

# **EP Energy, a.s.**

## **Condensed Consolidated Interim Financial Statements as of and for the three-month period ended 31 March 2017**

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

## Content

1.	Background.....	8
2.	Basis of preparation .....	10
3.	Seasonality of operations .....	14
4.	Operating segments.....	14
5.	Acquisitions and contributions of subsidiaries, special purpose entities, joint-ventures and associates .....	23
6.	Sales .....	25
7.	Cost of sales .....	25
8.	Personnel expenses .....	26
9.	Emission rights .....	26
10.	Other operating income.....	26
11.	Other operating expenses .....	26
12.	Finance income and expense, profit (loss) from financial instruments .....	27
13.	Income tax expenses .....	28
14.	Property, plant and equipment .....	28
15.	Intangible assets (including goodwill) .....	29
16.	Equity accounted investees .....	31
17.	Inventories .....	32
18.	Trade receivables and other assets .....	33
19.	Cash and cash equivalents.....	33
20.	Tax receivables .....	33
21.	Assets and liabilities held for sale .....	33
22.	Deferred tax assets and liabilities.....	33
23.	Equity.....	33
24.	Earnings per share.....	35
25.	Non-controlling interest .....	36
26.	Loans and borrowings.....	38
27.	Provisions.....	38
28.	Deferred income.....	39
29.	Financial instruments .....	40
30.	Trade payables and other liabilities.....	42
31.	Financial commitments and contingencies .....	43
32.	Related parties.....	44
33.	Group entities.....	45
34.	Litigations and claims .....	47
35.	Subsequent events .....	48

## Condensed consolidated interim statement of comprehensive income

For the three-month period ended 31 March 2017

In millions of EUR ("MEUR")

	Note	2017 (three months)	2016 (three months)
Sales: Energy	6	541	545
of which: Electricity		358	351
Heat		134	146
Gas		43	42
Coal		6	6
Sales: Other	6	5	11
Gain (loss) from commodity derivatives for trading with electricity and gas, net	6	(3)	(1)
<b>Total sales</b>		<b>543</b>	<b>555</b>
Cost of sales: Energy	7	(366)	(387)
Cost of sales: Other	7	(5)	(10)
<b>Total cost of sales</b>		<b>(371)</b>	<b>(397)</b>
<b>Subtotal</b>		<b>172</b>	<b>158</b>
Personnel expenses	8	(22)	(22)
Depreciation and amortisation	14, 15	(35)	(40)
Repairs and maintenance		(2)	(2)
Emission rights, net	9	(6)	(5)
Taxes and charges		(1)	(1)
Other operating income	10	13	9
Other operating expenses	11	(13)	(15)
<b>Profit (loss) from operations</b>		<b>106</b>	<b>82</b>
Finance income	12	-	9
Finance expense	12	(16)	(20)
Profit (loss) from financial instruments	12	3	(1)
<b>Net finance income (expense)</b>		<b>(13)</b>	<b>(12)</b>
Gain (loss) on disposal of subsidiaries, special purpose entities and associates	6	-	1
<b>Profit (loss) before income tax</b>		<b>93</b>	<b>71</b>
Income tax expenses	13	(21)	(17)
<b>Profit (loss) from continuing operations</b>		<b>72</b>	<b>54</b>
Profit (loss) from discontinued operations, net of tax		-	(12)
<b>Profit (loss) for the period</b>		<b>72</b>	<b>42</b>
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Foreign currency translation differences for foreign operations		1	1
Foreign currency translation differences from presentation currency		(2)	-
Effective portion of changes in fair value of cash flow hedges, net of tax		-	(13)
<b>Other comprehensive income for the period, net of tax</b>		<b>(1)</b>	<b>(12)</b>
<b>Total comprehensive income for the period</b>		<b>71</b>	<b>30</b>
<b>Profit (loss) attributable to:</b>			
<b>Owners of the Company</b>			
Profit for the period from continuing operations		49	39
Profit (loss) for the period from discontinued operations		-	(12)
Profit for the period attributable to owners of the company		<b>49</b>	<b>27</b>
<b>Non-controlling interest</b>			
Profit for the period from continuing operations		23	15
Profit for the period attributable to non-controlling interest		<b>23</b>	<b>15</b>
<b>Profit (loss) for the period</b>		<b>72</b>	<b>42</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		48	15
Non-controlling interest	25	23	15
<b>Total comprehensive income for the period</b>		<b>71</b>	<b>30</b>
<b>Basic and diluted earnings per share in EUR – continuing operations</b>	24	<b>2.51</b>	<b>1.99</b>
<b>Basic and diluted earnings per share in EUR</b>	24	<b>2.51</b>	<b>1.38</b>

