and derecognition of non-controlling interest in amount of EUR 4 million.

On 14 December 2017 PT Holding Investment B.V. ("PTHI") acquired 51% in Pražská teplárenská Holding a.s. ("PTH") that holds 47.42% in Pražská teplárenská. a.s. ("PT") and two other minor companies (see note 37). The Company increased by this transaction its shareholding in PTH from 49% to 100% and effectively increased its shareholding in the PT from 73.82% to 98%. PTHI paid for the share in PTH EUR 121 million and gained control over cash held by PTH of EUR 13 million (net cash paid EUR 108 million) and derecognized non-controlling interest in amount of EUR 69 million.

ii. 31 December 2016

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

(b) Effect of acquisitions

i. 31 December 2017

In April 2017 the Group acquired 100% share in SPV100, s.r.o for EUR 0.6 million. The value of net assets acquired was approximately zero.

ii. 31 December 2016

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

(c) Business combinations – acquisition accounting 2017 and 2016

There were no material acquisitions of businesses in 2017 nor in 2016 therefore the Group did not recognise any fair value adjustment resulting from the business combinations.

(d) Disposal of investments in 2017 and 2016

i. 31 December 2017

During the year 2017 the Group didn’t dispose any of its investment.

On 4 October 2017 in connection with the termination of the liquidation process of EBEH Opatovice, a.s. v likvidaci, the entity was deconsolidated without any significant impact on the Group’s financial statements.

ii. 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 2.

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 1).

7. Sales

In millions of EUR	**2017**	**2016**
Sales: Energy		
Electricity	1,301	1,293
Heat	341	355
Gas	157	132
Coal	13	27
Total Energy	**1,812**	**1,807**
Sales: Other	**27**	**34**
Gain (loss) from commodity derivatives for trading with electricity and gas, net	**(6)**	**1**
Total for continuing operations	**1,833**	**1,842**

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	**2017**	**2016**
Cost of Sales: Energy		
Cost of sold electricity	828	921
Cost of sold gas and other energy products	152	137
Consumption of energy	193	187
Cost of coal and other material	90	95
Other cost of sales	28	25
Total Energy	**1,291**	**1,365**
Cost of Sales: Other		
Cost of goods sold	8	11
Consumption of material	6	6
Consumption of energy	3	4
Other cost of sales	4	8
Total Other	**21**	**29**
Total for continuing operations	**1,312**	**1,394**

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	2017	2016
Wages and salaries	74	72
Compulsory social security contributions	26	25
Board members' remuneration (including boards of subsidiaries)	3	2
Expenses and revenues related to employee benefits (IAS 19)	1	1
Other social expenses	6	8
Total for continuing operations	**110**	**108**

The average number of employees during 2017 was 3,680 (2016: 3,767), of which 88 (2016: 97) were executives.

10. Emission rights

In millions of EUR	2017	2016
Deferred income (grant) released to profit and loss	7	9
Creation of provision for emission rights	(27)	(24)
Use of provision for emission rights	23	22
Consumption of emission rights	(23)	(22)
Total for continuing operations	**(20)**	**(15)**

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.

11. Taxes and charges

In millions of EUR	2017	2016
Property and real estate transfer tax	1	2
Other taxes and charges	2	1
Total for continuing operations	**3**	**3**

12. Other operating income

In millions of EUR	2017	2016
Property acquired free-of-charge and fees from customers	6	7
Rental income	7	6
Consulting fees	3	3
Compensation from insurance and other companies	5	3
Profit from disposal of tangible and intangible assets	8	2
Profit from sale of material	1	1
Fee and commission income – intermediation	-	1
Revenues from liabilities written-off	2	-
Other	6	4
Total for continuing operations	**38**	**27**

Profit from disposal of tangible and intangible assets includes profit from sale of unused buildings and land plots in amount of EUR 7 million.

13. Other operating expenses

In millions of EUR	2017	2016
Impairment losses/reversals	1	15
Of which relates to: Property, plant and equipment and intangible assets	*1*	*10*
Trade receivables and other assets	*-*	*5*
Outsourcing and other administration fees	15	13
Consulting expenses	9	8
Office equipment and other material	8	7
Rent expenses	9	6
Information technology costs	5	5
Creation and reversal of provision	3	4
Advertising expenses	2	3
Transport expenses	4	3
Insurance expenses	2	2
Gifts and sponsorship	1	2
Contractual penalties	-	1
Loss from receivables written-off	1	1
Shortages and damages	-	1
Own work capitalised to fixed assets	(25)	(26)
Other	6	6
Total	**41**	**51**

No significant research and development expenses were recognised in profit and loss during the year 2017 and 2016.

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

Recognised in profit or loss

In millions of EUR	**2017**	**2016**
Interest income	1	11
Revenue from released deferred earn-out	-	6
Dividend income	1	-
Other finance income	-	2
Finance income	**2**	**19**
Interest expense incl. various financing and refinancing related fees	(60)	(62)
Net foreign exchange loss	(13)	-
Fees and commissions expense for other services	(2)	(3)
Other	(3)	-
Finance costs	**(78)**	**(65)**
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 currency derivatives for trading	-	(1)
Profit (loss) from financial instruments	**-**	**(9)**
Net finance (expense) recognised in profit or loss	**(76)**	**(55)**

15. Income tax expenses

Income taxes recognised in profit or loss

In millions of EUR	**2017**	**2016**
Current taxes:		
Current year	(54)	(33)
Total current taxes	**(54)**	**(33)**
Deferred taxes:		
Origination and reversal of temporary differences(1)	8	14
Total deferred taxes	**8**	**14**
Total income tax expense from continuing operations recognised in profit or loss	**(46)**	**(19)**

(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 legislation, the corporate income tax rate is 19% for fiscal years 2017 and 2016. The Slovak corporate income tax rate is 21% for fiscal year 2017 (22% for 2016). The Hungarian corporate income tax rate is 9% for fiscal year 2017 (19% for 2016). Current year income tax includes also impact of special sector tax effective in Slovakia and Hungary.

Income tax recognised in other comprehensive income

In millions of EUR	2017		
	Gross	**Income tax**	**Net of income tax**
Foreign currency translation differences for foreign operations	(39)	-	(39)
Foreign currency translation differences from presentation currency	42	-	42
Effective portion of changes in fair value of cash-flow hedges	55	(12)	43
Total	**58**	**(12)**	**46**

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**

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	%	2017	%	2016
Profit before tax		165		133
Income tax using the Company's domestic rate	19.0%	31	19.0%	25
Effect of tax rates in foreign jurisdictions	1.2%	2	1.4%	2
Change in tax rate	-	-	(3.9)%	(5)
Non-deductible expenses[(1)]	9.1%	15	27.1%	36
Other non-taxable income	(4.9%)	(8)	(30.9%)	[(2)] (41)
Effect of special levy for business in regulated services	3.6%	6	0.8%	1
Change in unrecognised temporary differences	-	-	0.8%	1
Income taxes recognised in profit or loss	**28.0%**	**46**	**14.3%**	**19**

(1) The basis consists mainly of non-deductible interest expense of EUR 44 million (2016: EUR 32 million and net book value of disposed investments EUR 135 million).

(2) The basis represents mainly sales price of investments disposed in 2016 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 2017	**1,379**	**856**	**5**	**33**	**2,273**
Effects of movement in foreign exchange	40	32	-	-	**72**
Additions	45	23	-	26	**94**
Disposals	(7)	(9)	-	-	**(16)**
Disposed entities	-	(1)	-	-	**(1)**
Transfer to disposal group held for sale	(3)	-	-	-	**(3)**
Transfers	9	13	-	(22)	**-**
Balance at 31 December 2017	**1,463**	**914**	**5**	**37**	**2,419**
Depreciation and impairment losses					
Balance at 1 January 2017	**(376)**	**(327)**	**(2)**	**(4)**	**(709)**
Effects of movements in foreign exchange	(13)	(17)	-	-	**(30)**
Depreciation charge for the year	(76)	(56)	-	-	**(132)**
Disposals	3	5	-	-	**8**
Impairment losses recognised/released in profit or loss	(1)	-	-	-	**(1)**
Balance at 31 December 2017	**(463)**	**(395)**	**(2)**	**(4)**	**(864)**
Carrying amounts					
At 1 January 2017	**1,003**	**529**	**3**	**29**	**1,564**
At 31 December 2017	**1,000**	**519**	**3**	**33**	**1,555**

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**

The Company considered potential implication of IFRIC 12 on recognition of the assets held in regulated sectors. However management concluded that the interpretation is not relevant for the Group as the operation of the infrastructure assets is not under Service Concession agreement.

Idle assets

As at 31 December 2017 and also as at 31 December 2016 the Group had no significant idle assets.

Finance lease liabilities

As at 31 December 2017 and also as at 31 December 2016 the Group had no significant finance lease liabilities.

Security

At 31 December 2017 property, plant and equipment with a carrying value of EUR 403 million (2016: EUR 395 million) is subject to pledges to secure bank loans.

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 2017	**106**	**46**	**27**	**16**	**4**	**199**
Effect of movements in foreign exchange rates	6	-	-	1	1	**8**
Additions	1	2	26	-	1	**30**
Disposals	-	-	(23)	-	-	**(23)**
Transfers	-	1	-	-	(1)	**-**
Balance at 31 December 2017	**113**	**49**	**30**	**17**	**5**	**214**
Amortisation and impairment losses						
Balance at 1 January 2017	**(8)**	**(24)**	**-**	**(10)**	**-**	**(42)**
Effect of movements in foreign exchange rates	(1)	(1)	-	-	-	**(2)**
Amortisation for the year	-	(6)	-	-	-	**(6)**
Disposals	-	-	-	-	-	**-**
Balance at 31 December 2017	**(9)**	**(31)**	**-**	**(10)**	**-**	**(50)**
Carrying amount						
At 1 January 2017	**98**	**22**	**27**	**6**	**4**	**157**
At 31 December 2017	**104**	**18**	**30**	**7**	**5**	**164**

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 2017, the EPE Group purchased emission rights of EUR 19 million (2016: EUR 9 million). The remaining part of EUR 7 million (2016: EUR 9 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 2017**
Elektrárny Opatovice, a.s.	90
EP Cargo a.s.	5
EP ENERGY TRADING, a.s. (1)	5
Plzeňská energetika a.s.	3
SPV100, s.r.o.	1
Total goodwill	**104**

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**

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

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 as at 31 December 2017 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%, 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 pre-tax discount rates ranged from 5.31% to 7.33%. Changes in used discount rates compared to prior year reflect recent market development, namely decrease in risk-free rates and cost of debt used for calculation.

The 2017 and 2016 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 2017 was determined in a similar manner as in 2016. Management estimated that the recoverable amount for Elektrárny Opatovice, a.s. exceeded its carrying amount (including goodwill) by EUR 595 million (2016: EUR 270 million). Key assumptions used in the calculation of value in use were the discount rate, the terminal value growth rate and the planned EBITDA. These selected assumptions were as follows:

	2017	**2016**
Discount rate	6.28%	6.02%
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 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.

The Group did not identify any CGU for which reasonably possible change in key management assumptions (EBITDA, terminal growth, discount rate) would cause that recoverable amount would decrease below its carrying amount.

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 2017	Carrying amount 31 December 2017
Associates	**Country**	**%**	
Energotel, a.s	Slovakia	20.00	1
Total			**1**

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			**16**

On 14 December 2017 the Group increased its shareholding in Pražská teplárenská Holding a.s. from 49% to 100%.

The Group had share in the loss from continuing operations of associates in amount of EUR 1 million for the year ended 31 December 2017 (EUR 0 million for the year ended 31 December 2016).

Summary financial information for significant standalone associates presented at 100% as 31 December 2017 and for the year then ended:

In millions of EUR

Associates	Revenue	Profit (loss)	Other comprehensive income	Total comprehensive income	Assets	Liabilities	Equity
Pražská teplárenská Holding a.s.(3)	27	(1)26	-	(1)26	119	-	(2)119
Energotel, a.s.	12	1	-	1	13	7	6
	39	**27**	**-**	**27**	**132**	**7**	**125**

In millions of EUR

Associates	Non-current assets	Current assets	Non-current liabilities	Current liabilities
Energotel, a.s.	6	7	-	7
	6	**7**	**-**	**7**

(1) Profit and Loss item represents primarily dividend income from Pražská teplárenská, a.s.
(2) Carrying amount covers investment in Pražská teplárenská, a.s., which is eliminated in consolidation.
(3) Profit and Loss item represents the amounts from the beginning of the year to the date of the acquisition of remaining 51% share in Pražská teplárenská Holding a.s.

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

In millions of EUR

Associates	Revenue	Profit (loss)	Other comprehensive income	Total comprehensive 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 Pražská teplárenská, a.s..
(2) Carrying amount covers investment in Pražská teplárenská a.s., which is eliminated in consolidation.

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 2017**			**31 December 2016**		
Temporary difference related to:	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Property, plant and equipment	1	(174)	(173)	1	(173)	(172)
Intangible assets	2	-	2	1	-	1
Trade receivables and other assets	1	-	1	2	-	2
Provisions	5	-	5	4	-	4
Employee benefits (IAS 19)	2	-	2	2	-	2
Loans and borrowings	-	(18)	(18)	2	(10)	(8)
Derivatives	6	-	6	1	(2)	(1)
Tax losses	2	-	2	4	-	4
Other items	1	(2)	(1)	1	-	1
Subtotal	**20**	**(194)**	**(174)**	**18**	**(185)**	**(167)**
Set-off tax	(18)	18	-	(18)	18	-
Total	**2**	**(176)**	**(174)**	**-**	**(167)**	**(167)**

Movements in deferred tax during the year

In millions of EUR

Balances related to:	**Balance at 1 January 2017**	**Recognised in profit or loss**	**Recognised in other compre-hensive income**	**Acquired in business combi-nations**	**Transfer to disposal group held for sale**	**Transfer to discontinued operations**	**Disposed entities**	**FX differences**	**Balance at 31 December 2017**
Property, plant and equipment	(173)	3	-	-	-	-	-	(3)	(173)
Intangible assets	2	-	-	-	-	-	-	-	2
Trade receivables and other assets	1	-	-	-	-	-	-	-	1
Provisions	4	1	-	-	-	-	-	-	5
Employee benefits (IAS 19)	2	-	-	-	-	-	-	-	2
Loans and borrowings	(7)	1	(12)	-	-	-	-	-	(18)
Derivatives and cash flow hedge	(1)	7	-	-	-	-	-	-	6
Tax losses	3	(1)	-	-	-	-	-	-	2
Other	2	(3)	-	-	-	-	-	-	(1)
Total	**(167)**	**8**	**(12)**	**-**	**-**	**-**	**-**	**(3)**	**(174)**

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 and cash flow hedge	(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.

Unrecognised deferred tax assets

The EPE Group reports the following tax losses carried forward:

In millions of EUR	**31 December 2017**	**31 December 2016**
Tax losses carried forward	4	4
Total	**4**	**4**

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 2017**	**31 December 2016**
PT Holding Investment B.V.	4	4
Total	**4**	**4**

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 (2016: 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:

	2017	**2018**	**2019**	**2020**	**2021**	**After 2022**	**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. In Hungary tax losses generated up to the tax year 2014 may be utilized by no later than in 2025, while tax losses generated in and after 2015 may be carried forward for 5 years. 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 2017**	**31 December 2016**
Fossil fuel	26	34
Raw material and supplies	6	6
Spare parts	8	6
Work in progress	1	2
Total	**41**	**48**

As at 31 December 2017 inventories in the amount of EUR 20 million (2016: EUR 29 million) were subject to pledges.

21. Trade receivables and other assets

In millions of EUR	**31 December 2017**	**31 December 2016**
Trade receivables	155	161
Accrued income	138	73
Advance payments	41	38
Estimated receivables	35	29
Uninvoiced supplies	19	19
Receivables from government grants(1)	17	-
Other receivables and assets	13	6
Allowance for bad debts	(20)	(18)
Total	**398**	**308**
Non-current	23	13
Current	375	295
Total	**398**	**308**

(1) Receivables from government grants represents committed but not received government grants (for detail see note 30).

In 2017, receivables of EUR 1 million were written off through profit or loss (2016: EUR 1 million).

As at 31 December 2017 trade receivables with a carrying value of EUR 51 million are subject to pledges (2016: EUR 62 million).

As at 31 December 2017 trade receivables and other assets amounting to EUR 390 million are not past due (2016: EUR 300 million); the remaining balance of EUR 8 million is overdue (2016: EUR 8 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 2017**	**31 December 2016**
Current accounts with banks	345	464
Bills of exchange	25	-
Term deposits	1	-
Total	**371**	**464**

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

As at 31 December 2017 cash and cash equivalents of EUR 269 million are subject to pledges (2016: EUR 75 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 2017**	**31 December 2016**
Investing activities	58	311
Financing activities	-	-
Total	**58**	**311**

For the year 2017 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 58 million (2016: EUR 311 million).

23. Tax receivables

In millions of EUR	31 December 2017	31 December 2016
Value added tax receivables	5	6
Current income tax receivables	9	15
Energy tax	2	2
Total	**16**	**23**

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 2017	31 December 2016
Land and buildings	4	5
Total	**4**	**5**

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

In millions of EUR	31 December 2017	31 December 2016
Deferred tax liability	1	1
Total	**1**	**1**

As at 31 December 2017 balances of assets held for sale and liabilities held for sale are represented by Pod Juliskou, a.s. and Nová Invalidovna, a.s. (2016: Nový Veleslavín, a.s. and Nová Invalidovna, a.s.). These entities do not represent business but a group of land plots and unused buildings.

As part of the reorganization of the EP Infrastructure 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.

For the detailed version of the consolidated statement of comprehensive income from discontinued operations refer to Appendix 1.

In millions of EUR	31 December 2017 Discontinued	31 December 2016 Discontinued
Revenues	-	129
Expenses	-	(131)
Profit (loss) from operations	**-**	**(2)**
Net finance income (expense)	-	(7)
Share of profit (loss) of equity accounted investees, net of tax	-	(1)
Income tax income (expenses)	-	(2)
Profit (loss) for the year	**-**	**(12)**
Profit from disposal of discontinued operations	-	34
Total profit (loss) from discontinued operations	**-**	**22**

In 2016 the Group recognized loss from discontinued operations of EUR 12 million, which was fully attributable to 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	**2017**	**2016**
Net cash from (used in) operating activities	-	9
Net cash from (used in) investing activities	-	18
Net cash from (used in) financing activities	-	7
Net cash flows for the year	**-**	**34**

25. Equity

Share capital and share premium

The authorised, issued and fully paid share capital as at 31 December 2017 consisted of 19,549,548 ordinary shares with a par value of CZK 665 each (2016: 19,549,548 ordinary shares with a par value of CZK 657 each).

On 30 November 2017 EP Energy, a.s. merged with EP Hungary, a.s. The merger resulted in an increase in the Company's share capital by CZK 156 million (EUR 6 million) by increasing the par value of ordinary shares from CZK 657 to CZK 665 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 2017	**Number of shares 665 CZK**	**Ownership %**	**Voting rights %**
EP Infrastructure, a.s.	19,549,548	100.00	100.00
Total	**19,549,548**	**100.00**	**100.00**

31 December 2016	**Number of shares 657 CZK**	**Ownership %**	**Voting rights %**
EP Infrastructure, 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 2017	**31 December 2016**
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 2017**	**31 December 2016**
Non-distributable reserves	1	1
Fair value reserve	-	-
Translation reserve	(34)	(35)
Hedging reserve	(8)	(51)
Other capital reserves	(326)	(320)
Total	**(367)**	**(405)**
Other capital funds from capital contributions	23	23
Reserves	**(344)**	**(382)**

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.

In 2017 other capital reserves decreased by EUR 6 million as a result of increase in share capital originating from the revaluation of EP Hungary, 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 2017 represents primarily derivative agreements to hedge an electricity price and a foreign exchange rate concluded by EP ENERGY TRADING, a.s. and Budapesti Erőmű Zrt. As of 31 December 2016 the balance consisted mainly of cash flow currency hedge.