The notes presented on pages 8 to 48 form an integral part of these condensed consolidated interim financial statements.

## Condensed consolidated interim statement of financial position

As of 31 March 2017

In millions of EUR ("MEUR")

	Note	31 March 2017	31 December 2016
<b>Assets</b>			
Property, plant and equipment	14	1,534	1,564
Intangible assets	15	46	59
Goodwill	15	98	98
Equity accounted investees	16	16	16
Financial instruments and other financial assets	29	6	6
<i>of which receivables from the parent company/ultimate parent company</i>		-	-
Trade receivables and other assets	18	7	13
Prepayments and other deferrals		-	1
<b>Total non-current assets</b>		<b>1,707</b>	<b>1,757</b>
Inventories	17	42	48
Trade receivables and other assets	18	323	295
Financial instruments and other financial assets	29	2	2
<i>of which receivables from the parent company/ultimate parent company</i>		-	-
Prepayments and other deferrals		5	3
Tax receivables	20	20	23
Cash and cash equivalents	19	530	464
Restricted cash		-	1
Assets/disposal groups held for sale	21	1	5
<b>Total current assets</b>		<b>923</b>	<b>841</b>
<b>Total assets</b>		<b>2,630</b>	<b>2,598</b>
<b>Equity</b>			
Share capital	23	505	505
Share premium		116	116
Reserves		(383)	(382)
Retained earnings		172	143
<b>Total equity attributable to equity holders</b>		<b>410</b>	<b>382</b>
Non-controlling interest	25	487	464
<b>Total equity</b>		<b>897</b>	<b>846</b>
<b>Liabilities</b>			
Loans and borrowings	26	1,130	1,140
<i>of which owed to the parent company/ultimate parent company</i>		-	-
Financial instruments and financial liabilities	29	9	11
Provisions	27	16	17
Deferred income	28	78	75
Deferred tax liabilities	22	163	167
Trade payables and other liabilities	30	1	2
<b>Total non-current liabilities</b>		<b>1,397</b>	<b>1,412</b>
Trade payables and other liabilities	30	251	270
Loans and borrowings	26	33	10
<i>of which owed to the parent company/ultimate parent company</i>		-	-
Financial instruments and financial liabilities	29	2	4
Provisions	27	16	31
Deferred income	28	22	21
Current income tax liability		12	3
Liabilities from disposal groups held for sale	21	-	1
<b>Total current liabilities</b>		<b>336</b>	<b>340</b>
<b>Total liabilities</b>		<b>1,733</b>	<b>1,752</b>
<b>Total equity and liabilities</b>		<b>2,630</b>	<b>2,598</b>

The notes presented on pages 8 to 48 form an integral part of these condensed consolidated interim financial statements.