There was no recycling of items in other comprehensive income to profit or loss in 2017 or in 2016.

26. Earnings per share

Basic earnings per share

Basic earnings per share in EUR per 1 share of CZK 665 (2016: in EUR per 1 share of CZK 657) nominal value equal 2.71 (2016: 4.50).

The calculation of basic earnings per share as at 31 December 2017 was based on profit attributable to ordinary shareholders of EUR 53 million (2016: EUR 88 million), and a weighted average number of ordinary shares outstanding of 19,550 thousand (2016: 19,550 thousand).

Basic earnings per share from continuing operations in EUR per 1 share of CZK 665 (2016: in EUR per 1 share of CZK 657) nominal value equal 2.71 (2016: 3.38).

The calculation of basic earnings per share from continuing operations as at 31 December 2017 was based on profit attributable to ordinary shareholders of EUR 53 million (2016: EUR 66 million), and a weighted average number of ordinary shares outstanding of 19,550 thousand (2016: 19,550 thousand).

Weighted average number of ordinary shares 2017

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

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**

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 2017 *In millions of EUR*	**Pražská teplárenská a.s. and its subsidiaries**	**Stredoslovenská energetika, a.s. and its subsidiaries[3]**	**Other individually immaterial subsidiaries**	**Total**
Non-controlling percentage	**2.00%**	**51.00%**		
Business activity	Production and distribution of heat	Distribution of electricity		
Country[1]	Czech Republic	Slovakia		
Carrying amount of NCI at 31 December 2017	**6**	**397**	**2**	**405**
Profit (loss) attributable to non-controlling interest	**6**	**58**	**2**	**66**
Dividends declared	**(14)**	**(40)**	**-**	**(54)**
Statement of financial position information[2]				
Total assets	346	1,095		
of which: non-current	*280*	*766*		
current	*66*	*329*		
Total liabilities	65	316		
of which: non-current	*35*	*140*		
current	*30*	*176*		
Net assets	**281**	**779**	**-**	**-**
Statement of comprehensive income information[2]				
Total revenues	204	1,001		
of which: dividends received	-	-		
Profit after tax	25	115		
Total other comprehensive income for the year, net of tax	-	-		
Total comprehensive income for the year[2]	**25**	**115**	**-**	**-**
Net cash inflows (outflows)[2]	**(35)**	**1**		

(2) Principal place of business of subsidiaries and associates varies (for detail refer to Note 37 – Group entities).
(3) Financial information derived from individual financial statements prepared in accordance with IFRS (including FV adjustments arising from the acquisition by the Group).
(4) Including Stredoslovenská distribučná, a.s. (former Stredoslovenská energetika – Distribúcia, a.s.)

31 December 2016 *In millions of EUR*	**Pražská teplárenská a.s. and its subsidiaries**	**Stredoslovenská energetika, a.s. and its subsidiaries[3]**	**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 individual financial statements prepared in accordance with IFRS (including FV adjustments arising from the acquisition by the Group).
(3) Including Stredoslovenská distribučná, a.s. (former Stredoslovenská energetika – Distribúcia, a.s.)

28. Loans and borrowings

In millions of EUR	**31 December 2017**	**31 December 2016**
Issued debentures at amortised cost	1,102	1,098
Loans payable to credit institutions	27	38
Loans payable to other than credit institutions	-	14
of which owed to the parent company/ultimate parent company	-	-
of which owed to other related companies	-	*14*
Total	**1,129**	**1,150**
Non-current	515	1,140
of which owed to the parent company/ultimate parent company	-	-
of which owed to other related companies	-	*14*
Current	614	10
of which owed to the parent company/ultimate parent company	-	-
Total	**1,129**	**1,150**

The weighted average interest rate on loans and borrowings (excl. debentures) for 2017 was 3.07% (2016: 2.53%).

Issued debentures at amortised costs

Details about debentures issued as at 31 December 2017 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	-	01/05/2018	4.375	4.691
EP Energy 2019 notes	499	5	(4)	01/11/2019	5.875	6.301
Total	**1,097**	**9**	**(4)**	**-**	**-**	**-**

i. 2019 notes

The Senior Secured Notes were issued on 31 October 2012, are listed on the Irish Stock Exchange and comprise EUR 499 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 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%.

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 598 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%.

The Group expects to repay this bond by using a combination of own sources and intercompany loan.

Other loans and borrowings

Terms and debt repayment schedule

Terms and conditions of outstanding other loans and borrowing as at 31 December 2017 were as follows:

In millions of EUR	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31 December 2017	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	CZK	fixed	2021	1	-	1	-
Secured bank loan	EUR	variable*	2021	1	-	1	-
Unsecured bank loan	EUR	fixed	2023	15	3	10	2
Unsecured bank loan	EUR	fixed	2019	3	2	1	-
Unsecured bank loan	EUR	fixed	2020	7	2	5	-
Total interest-bearing liabilities				**27**	**7**	**18**	**2**

* 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 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.

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 2017		31 December 2016	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Issued debentures at amortised costs	1,102	1,104	1,098	1,129
Loans payable to credit institutions	27	28	38	41
Loans payable to other than credit institutions	-	-	14	14
Total	**1,129**	**1,132**	**1,150**	**1,184**

29. Provisions

In millions of EUR	**Employee benefits**	**Provision for emission rights**	**Provision for restoration and decommissioning**	**Other**	**Total**
Balance at 1 January 2017	**12**	**24**	**3**	**9**	**48**
Provisions made during the year	2	27	-	2	**31**
Provisions used during the year	-	(23)	-	-	**(23)**
Provisions reversed during the year	(1)	-	-	-	**(1)**
Balance at 31 December 2017	**13**	**28**	**3**	**11**	**55**
Non-current	**13**	**-**	**2**	**3**	**18**
Current	**-**	**28**	**1**	**8**	**37**

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	25	-	7	**34**
Provisions used during the year	(1)	(23)	-	-	**(24)**
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**

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 2017 the provision for employee benefits in amount of EUR 13 million (2016: EUR 12 million) was recorded mainly by Stredoslovenská energetika, a.s. and Stredoslovenská distribučná, a.s. (former Stredoslovenská energetika – Distribúcia, a.s.).

The provision recorded by Stredoslovenská energetika, a.s. and Stredoslovenská distribučná, a.s. (former Stredoslovenská energetika – Distribúcia, a.s.) amounts totally to EUR 11 million (2016: EUR 10 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 2017 – 2019, 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 2017**	**31 December 2016**
Government grants	48	32
Other deferred income	84	64
Total	**132**	**96**
Non-current	119	75
Current	13	21
Total	**132**	**96**

Balance of government grants in amount of EUR 48 million (2016: EUR 32 million) is mainly represented by Elektrárny Opatovice, a.s. of EUR 38 million (2016: EUR 21 million), Alternative Energy, s.r.o. of EUR 5 million (2016: EUR 4 million) and United Energy, a.s. of EUR 5 million (2016: 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 84 million (2016: EUR 64 million) is mainly represented by the SSE Group. This balance consists of deferred income related to the following items: fee for grid connection paid by customers (EUR 31 million; 2016 EUR 26 million), property acquired free-of-charge (EUR 29 million; 2016: EUR 26 million) and contributions paid by customers for the restoration of tangible assets related to distribution network (EUR 3 million; 2016: 3 million). EP Cargo a.s. recorded a compensation raised from unrealized business case as other deferred income in amount of EUR 15 million.

31. Financial instruments

Financial instruments and other financial assets

In millions of EUR	**31 December 2017**	**31 December 2016**
Assets carried at amortised cost		
Loans to other than credit institutions	7	6
of which owed by the parent company/ultimate parent company[(1)]	-	-
of which owed by other Group related companies	*7*	*6*
Shares available for sale held at cost	1	1
Total	**8**	**7**
Assets carried at fair value		
Hedging: *of which*	6	1
Interest rate swaps cash flow hedge	-	-
Commodity derivatives cash flow hedge	*6*	*1*
Risk management purpose: *of which*	1	-
Currency forwards reported as trading	*1*	-
Commodity derivatives reported as trading	-	-
Total	**7**	**1**
Non-current	7	6
Current	8	2
Total	**15**	**8**

The weighted average interest rate on loans to other than credit institutions as at 31 December 2017 was 1.70% (2016: 4.00%).

Financial instruments and other financial liabilities

In millions of EUR	**31 December 2017**	**31 December 2016**
Liabilities carried at fair value		
Hedging: *of which*	12	5
Interest rate swaps cash flow hedge	*10*	*4*
Currency forwards cash flow hedge	*2*	*1*
Risk management purpose: *of which*	7	10
Currency forwards reported as trading	-	-
Commodity derivatives reported as trading	*7*	*3*
Interest rate swaps reported as trading	-	*7*
Total	**19**	**15**
Non-current	11	11
Current	8	4
Total	**19**	**15**

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

In millions of EUR	**31 December 2017 Nominal amount buy**	**31 December 2017 Nominal amount sell**	**31 December 2017 Positive fair value**	**31 December 2017 Negative fair value**
Hedging: *of which*	428	(424)	6	(12)
Interest rate swaps cash flow hedge	*304*	*(304)*	-	*(10)*
Commodity derivatives cash flow hedge	*6*	-	*6*	-
Currency forwards cash flow hedge	*118*	*(120)*	-	*(2)*
Risk management purpose: *of which*	226	(225)	1	(7)
Currency forwards reported as trading	*168*	*(167)*	*1*	-
Commodity derivatives reported as trading	*58*	*(58)*	-	*(7)*
Total	**654**	**(649)**	**7**	**(19)**

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	*104*	*(104)*	-	*(4)*
Commodity derivatives cash flow hedge	*1*	-	*1*	-
Currency forwards cash flow hedge	*23*	*(24)*	-	*(1)*
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)**

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).

		2017		
In millions of EUR	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets carried at fair value:				
Hedging: *of which*	-	6	-	**6**
Commodity derivatives cash flow hedge	-	*6*	-	***6***
Risk management purpose: of which	-	*1*	-	*1*
Currency forwards reported as trading	**-**	**1**	**-**	**1**
Total	**-**	**7**	**-**	**7**
Financial liabilities carried at fair value:				
Hedging: *of which*	-	12	-	**12**
Currency forwards cash flow hedge	-	*2*	-	***2***
Interest rate swaps cash flow hedge	-	*10*	-	***10***
Risk management purpose: *of which*	-	7	-	**7**
Commodity derivatives reported as trading	-	*7*	-	*7*
Total	**-**	**19**	**-**	**19**

		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**

There were no transfers between fair value levels in either 2017 or 2016.

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 2017**	**31 December 2017**
Loans to other than credit institutions	7	7
Shares available for sale	1	(1)-
Financial instruments held at amortised costs	**8**	**7**
Financial liabilities		
Loans and borrowings	**1,129**	**1,132**

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**

(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 2017 the EPE Group is contractually obliged to purchase 3,033,421 pieces (2016: 2,668,113 pieces) of emission rights at an average price 5.85 EUR/piece (2016: 6.78 EUR/piece).

32. Trade payables and other liabilities

In millions of EUR	**31 December 2017**	**31 December 2016**
Trade payables	141	142
Advance payments received	64	62
Estimated payables	28	26
Payroll liabilities	17	17
Other tax liabilities	13	13
Accrued expenses	3	3
Uninvoiced supplies	1	1
Other liabilities	9	8
Total	**276**	**272**
Non-current	4	2
Current	272	270
Total	**276**	**272**

Trade payables and other liabilities have not been secured as at 31 December 2017, or as at 31 December 2016.

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.

33. Financial commitments and contingencies

Off balance sheet liabilities

In millions of EUR	**31 December 2017**	**31 December 2016**
Granted pledges – securities	905	855
Commitments	255	117
Other granted pledges	1,154	886
Total	**2,314**	**1,858**

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

Commitments

Majority of commitments is represented by contracts to purchase physical energy in following years in amount of EUR 239 million (2016: EUR 113 million).

Other granted pledges

In millions of EUR	**31 December 2017**	**31 December 2016**
Loans granted(1)	411	325
Property, plant and equipment	403	395
Cash and cash equivalents(2)	269	75
Trade receivables	51	62
Inventories	20	29
Total	**1,154**	**886**

(1) Total balance of pledged granted loans includes intercompany loans of EUR 404 million (2016: EUR 319 million).

(2) 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.

Off balance sheet assets

In millions of EUR	**31 December 2017**	**31 December 2016**
Received promises	372	336
Other received guarantees and warranties	-	4
Total	**372**	**340**

Received promises

Received promises mainly comprise the contracts for the future purchase of energy in amount of EUR 239 million (2016: EUR 197 million) and regulatory contingent assets related to green energy of EUR 97 million (2016: EUR 138 million) recognised by SSE Group, which are represented by the contingent assets related to green energy.

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 primary legislation and to purchase the green electricity generated by them, 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").

In 2017 SSE recognised a loss of EUR 97 million (2016: EUR 138 million) as the difference between the green energy support costs and revenues from TPS in the period from 1 January 2017 to 31 December 2017. The loss includes revenues adjusted for compensation for past losses, which was recognised as accrued income as at 31 December 2016 (for 2016 revenues as at 31 December 2015).

Based on the current Regulatory Framework the cumulated losses incurred in 2015 and 2016 are compensated in two years' time, i.e. relevant amounts in 2017 and 2018 through an increase of revenues from TPS (2015 and 2016 losses to be recovered in 2017 and 2018). The 2017 loss is reported as a contingent asset in amount of EUR 97 million as of 31 December 2017 and will be recovered in 2019.

Based on the RONI decision dated in December 2017 the resulting contingent asset of EUR 138 million originating in the year 2016 was recognized as accrued income in the consolidated statement of financial position as of 31 December 2017 and will be fully collected in the course of 2018 (31 December 2016: EUR 73 million originating in the year 2015 was recognized as accrued income in the consolidated statement of financial position as of 31 December 2016 and was fully collected in the course of 2017). The loss for 2017 has not yet been recognized 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 2018 once a RONI confirmation on the exact amount shall be received.

34. Operating leases

During the year ended 31 December 2017 EUR 9 million (2016: EUR 6 million) was recognised as an expense in profit or loss in respect of operating leases.

During the year ended 31 December 2017 EUR 7 million (2016: EUR 6 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 distribution 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. Retail customers are typically required to pay prepayments what leads to reduction of the credit risk. 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 2017

In millions of EUR	**Corporate (non-financial institutions)**	**State, government**	**Financial institutions**	**Banks**	**Other**	**Total**
Assets						
Cash and cash equivalents	-	-	-	371	-	**371**
Restricted cash	-	-	-	1	-	**1**
Trade receivables and other assets	376	17	-	-	5	**398**
Financial instruments and other financial assets	13	-	-	2	-	**15**
Total	**389**	**17**	**-**	**374**	**5**	**785**

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**

Credit risk by location of debtor

As at 31 December 2017

In millions of EUR	**Czech Republic**	**Slovakia**	**Cyprus**	**Poland**	**United Kingdom**	**Germany**	**Hungary**	**Netherlands**	**Other**	**Total**
Assets										
Cash and cash equivalents	334	24	-	-	-	-	13	-	-	**371**
Restricted cash	-	-	-	-	-	-	1	-	-	**1**
Trade receivables and other assets	153	217	-	-	6	4	12	-	6	**398**
Financial instruments and other financial assets	9	-	-	-	-	-	6	-	-	**15**
Total	**496**	**241**	**-**	**-**	**6**	**4**	**32**	**-**	**6**	**785**

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**

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 2017

In millions of EUR	**Loans to other than credit institutions**	**Trade receivables and other assets**	**Total**
Before maturity (net)	7	390	**397**
After maturity (net)	-	8	**8**
Total	**7**	**398**	**405**
A – Assets for which a provision has been created (overdue and impaired)			
- gross	-	23	**23**
- specific loss allowance(1)	-	(20)	**(20)**
Net	**-**	**3**	**3**
B – Assets for which a provision has not been created (overdue but not impaired)			
- after maturity <30 days	-	2	**2**
- after maturity 31–180 days	-	2	**2**
- after maturity >365 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 Group carefully assessed the need to create a collective loss allowance and concluded that the impact of the collective loss allowance is immaterial to these financial statements. Therefore no collective loss allowance was recognized as at 31 December 2017 and 31 December 2016.*

The movements in the allowance for impairment in respect of financial assets during the year ended 31 December 2017 were as follows:

In millions of EUR	**Loans to other than credit institutions**	**Trade receivables and other assets**	**Total**
Balance at 1 January 2017	**-**	**(18)**	**(18)**
Impairment losses recognised during the year	-	(1)	**(1)**
Reversals of impairment losses recognised during the year	-	1	**1**
Differences due to foreign currency translation	-	(2)	**(2)**
Balance at 31 December 2017	**-**	**(20)**	**(20)**

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)**

Impairment losses on trade receivables and other assets at 31 December 2017 and 31 December 2016 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 2017

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	**371**	371	371	-	-	-	-
Restricted cash	**1**	1	-	1	-	-	-
Trade receivables and other assets	(2)**357**	357	230	105	18	-	4
Financial instruments and other financial assets	**15**	17	6	1	9	-	1
out of which Derivatives - inflow	*7*	*113*	*79*	*15*	*19*	-	-
outflow	-	*(106)*	*(74)*	*(14)*	*(18)*	-	-
Total	**744**	**746**	**607**	**107**	**27**	**-**	**5**
Liabilities							
Loans and borrowings	**1,129**	1,192	14	662	513	3	-
Trade payables and other liabilities	(3)**262**	262	236	19	4	-	3
Financial instruments and other financial liabilities	**19**	19	3	5	-	11	-
out of which Derivatives - inflow	**-**	*541*	*148*	*74*	*19*	*300*	-
outflow	***(19)***	*(543)*	*(149)*	*(75)*	*(19)*	*(300)*	-
Total	**1,410**	**1,473**	**253**	**686**	**517**	**14**	**3**
Net liquidity risk position	**(666)**	**(727)**	**354**	**(579)**	**(490)**	**(14)**	**2**

(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 41 million are excluded from the carrying amount as these items will cause no future cash inflow.
(3) Advances received in amount of EUR 14 million are excluded from the carrying amount as these items will cause no future cash outflow.

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.

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

As at 31 December 2017 the Group has undrawn credit facilities in amount of EUR 110 million that could be used to mitigate liquidity risk.

(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 2017 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	345	-	-	26	**371**
Restricted cash	-	-	-	1	**1**
Trade receivables and other assets	-	-	-	398	**398**
Financial instruments and other financial assets(1)	-	7	-	8	**15**
out of which Derivatives - inflow	-	-	-	*112*	***112***
outflow	-	-	-	*(105)*	***(105)***
Total	**345**	**7**	**-**	**433**	**785**
Liabilities					
Loans and borrowings(2)	610	516	3	-	**1,129**
Trade payables and other liabilities	-	-	-	276	**276**
Financial instruments and financial liabilities(1)	-	-	10	9	**19**
out of which Derivatives - inflow	*304*	-	-	*238*	*542*
outflow	-	-	*(304)*	*(240)*	*(544)*
Total	**610**	**516**	**13**	**285**	**1,424**
Net interest rate risk position	**(265)**	**(509)**	**(13)**	**148**	**(639)**
Net interest rate risk position (incl. IRS)	**39**	**(509)**	**(317)**	**148**	**(639)**

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

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

Interest rate risk exposure 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[2]	19	1,122	7	2	**1,150**
Trade payables and other liabilities	-	-	-	272	**272**
Financial instruments and financial liabilities[1]	-	-	11	3	**15**
out of which Derivatives - inflow	*300*	-	-	*474*	*744*
outflow	-	-	*(300)*	*(475)*	*(745)*
Total	**19**	**1,122**	**18**	**278**	**1,437**
Net interest rate risk position	**445**	**(1,122)**	**(12)**	**33**	**(656)**
Net interest rate risk position (incl. IRS)	**745**	**(1,122)**	**(312)**	**33**	**(656)**

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

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 no impact on profit. This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

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 and HUF.