## Condensed consolidated interim statement of changes in equity

For the three-month period ended 31 March 2017

<i>In millions of EUR ("MEUR")</i>	Share capital	Share premium	Other capital funds from capital contributions	Non-distributable reserves	Translation reserve	Attributable to owners of the Company			Retained earnings	Total	Non-controlling interest	Total Equity
						Fair value reserve	Other capital reserves	Hedging reserve				
<b>Balance at 1 January 2017 (A)</b>	<b>505</b>	<b>116</b>	<b>23</b>	<b>1</b>	<b>(35)</b>	<b>-</b>	<b>(320)</b>	<b>(51)</b>	<b>143</b>	<b>382</b>	<b>464</b>	<b>846</b>
<i>Total comprehensive income for the period:</i>												
<b>Profit or loss (B)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49</b>	<b>49</b>	<b>23</b>	<b>72</b>
<i>Other comprehensive income:</i>												
Foreign currency translation differences for foreign operations	-	-	-	-	1	-	-	-	-	1	-	1
Foreign currency translation differences for presentation currency	-	-	-	-	(2)	-	-	-	-	(2)	-	(2)
<b>Total other comprehensive income (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>(1)</b>
<b>Total comprehensive income for the period (D) = (B + C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49</b>	<b>48</b>	<b>23</b>	<b>71</b>
<i>Contributions by and distributions to owners:</i>												
Dividends to equity holders	-	-	-	-	-	-	-	-	(20)	(20)	-	(20)
<b>Total contributions by and distributions to owners (E)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(20)</b>	<b>(20)</b>	<b>-</b>	<b>(20)</b>
<b>Balance at 31 March 2017 (E) = (A + D)</b>	<b>505</b>	<b>116</b>	<b>23</b>	<b>1</b>	<b>(36)</b>	<b>-</b>	<b>(320)</b>	<b>(51)</b>	<b>172</b>	<b>410</b>	<b>487</b>	<b>897</b>

The notes presented on pages 8 to 48 form an integral part of these condensed consolidated interim financial statements.

**For the three-month period ended 31 March 2016**

<i>In millions of EUR ("MEUR")</i>	Share capital	Share premium	Other capital funds from capital contributions	Non-distributable reserves	Translation reserve	Attributable to owners of the Company Fair value reserve	Other capital reserves	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total Equity
<b>Balance at 1 January 2016 (A)</b>	<b>505</b>	<b>116</b>	<b>23</b>	<b>1</b>	<b>(14)</b>	<b>(14)</b>	<b>(320)</b>	<b>(54)</b>	<b>400</b>	<b>643</b>	<b>475</b>	<b>1,118</b>
<i>Total comprehensive income for the period:</i>												
<b>Profit or loss (B)</b>	-	-	-	-	-	-	-	-	27	27	15	42
<i>Other comprehensive income:</i>												
Foreign currency translation differences for foreign operations	-	-	-	-	1	-	-	-	-	1	-	1
Effective portion of changes in fair value of cash flow hedges, net of tax	-	-	-	-	-	-	-	(13)	-	(13)	-	(13)
<b>Total other comprehensive income (C)</b>	-	-	-	-	1	-	-	(13)	-	(12)	-	(12)
<b>Total comprehensive income for the period (D) = (B + C)</b>	-	-	-	-	1	-	-	(13)	27	15	15	30
<b>Balance at 31 March 2016 (H) = (A + D + G)</b>	<b>505</b>	<b>116</b>	<b>23</b>	<b>1</b>	<b>(13)</b>	<b>(14)</b>	<b>(320)</b>	<b>(67)</b>	<b>427</b>	<b>658</b>	<b>490</b>	<b>1,148</b>

The notes presented on pages 8 to 48 form an integral part of these condensed consolidated interim financial statements.

Condensed consolidated interim financial statements of EP Energy, a.s.  
as of and for the three-month period ended 31 March 2017

## Condensed consolidated interim statement of cash flows

For the three-month period ended 31 March 2017

In millions of EUR ("MEUR")