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 2017, the exposure to foreign exchange risk translated to millions of EUR was as follows:

In millions of EUR	**CZK**	**HUF**	**EUR**	**PLN**	**Total**
Assets					
Cash and cash equivalents	217	13	141	-	**371**
Restricted cash	-	1	-	-	**1**
Trade receivables and other assets	125	20	253	-	**398**
Financial instruments and other financial assets	8	6	1	-	**15**
	350	**40**	**395**	**-**	**785**
Off balance assets					
Received promises and guarantees	-	-	372	-	**372**
Receivables from derivative operations	262	37	355	-	**654**
	262	**37**	**727**	**-**	**1,026**
Liabilities					
Loans and borrowings	2	-	1,127	-	**1,129**
Financial instruments and other financial liabilities	11	-	8	-	**19**
Trade payables and other liabilities	123	23	130	-	**276**
	136	**23**	**1,265**	**-**	**1,424**
Off balance liabilities					
Commitments	-	-	255	-	**255**
Payables related to derivative operations	313	31	305	-	**649**
	313	**31**	**560**	**-**	**904**
Net foreign exchange risk position	**214**	**17**	**(870)**	**-**	**(639)**

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

In millions of EUR	CZK	HUF	EUR	PLN	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					
Commitments	4	-	113	-	**117**
Payables related to derivative operations	76	24	677	-	**777**
	80	**24**	**790**	**-**	**894**
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).

The following significant exchange rates applied during the period:

	31 December 2017		**31 December 2016**	
CZK	**Average rate**	**Reporting date spot rate**	**Average rate**	**Reporting date spot rate**
EUR 1	26.33	25.54	27.033	27.020
HUF 1	0.08517	0.08230	0.08682	0.08721
PLN 1	6.185	6.114	6.198	6.126

Sensitivity analysis

A strengthening (weakening) of the Czech crown, as indicated below, against the EUR, HUF 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	**2017 Profit (loss)**	**2016 Profit (loss)**
EUR (5% strengthening)	49	(15)
HUF (5% strengthening)	-	(1)

Effect in millions of EUR	**2017 Other comprehensive income**	**2016 Other comprehensive income**
EUR (5% strengthening)	-	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 Slovak Regulatory Office for Network Industries's ("RONI") 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 manages its capital based on the net leverage defined as Net Debt / EBITDA.

In millions of EUR	**31 December 2017**	**31 December 2016**
Gross Debt	1,124	1,142
Less: Cash and cash equivalents	371	464
Net debt	**753**	**678**
EBITDA	380	293
Net debt to EBITDA	**1.98**	**2.31**

The Group also monitors its debt to adjusted capital ratio. At the end of the reporting period the ratio was as follows:

In millions of EUR	**31 December 2017**	**31 December 2016**
Total liabilities	1,807	1,752
Less: cash and cash equivalents	371	464
Net debt	**1,436**	**1,288**
Total equity attributable to equity holders of the Company	365	382
Less: amounts accumulated in equity relating to cash flow hedges	(8)	(51)
Adjusted capital	**357**	**433**
Debt to adjusted capital	**4.02**	**2.97**

(h) Hedge accounting

The balance as at 31 December 2017 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 Budapesti Erömü Zrt.

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 applied hedge accounting for financial instruments designed to hedge the foreign currency risk cash-flows denominated in foreign currency (EUR). The hedging instruments were 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.) were expected to occur and impact profit or loss in periods of 2020 to 2029. The hedging relationship on the Group consolidated level was terminated in November 2017 when the FX rate reached the level which the transaction was hedged for. Due to the termination of this hedging transaction the Group doesn't report any foreign currency cash flow hedge reserve connected with this hedging act as of 31 December 2017 (2016: negative EUR 49 million).

Cash flow hedges – hedge of interest rate risk

The Group applies hedge accounting for hedging instruments designed to hedge interest rate risk of its debt financing. The hedging instruments are interest rate swaps used by the Group and EP Energy, a.s. in order to hedge risk related to repricing of interest rates on its financing. As a result of the hedge relationship on the Group level, the Group recorded an interest rate cash flow hedge reserve of EUR 2 million negative (2016: EUR 4 million negative). For risk management policies, refer to Note 35 (c) – Risk management policies and disclosures.

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 (2016: EUR 3 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 2017 and 31 December 2016 was as follows:

In millions of EUR	**Accounts receivable and other financial assets 2017**	**Accounts payable and other financial liabilities 2017**	**Accounts receivable and other financial assets 2016**	**Accounts payable and other financial liabilities 2016**
Ultimate shareholder[1]	-	-	-	-
Companies controlled by ultimate shareholder	17	28	7	16
Companies under significant influence by ultimate shareholder	3	9	4	15
Associates	7	-	6	14
Other related parties	-	-	-	-
Total	**27**	**37**	**17**	**45**

1) Daniel Křetínský represents the ultimate shareholder (2016: Energetický a průmyslový holding, a.s.).

In addition, in 2017 the Group reported EUR 10 million off-balance sheet in loan commitments, which were from companies under significant influence by ultimate shareholders (2016: 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 2017 and 31 December 2016 was as follows:

In millions of EUR

	Revenues 2017	Expenses 2017	Revenues 2016	Expenses 2016
Ultimate shareholder(1)	-	-	3	-
Companies controlled by ultimate shareholder	61	147	36	116
Companies under significant influence by ultimate shareholder	31	90	19	50
Associates	15	-	7	-
Other related parties	-	-	-	-
Total	**107**	**237**	**65**	**166**

1) Daniel Křetínský represents the ultimate shareholder (2016: Energetický a průmyslový holding, a.s.).

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

Transactions with the key management personnel

For the financial years ended 31 December 2017 and 2016 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	2017	2016
Nr. of personnel	50	56
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 2017 and 31 December 2016 is set out below:

	Country of incorporation	31 December 2017 Ownership %	31 December 2017 Ownership interest	31 December 2016 Ownership %	31 December 2016 Ownership interest	2017 Consolidation method	2016 Consolidation 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	100	Direct	49	Direct	Full	Equity
Pražská teplárenská a.s.	Czech Republic	47.42	Direct	47.42	Direct	Full	Full
Pražská teplárenská Trading, a.s.(5)	Czech Republic	100	Direct	100	Direct	Full	Full
Termonta Praha a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Energotrans SERVIS, a.s.(4)	Czech Republic	100	Direct	95	Direct	Full	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	47.42	Direct	Full	Full
RPC, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nový Veleslavín, a.s.	Czech Republic	-	-	100	Direct	-	IFRS5
Pod Juliskou, a.s.	Czech Republic	100	Direct	100	Direct	IFRS5	Full
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS5	IFRS5
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
GABIT spol. s.r.o.	Czech Republic	100	Direct	-	-	At cost	-
Severočeská teplárenská, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Sourcing, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP ENERGY TRADING, a.s.	Czech Republic	100	Direct	100	Direct	Full	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	100	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	-	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(2)	Czech Republic	-	-	100	Direct	-	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.(5)	Czech Republic	100	Direct	100	Direct	Full	Full
Termonta Praha a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Energotrans SERVIS, a.s.(4)	Czech Republic	100	Direct	95	Direct	Full	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	-	IFRS5
Pod Juliskou, a.s.	Czech Republic	100	Direct	100	Direct	IFRS5	Full

		31 December 2017		31 December 2016		2017	2016
	Country of incorporation	Owner-ship %	Owner-ship interest	Owner-ship %	Owner-ship interest	Conso-lidation method	Conso-lidation method
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS5	IFRS5
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
Stredoslovenská energetika, a.s.	Slovakia	49	Direct	49	Direct	Full	Full
Stredoslovenská energetika – Distribúcia, a.s.(3)	Slovakia	100	Direct	100	Direct	Full	Full
Elektroenergetické montáže, s.r.o.	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
SPV100, s.r.o.	Slovakia	100	Direct	-	-	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
EP Hungary, a.s.*(1)	Czech Republic	-	-	100	Direct	-	Full
Budapesti Erömü Zrt.	Hungary	95.62	Direct	95.62	Direct	Full	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) *EP Hungary, a.s. merged with EP Energy, a.s. as of 30 November 2017. EP Energy, a.s. is the successor company.*
(2) *On 4 October 2017 the process of liquidation of EBEH Opatovice, a.s. v likvidaci was terminated.*
(3) *On 1 March 2018 Stredoslovenská energetika – Distribúcia, a.s. was renamed to Stredoslovenská distribučná, a.s.*
(4) *On 1 February 2018 Energotrans SERVIS, a.s. was renamed to PT Transit, a.s.*
(5) *On 1 February 2018 Pražská teplárenská Trading, a.s. was renamed to PT Koncept, a.s.*

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 squeeze-out procedure was inadequate, and who are challenging the validity of the underlying resolution of the general shareholders meeting. The matter is currently in a mediation phase, the outcome is unforeseeable and no provision for these claims was recorded as of 31 December 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. After considering all the circumstances Plzeňská energetika a.s. created an adequate provision as at 31 December 2017. In January 2018, another court hearing was held and the Court ruled in favor of Plzeňská energetika, a.s. Given that the counterparty has the option of appealing, the provision was not fully released.

Stredoslovenská energetika, a.s. Group (“SSE Group”)

The SSE Group is a party to various legal proceedings. As at 31 December 2017 and 2016 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). On 26 January 2017 PT filed an appeal on the decision and applied for suspensive effect. At the same time PT submitted a fine of EUR 4 million to the ERO’s account. On 23 February 2017 the regional court satisfied the request for a suspensive effect in full and on 28 April 2017 the ERU returned the fine back to PT and PT again conservatively recorded a provision of EUR 4 million. No development has taken place since then.

39. Subsequent events

In December 2017, the City of Pilsen approved the key terms and conditions of a potential future merger of Plzeňská energetika a.s. and Plzeňská teplárenská, a.s. ("PLTEP"), a 100% subsidiary of the City of Pilsen, resulting in PLTEP as joint-venture successor company in which the Group would have a 35% interest and management control. The transaction is being negotiated as of the date of these financial statements and the City of Pilsen is scheduled to finally approve the merger in May 2018. If approved, the merger may become effective later in 2018. Structuring of the transaction is yet to be decided.

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 2017.

Appendices*:

Appendix 1 – Analysis of results from discontinued operations

Appendix 2 – 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	
28 March 2018	Marek Spurný Member of the Board of Directors	Pavel Horský Member of the Board of Directors

Appendix 1 – 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)**

Appendix 2 – 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

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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.

Report on the Audit of the Financial Statements

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 2017, 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 2017, 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.

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 Note 2 (Significant accounting policies applied by the Company) and 5 (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 at each balance sheet date and the Company tests whether these investments have been impaired.** **The valuation of these unquoted investments depends on assumptions of future development determined by the Company and especially on estimates on 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 audit area.**	In this area, among other things, we conducted the following audit procedures: We ascertained by inquiry, why the Company uses concrete assumptions and estimates affecting the valuation models used 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 on the market, evaluated the main assumptions and estimates used and compared them with market standards in the industry. We critically evaluated the assumptions and estimates used for the compilation of the financial plans of the significant subsidiaries and associates in the context of our knowledge of those entities. We evaluated the historical reliability of the estimates related to future development in a way that compared the estimated financial plans for 2017 used in the valuation models prepared in 2016 to the actual results for 2017. We also compared cash-flow plans included in the 2017 valuation models to the cash-flow plans included in the 2016 valuation models. We critically evaluated the Company's explanation of any significant deviations. We evaluated whether the events occurring after the balance sheet date up to the 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.

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.

As described in Note 2 (j) to the financial statements, EP Energy, a.s. will not issue a separate annual report as all information about the Company required to be disclosed in a separate annual report will be included in the consolidated annual report. Consequently, the auditor's report does not include our statement on the other information.

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 statutory 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

Karel Charvát is the statutory auditor responsible for the audit of the financial statements of EP Energy, a.s. as at 31 December 2017, based on which this independent auditor's report has been prepared.

Prague
12 March 2018

KPMG Česká republika Audit

Karel Charvát

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

Karel Charvát
Registration number 2032

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

EP Energy, a.s.

STATUTORY FINANCIAL STATEMENTS

Year ended 31 December 2017

BALANCE SHEET

full version

As of
31.12.2017
(in CZK thousand)

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

Pařížská 130/26
Josefov
110 00 Praha 1

		31.12.2017			1.1.2017
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	**54 281 896**	**464 124**	**53 817 772**	**55 890 190**
B.	**Fixed assets**	**34 764 687**	**425 074**	**34 339 613**	**34 788 931**
B.I.	***Intangible fixed assets***	**277**	**277**		
B.I.2.	*Valuable rights*	**277**	**277**		
B.I.2.1.	Software	277	277		
B.II.	***Tangible fixed assets***	**606**	**467**	**139**	**105**
B.II.2.	Tangible movable assets and sets of tangible movable assets	606	467	139	105
B.III.	***Non-current financial assets***	**34 763 804**	**424 330**	**34 339 474**	**34 788 826**
B.III.1.	Equity investments - controlled or controlling entity	34 763 804	424 330	34 339 474	34 788 826
C.	**Current assets**	**19 516 959**	**39 050**	**19 477 909**	**21 101 259**
C.II.	***Receivables***	**12 107 777**	**39 050**	**12 068 727**	**11 055 359**
C.II.1.	***Long-term receivables***	**7 089 547**	**39 050**	**7 050 497**	**8 137 681**
C.II.1.2.	Receivables - controlled or controlling entity	7 083 447	39 050	7 044 397	8 131 581
C.II.1.5.	*Receivables - other*	**6 100**		**6 100**	**6 100**
C.II.1.5.4.	Sundry receivables	6 100		6 100	6 100
C.II.2.	***Short-term receivables***	**5 018 230**		**5 018 230**	**2 917 678**
C.II.2.1.	Trade receivables	2 354		2 354	30 438
C.II.2.2.	Receivables - controlled or controlling entity	4 982 938		4 982 938	2 777 373
C.II.2.4.	*Receivables - other*	**32 938**		**32 938**	**109 867**
C.II.2.4.3.	State - tax receivables	25 494		25 494	106 954
C.II.2.4.4.	Short-term prepayments made	252		252	272
C.II.2.4.6.	Sundry receivables	7 192		7 192	2 641
C.III.	***Current financial assets***	**650 000**		**650 000**	
C.III.2.	Other current financial assets	650 000		650 000	
C.IV.	***Cash***	**6 759 182**		**6 759 182**	**10 045 900**
C.IV.1.	Cash on hand	33		33	40
C.IV.2.	Cash at bank	6 759 149		6 759 149	10 045 860
D.	**Other assets**	**250**		**250**	
D.1.	Deferred expenses	250		250	

		31.12.2017	1.1.2017
	TOTAL LIABILITIES & EQUITY	**53 817 772**	**55 890 190**
A.	**Equity**	**20 550 097**	**20 582 883**
A.I.	***Share capital***	**13 000 449**	**13 000 449**
A.I.1.	Share capital	13 000 449	13 000 449
A.II.	***Share premium and capital funds***	**4 750 493**	**4 625 771**
A.II.1.	Share premium	3 213 312	3 213 312
A.II.2.	*Capital funds*	**1 537 181**	**1 412 459**
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 (+/-)	137 299	12 577
A.II.2.3.	Gains or losses from the revaluation upon transformations of business corporations (+/-)	1 398 191	1 398 191
A.II.2.4.	Gains or losses from transformations of business corporations (+/-)	-588	-588
A.IV.	***Retained earnings (+/-)***	**1 084 588**	**3 676 006**
A.IV.1.	Accumulated profits brought forward	1 084 588	3 676 006
A.V.	***Profit or loss for the current period (+/-)***	**1 922 432**	
A.VI.	Profit share prepayments declared (-)	**-207 865**	**-719 343**
B.+C.	**Liabilities**	**33 267 675**	**35 307 307**
B.	**Reserves**		**17 048**
B.2.	Income tax reserve		16 244
B.4.	Other reserves		804
C.	**Payables**	**33 267 675**	**35 290 259**
C.I.	***Long-term payables***	**13 937 754**	**30 727 714**
C.I.1.	*Bonds issued*	**12 735 521**	**29 643 210**
C.I.1.2.	Other bonds	12 735 521	29 643 210
C.I.8.	Deferred tax liability	953 234	800 885
C.I.9.	*Payables - other*	**248 999**	**283 619**
C.I.9.3.	Sundry payables	248 999	283 619
C.II.	***Short-term payables***	**19 329 921**	**4 562 545**
C.II.1.	*Bonds issued*	**15 520 152**	**249 786**
C.II.1.2.	Other bonds	15 520 152	249 786
C.II.4.	Trade payables	20 145	44 683
C.II.6.	Payables - controlled or controlling entity	3 708 172	4 257 508
C.II.8.	*Other payables*	**81 452**	**10 568**
C.II.8.1.	Payables to partners		28
C.II.8.3.	Payables to employees	224	1 703
C.II.8.4.	Social security and health insurance payables	42	431
C.II.8.5.	State - tax payables and subsidies	83	438
C.II.8.6.	Estimated payables	1 199	1 405
C.II.8.7.	Sundry payables	79 904	6 563

PROFIT AND LOSS ACCOUNT
structured by the nature of expense method

Year ended
31.12.2017
(in CZK thousand)

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

Pařížská 130/26
Josefov
110 00 Praha 1

		Year ended 31.12.2017
I.	Sales of products and services	1 320
A.	Purchased consumables and services	47 312
A.2.	Consumed material and energy	32
A.3.	Services	47 280
D.	Staff costs	8 959
D.1.	Payroll costs	6 921
D.2.	Social security and health insurance costs and other charges	2 038
D.2.1.	Social security and health insurance costs	2 036
D.2.2.	Other charges	2
E.	Adjustments to values in operating activities	-11 817
E.1.	Adjustments to values of intangible and tangible fixed assets	102
E.1.1.	Adjustments to values of intangible and tangible fixed assets - permanent	102
E.3.	Adjustments to values of receivables	-11 919
III.	Other operating income	5 944
III.3.	Sundry operating income	5 944
F.	Other operating expenses	14 198
F.3.	Taxes and charges	399
F.4.	Reserves relating to operating activities and complex deferred expenses	-804
F.5.	Sundry operating expenses	14 603
*	**Operating profit or loss (+/-)**	**-51 388**
IV.	Income from non-current financial assets - equity investments	2 876 921
IV.1.	Income from equity investments - controlled or controlling entity	2 876 921
G.	Costs of equity investments sold	289 793
VI.	Interest income and similar income	549 395
VI.1.	Interest income and similar income - controlled or controlling entity	545 110
VI.2.	Other interest income and similar income	4 285
I.	Adjustments to values and reserves relating to financial activities	-290 322
J.	Interest expenses and similar expenses	1 471 707
J.1.	Interest expenses and similar expenses - controlled or controlling entity	12 781
J.2.	Other interest expenses and similar expenses	1 458 926
VII.	Other financial income	1 146 418
K.	Other financial expenses	1 076 745
*	**Financial profit or loss (+/-)**	**2 024 811**
**	**Profit or loss before tax (+/-)**	**1 973 423**
L.	Income tax	50 991
L.1.	Due income tax	50 991
**	**Profit or loss net of tax (+/-)**	**1 922 432**
***	**Profit or loss for the current period (+/-)**	**1 922 432**
*	Net turnover for the current period	4 579 998

STATEMENT OF CHANGES IN EQUITY

Year ended 31.12.2017
(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 2017	**13 000 449**	**3 213 312**	**12 577**	**1 398 191**	**-588**	**2 279**	**3 676 006**		**-719 343**	**20 582 883**
Profit share prepayments declared									-748 265	-748 265
Distribution of profit or loss							-1 259 743		1 259 743	
Dividends declared							-1 331 675			-1 331 675
Revaluation of assets and liabilities			-524 764							-524 764
Effect from hedge accounting			649 486							649 486
Profit or loss for the current period								1 922 432		1 922 432
Balance at 31 December 2017	**13 000 449**	**3 213 312**	**137 299**	**1 398 191**	**-588**	**2 279**	**1 084 588**	**1 922 432**	**-207 865**	**20 550 097**

CASH FLOW STATEMENT	EP Energy, a.s.
	Corporate ID 292 594 28
Year ended 31.12.2017 (in CZK thousand)	Pařížská 130/26 Josefov 110 00 Praha 1

		Year ended 31.12.2017
P.	**Opening balance of cash and cash equivalents**	**10 045 900**
Z.	Profit or loss from ordinary activities before tax	1 973 423
A.1.	Adjustments for non-cash transactions	-2 331 263
A.1.1.	Depreciation of fixed assets	102
A.1.2.	Change in provisions and reserves	-303 045
A.1.3.	Profit/(loss) on the sale of fixed assets	288 610
A.1.4.	Revenues from profit shares	-2 875 738
A.1.5.	Interest expense and interest income	922 312
A.1.6.	Adjustments for other non-cash transactions	-363 504
A.*	**Net operating cash flow before changes in working capital**	**-357 840**
A.2.	Change in working capital	-654 363
A.2.1.	Change in operating receivables and other assets	25 932
A.2.2.	Change in operating payables and other liabilities	-30 295
A.2.4.	Change in current financial assets	-650 000
A.**	**Net cash flow from operations before tax**	**-1 012 203**
A.3.	Interest paid	-1 466 791
A.4.	Interest received	498 974
A.5.	Income tax paid from ordinary operations	14 109
A.***	**Net operating cash flows**	**-1 965 911**
B.1.	Fixed assets expenditures	-137
B.2.	Proceeds from fixed assets sold	1 184
B.3.	Loans and borrowings to related parties	-3 392 217
	Received profit shares	2 504 795
B.***	**Net investment cash flows**	**-886 375**
C.1.	Change in payables from financing	105 968
C.2.	Impact of changes in equity	-540 400
C.2.6.	Profit shares paid	-540 400
C.***	**Net financial cash flows**	**-434 432**
F.	**Net increase or decrease in cash and cash equivalents**	**-3 286 718**
R.	**Closing balance of cash and cash equivalents**	**6 759 182**

EP Energy, a.s.

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

Year ended 31 December 2017
(amounts are shown in thousands of Czech crowns "TCZK")

Contents

(amounts are shown in thousands of Czech crowns “TCZK”)

1. Incorporation and Description of the Business

EP Energy, a.s. (“the Company” or "EPE") 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 2017 were:

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 2017

Board of directors	*Supervisory board*
Ing. Mgr. Tomáš David (Chairman)	Ing. Jan Špringl (Chairman)
Petr Sekanina (Vice-Chairman)	Ing. Milan Jalový
William David George Price	Ing. Filip Bělák
Pavel Horský	
Jiří Feist	
Marek Spurný	

Merger by acquisition

The merger by acquisition of EP Energy, a.s. as the successor company and EP Hungary, a.s. as the dissolving company was recorded in the Commercial Register on 30 November 2017. The decisive date of the merger was 1 January 2017.

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 costing 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 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 the revaluation of assets and liabilities and recognised as part of equity.

Cash flow hedges – hedging foreign exchange risk with non-derivative financial liabilities

The Company applies hedge accounting in order to hedge the risk of changes in exchange rates from highly probable future transactions denominated in foreign currency with defined non-derivative financial liabilities serving as hedging instruments. The hedge is in line with Company's risk management strategy. All hedging transactions are documented and the effectiveness of each transaction is regularly reviewed.

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 part of equity.
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 provision 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 as adopted by the EU. 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 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 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. Profit share prepayments received are recognised in revenues for the current period, i.e. in the period in which a decision to distribute profit share prepayments was made.

3. Change in accounting policies and procedures

In 2017, no changes were made to the Company's accounting policies and procedures.

4. Comparability of information

As described in Note 1, the Company was part of a merger by acquisition with the decisive date of 1 January 2017, which was recorded in the Commercial Register. The income statement and the statement of cash flow do not provide any comparative data. The prior period information represents the Company's opening balance sheet as at 1 January 2017.

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 31/12/2017	Balance at 1/1/2017
Cash on hand	33	40
Cash at bank	6 759 149	10 045 860
Total cash and cash equivalents	**6 759 182**	**10 045 900**

Cash flows from operating, investment and financial activities presented in the cash flow statement are not offset.

6. Non-current financial assets

As at 31 December 2017 and 1 January 2017

Equity investments - controlled or controlling entity				
Company name	**Total profit (+) / loss (-) for 1/1/2017 - 31/12/2017 (in thousands of CZK/ EUR/HRK/HUF)**	**Equity at 31/12/2017 (in thousands of CZK/ EUR/HRK/HUF)**	**Net amount of investment at 31/12/2017 (in TCZK)**	**Net amount of investment at 1/1/2017 (in TCZK)**
AISE, s.r.o.*	12 000 (CZK)	56 186 (CZK)	34 381	34 381
ARISUN, s.r.o. *	218 (EUR)	328 (EUR)	31 238	31 238
EBEH Opatovice, a.s. in liquidation	-	-	-	1 734
Elektrárny Opatovice, a.s.*	-338 258 (CZK)	4 076 216 (CZK)	8 178 032	8 178 032
EP Cargo a.s.*	16 664 (CZK)	18 864 (CZK)	266 700	266 700
EP ENERGY HR d.o.o.**	-104 (HRK)	-331 (HRK)	69	71
EP ENERGY TRADING, a.s.*	53 412 (CZK)	996 298 (CZK)	1 042 576	1 042 576
Energzet Servis a.s.*	2 462 (CZK)	17 909 (CZK)	2 000	2 000
Greeninvest Energy, a.s.*	28 997 (CZK)	55 562 (CZK)	50 817	50 817
CHIFFON ENTERPRISES LIMITED*	-85 (EUR)	-578 (EUR)	-	-
VTE Moldava II, a.s.*	-1 142 (CZK)	39 580 (CZK)	87 695	87 695
NPTH, a.s.*	742 479 (CZK)	11 065 081 (CZK)	9 622 510	9 622 510
Plzeňská energetika a.s.*	89 897 (CZK)	1 595 133 (CZK)	818 321	818 321
Powersun a.s.*	15 888 (CZK)	54 874 (CZK)	152 184	152 184
PT Holding Investment B.V.*	13 851 (EUR)	170 777 (EUR)	36 058	36 058

(amounts are shown in thousands of Czech crowns “TCZK”)

Stredoslovenská energetika, a.s.***	139 826 (EUR)	561 705 (EUR)	8 806 566	9 315 678
Triskata, s.r.o.*	224 (EUR)	430 (EUR)	36 086	36 086
United Energy, a.s.*	-75 371 (CZK)	983 032 (CZK)	4 626 947	4 626 947
VTE Pchery, s.r.o.*	2 403 (CZK)	13 143 (CZK)	51 602	51 602
EP Sourcing, a.s.*	56 793 (CZK)	66 793 (CZK	112 452	112 452
Budapesti Erőmű Zrt ("BERT")*	6 352 283 (HUF)	3 628 128 (HUF)	383 240	321 744
Total			**34 339 474**	**34 788 826**

* Data derived from unaudited financial statements as at 31 December 2017.

** Data derived from unaudited financial statements as at 31 December 2016.

*** Data derived from unaudited consolidated financial statements as at 31 December 2017.

Except for AISE, s.r.o. (80%), Greeninvest Energy, a.s. (41.7%), Stredoslovenská energetika, a.s. (49%), VTE Pchery, s.r.o. (64%) and Budapesti Erőmű Zrt (95.62%), all equity investments are fully owned.

Registered offices of the companies as at 31 December 2017:

AISE, s.r.o.	Pekárenská 400, Zlín, Czech Republic
ARISUN, s.r.o.	Pribinova 25, Bratislava, Slovakia
Budapesti Erőmű Zrt	Budafoki ut 52, 1117 Budapest, Hungary
EBEH Opatovice, a.s. in liquidation	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
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.	Schiphol Boulevard 477 Tower C4, 1118 BK Schiphol, 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 were 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) and CHIFFON ENTERPRISES LIMITED (TCZK 20 199).

In 2017, an adjustment to EBEH Opatovice, a.s. in liquidation of TCZK 288 058 was released (see below).

In 2017, non-current financial assets changed as follows:

EBEH Opatovice, a.s. in liquidation was dissolved by a decision of 4 October 2017 and, consequently, this investment was disposed from non-current financial assets.

An investment in Budapesti Erőmű Zrt ("BERT") was transferred to EPE as a result of the merger (described in Note 1).

7. Long-term receivables

Long-term receivables – controlled or controlling entity primarily include loans provided to related parties (see Note 14(a)).

8. Short-term receivables

Short-term receivables primarily comprise loans provided to related parties and dividends declared (see Note 14(b)).

Ageing structure of trade receivables

None of trade receivables are due in more than five years as at the balance sheet date.

Based on an internal analysis of the credit status of its customers, the Company created a provision of TCZK 11 920 as at 1 January 2017. The provision was released in full in 2017 as the related receivable had been written off.

9. State - Tax receivables

As at 1 January 2017, the Company reports a receivable relating to value added tax and a receivable relating to corporate income tax prepayments (see Note 20). On this line is also presented an income tax reserve as at 31 December 2017 amounting TCZK 54 500.

10. Short-term investments

Other short-term investments include a note/bill acquired by the Company.

(amounts are shown in thousands of Czech crowns "TCZK")

11. Equity

The change in "Gains or losses from the revaluation of assets and liabilities" is due to foreign exchange differences arising from the revaluation of foreign currency ownership interests.

On 20 January 2017 and 10 March 2017, EP Infrastructure, a.s., the sole shareholder of the Company, declared a profit share prepayment of TCZK 540 400, which was paid in cash.

On 18 May 2017, the Company's general meeting approved the transfer of the 2016 profit to retained earnings (TCZK 2 360 997). It also confirmed the dividends paid in form of profit share prepayments totalling TCZK 1 259 743 and established a dividend of TCZK 1 331 675 that was offset against the provided loan.

Due to a merger with EP Hungary, a.s. the 2016‘s profit transfer was included in equity as at 1 January 2017 in compliance with the compiled and audited opening balance sheet as of 1 January 2017.

On 13 October 2017, EP Infrastructure, a.s., the sole shareholder of the Company, declared a profit share prepayment of TCZK 207 865 that was offset against the provided loan.

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 1/1/2017	**-107 435**	**246 750**	**-46 883**	**-98 586**	**18 731**	**12 577**
Revaluation of foreign currency ownership interests	-524 764	-	-	-	-	**-524 764**
Utilisation of cash flow hedge	-	-38 625	-	-	-	**-38 625**
Revaluation of cash flow hedge	-	799 200	-	-	-	**799 200**
Deferred tax – cash flow hedge	-	-	-144 509	-	-	**-144 509**
Change in fair value of the interest rate swap	-	-	-	41 258	-	**41 258**
Deferred tax – interest rate swap	-	-	-	-	-7 838	**-7 838**
Balance at 31/12/2017	**-632 199**	**1 007 325**	**-191 392**	**-57 328**	**10 893**	**137 299**

As at the date of the approval of this financial statement the distribution of current year's profit is not prepared yet. The proposal will be prepared by the board of directors for the Company's shareholders and further discussed and approved on the General Meeting.

(amounts are shown in thousands of Czech crowns "TCZK")

12. 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. (presented in Other short-term bonds, see Note 13).

Interest on both tranches is payable twice a year retrospectively on 1 May and 1 November of each year.

A deferred tax liability of TCZK 953 234 (at 1/1/2017: TCZK 800 885) 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 to hedging instruments designated to hedge foreign exchange risks of revenues denominated in foreign currency (EUR). The Company designated relevant parts of the nominal value of bonds denominated in EUR amounting to MEUR 540 as hedging instruments (2016: MEUR 350). Hedged cash flows from dividends from subsidiaries in EUR, considered highly probable by the Company, are expected between 2016 and 2032, of which hedged cash flows for 2016 and 2017 were already utilized. The impact on profit or loss is also expected in that period. As at 31 December 2017, TCZK 1 007 325 (as at 1/1/2017: TCZK 246 750) from this hedge relationship was recognised in the Company's equity including a related deferred tax of TCZK 191 392 (as at 1/1/2017: TCZK 46 883). In 2017, as a result of the utilisation of cash flow hedge, TCZK 38 625 of the amount recorded in equity in connection with the application of hedge accounting was reclassified to revenues (2016: TCZK 14 375).

As at 31 December 2017, 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 31/12/2017**	**Fair value at 31/12/2016**	**Nominal value (in TEUR)**
Interest rate swap (hedge)	ČSOB	3/11/2025	84 581	98 586	100 000
Interest rate swap (hedge)	ČSOB	3/11/2025	84 011	97 979	100 000
Interest rate swap (hedge)	ČSOB	3/11/2025	73 769	87 054	100 000
Total derivatives			**242 361**	**283 619**	

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 2017, TCZK -57 328 (as at 1/1/2017: TCZK -98 586) from this hedge relationship was recognised in the Company's equity including a related deferred tax of TCZK 10 893 (as at 1/1/2017: TCZK 18 731).

(amounts are shown in thousands of Czech crowns "TCZK")

13. Short-term payables

Short-term payables primarily include principals of bonds due in 2018 (TCZK 15 284 004) and accrued interest on bonds of TCZK 236 148 (at 1/1/2017: TCZK 249 786). Payables to related parties arising from received loans of TCZK 3 708 172 (as at 1/1/2017: TCZK 4 257 508) are described in more detail in Note 14(c). Bond is expected to be repaid by combination of own funds and intercompany loan.

14. Related parties

In compliance with Section 39b(8) of Decree No. 500/2002 Coll., the Company does not disclose transactions (revenues and expenses) between related entities within the EPE consolidated group that are wholly owned by the Company.

(a) Long-term receivables from provided loans

31 December 2017

Company name	**Due date**	**Balance at 31/12/2017**
Arisun, a.s.	2024	16 938
Alternative Energy, s.r.o.	2021	179 810
Elektrárny Opatovice, a.s.	2019	4 406 467
EP ENERGY TRADING, a.s.	2020	200 000
Greeninvest Energy, a.s.	2022	169 744
POWERSUN a.s.	2024	107 815
Triskata, s.r.o.	2024	13 025
United Energy, a.s.	2019	1 135 214
VTE Moldava II, a.s.	2024	16 290
MR TRUST s.r.o.	2024	4 125
Budapesti Erőmű Zrt (BERT)	2020	740 700
VTE Pchery, s.r.o.	2024	93 319
Total at 31/12/2017		**7 083 447**

Based on an internal analysis of the credit status of the counterparties, the Company created an adjustment of TCZK 39 050 (as at 1/1/2017: TCZK 41 314).

(amounts are shown in thousands of Czech crowns "TCZK")

1 January 2017

Company name	Due date	Balance at 1/1/2017
Arisun, a.s.	2024	4 995
Alternative Energy, s.r.o.	2021	180 849
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 1/1/2017		**8 172 895**

(b) Short-term receivables from provided loans and cash pool

Company name	Balance at 31/12/2017	Balance at 1/1/2017
Short-term receivables from provided loans		
EP Energy HR d.o.o.	1 660	1 216
EP ENERGY TRADING, a.s.	2 167	6 009
Elektrárny Opatovice, a.s.	632 586	54 303
Chiffon Enterprises Limited	265 122	271 359
MR TRUST s.r.o.	-	1 406
Plzeňská energetika, a.s.	-	101
United Energy, a.s.	7 977	14 382
VTE Moldava II, a.s.	124 024	123 626
Budapesti Erőmű Zrt (BERT)	-	1 308 051
PT Holding Investment B.V.	3 102 000	-
Total - *Short-term receivables from provided loans*	**4 135 536**	**1 780 453**
Short-term receivables – cash pool		
Subsidiaries	768 339	949 420
Related companies	79 063	47 500
Total - *Short-term receivables – cash pool*	**847 402**	**996 920**
Total	**4 982 938**	**2 777 373**

(c) Short-term payables from received loans

Company name	Balance at 31/12/2017	Balance at 1/1/2017
Short-term payables from received loans		
Pražská teplárenská Holding a.s.	360 036	-
Budapesti Erömü Zrt (BERT)	-	501 383
PT Holding Investment B.V.	-	364 824
Total - *Short-term payables from received loans*	**360 036**	**866 207**
Short-term payables – cash pool		
Subsidiaries	2 320 428	2 449 594

(amounts are shown in thousands of Czech crowns “TCZK”)

Related companies	1 027 708	941 707
Total - *Short-term payables – cash pool*	**3 348 136**	**3 391 301**
Total	**3 708 172**	**4 257 508**

(d) Interest income and expense

	2017	
	Interest income	Interest expense
Controlling entities	4 442	-
Subsidiaries	539 410	11 907
Related companies	1 258	874
Total	**545 110**	**12 781**

(e) Income from equity investments - controlled or controlling entity

Dividend income

Company name	2017
Stredoslovenská energetika, a.s.	997 659
PT Holding Investment B.V.	696 274
EP Sourcing, a.s.	190 918
AISE, s.r.o.	15 200
EP Cargo a.s	232 962
NPTH, a.s.	742 724
Total	**2 875 737**

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

Other interest and similar expense primarily comprise interest on bonds.

17. Other financial expenses and revenues

Other financial revenues or expenses primarily include foreign exchange gains and revenues from derivatives, or foreign exchange losses and expenses for derivatives revaluation.

18. Employees and executives

As at 31 December 2017, the Company had 1 employee (at 1/1/2017: 16 employees).

(amounts are shown in thousands of Czech crowns "TCZK")

Remuneration paid to directors and supervisory board members of EP Energy, a.s. for the performance of their functions was TCZK 1 533.

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 2017.

20. Income tax

Current tax

The current income tax estimate and overview of income tax prepayments as at 31 December 2017 and as at 1 January 2017 are shown below:

	Balance at 31/12/2017	Balance at 1/1/2017
Current income tax estimate	54 500	42 103
Current income tax prepayments	79 711	132 414
Income tax provision (+) / State - tax receivables (-)	**-25 211**	**-106 555 / 16 244***

**As a result of the merger of 1 January 2017 described in Note 1, the Company reports an income tax provision and a tax receivable in its opening balance sheet.*

Expenses of TCZK 50 991 related to current income tax on ordinary activities for 2017 represent the difference between the tax liability for 2017 (TCZK 54 500), the release of the income tax provision created as at 31 December 2016 and the tax liability for 2016 (TCZK -3 509).

Deferred tax

The deferred tax liability consists of the following items:

Deferred tax arising from	**Balance at 31/12/2017**	**Balance at 1/1/2017**
Revaluation of fixed assets as part of the mergers	781 749	781 749
Non-current financial assets	-9 015	-9 015
Revaluation of hedging instruments	180 500	28 151
Total	**953 234**	**800 885**

In accordance with the accounting policies described in Note 2 (i), a tax rate of 19% was used to calculate deferred tax (2016 – 19%).

21. Significant off-balance sheet transactions

A total of 50% plus 1 share of the Company and of other selected subsidiaries and cash (bank accounts, receivables from selected subsidiaries) are pledged in favour of bond holders. Other types of security are provided to the same creditors directly by subsidiaries. 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.

(amounts are shown in thousands of Czech crowns "TCZK")

The Company reports an off-balance sheet liability from derivative transactions in the nominal value of TCZK 11 035 438 (as at 1/1/2017: TCZK 8 106 000). The Company reports an off-balance sheet receivable from derivative transactions in the nominal value of TCZK 11 038 238 (as at 1/1/2017: TCZK 8 106 000).

The Company reports off-balance sheet liability from guarantees provided to group companies totalling TCZK 531 391 (as at 1/1/2017: TCZK 1 039 653) and an accepted bank stand-by credit of TCZK 2 554 000 (as at 1/1/2017: TCZK 4 053 000).

22. Significant subsequent events

The Company's management is not aware of any events that have occurred subsequent to the balance sheet date that would have a material impact on the financial statements as at 31 December 2017.

Prepared on: 12 March 2018

Pavel Horský	Marek Spurný
Member of the Board of Directors	*Member of the Board of Directors*