	Note	31 March 2017 (three months)	31 March 2016 (three months)
<b>OPERATING ACTIVITIES</b>			
Profit (loss) for the period		72	42
Adjustments for:			
Income taxes	13	21	17
Depreciation and amortisation	14, 15	35	40
Gain (loss) from commodity derivatives for trading with electricity and gas, net		5	1
Gain (loss) on disposal of property, plant and equipment, investment property and intangible assets	11	(7)	-
Emission rights	9	6	5
Gain on disposal of subsidiaries, special purpose entities, joint-ventures, associates and non-controlling interests	6	-	(1)
Gain on financial instruments	12	(3)	1
Net interest expense	12	15	7
Change in allowance for impairment to trade receivables and other assets, write-offs		1	1
Change in provisions		(5)	3
Other finance fees, net		1	-
Discontinued operations		-	12
Unrealised foreign exchange (gains)/losses, net		-	(8)
<b>Operating profit before changes in working capital</b>		<b>141</b>	<b>120</b>
Change in trade receivables and other assets		(26)	9
Change in inventories (including proceeds from sale)		6	1
Change in assets held for sale and related liabilities		3	19
Change in trade payables and other liabilities		(20)	(43)
Change in restricted cash		1	-
<b>Cash generated from (used in) operations</b>		<b>105</b>	<b>106</b>
Interest paid		-	(1)
Income taxes paid		(10)	(12)
<b>Cash flows generated from (used in) operating activities</b>		<b>95</b>	<b>93</b>
<b>INVESTING ACTIVITIES</b>			
Change in financial instruments not at fair value		(2)	1
Loans provided to other entities		-	(1)
Repayment of loans provided to other entities		-	1
Proceeds from sale of financial instruments – derivatives		(6)	(3)
Acquisition of property, plant and equipment and intangible assets	14, 15	(8)	(14)
Purchase of emission rights		(2)	(1)
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		12	3
Net cash inflow from disposal of subsidiaries and special purpose entities including received dividends		-	1
Interest received		-	10
<b>Cash flows from (used in) investing activities</b>		<b>(6)</b>	<b>(3)</b>
<b>FINANCING ACTIVITIES</b>			
Repayment of borrowings		(3)	(21)
Dividends paid		(20)	-
<b>Cash flows from (used in) financing activities</b>		<b>(23)</b>	<b>(21)</b>
<i>Net increase (decrease) in cash and cash equivalents</i>		66	69
<b>Cash and cash equivalents at beginning of the period</b>		<b>464</b>	<b>132</b>
Effect of exchange rate fluctuations on cash held		-	-
<b>Cash and cash equivalents at end of the period</b>		<b>530</b>	<b>201</b>

The notes presented on pages 8 to 48 form an integral part of these condensed consolidated interim financial statements.

## Notes to the condensed consolidated interim 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, Josefov, 110 00 Praha 1, Czech Republic. The Company was founded by Energetický a průmyslový holding, a.s. (“EPH”) on 16 December 2010 as a subsidiary that will hold/consolidate investments in entities belonging to the energy segment of Energetický a průmyslový holding, a.s. and its subsidiaries (the “EPH Group”).

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

The share capital 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.<sup>(2)</sup>, AISE, s.r.o., První energetická a.s.<sup>(1)</sup>, Czech Energy Holding, a.s.<sup>(2)</sup>, Plzeňská energetika a.s., ROLLEON a.s., EP Renewables a.s. (previously Czech Wind Holding, a.s.) and HC Fin3 N.V.<sup>(2)</sup>

On 26 August 2013 the share capital of EPE increased by a cash contribution of EUR 1 million based on a decision of the Company’s shareholder.

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

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

On 18 December 2013 the shareholder of the Company decided to increase share capital by EUR 4 million which was settled by a contribution of EPH Financing II, a.s. and a receivable relating to a shareholder loan used to co-finance the acquisition of a 49% share (associated with a management control) in Stredoslovenská energetika, a.s. As a result of this transaction the Company also recorded a share premium of EUR 116 million.

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

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

The condensed consolidated interim financial statements of the Company for the three-month period ended 31 March 2017 include the statements of the Parent Company and its subsidiaries and the Group’s interests in associates (together referred to as the “Group” or the “EPE Group”). The Group entities are listed in Note 33 – Group entities.

(1) *První energetická a.s. merged with EP ENERGY TRADING, a.s. as of 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 of 4 November 2013. EP Energy, a.s. is the successor company.*



The shareholder of the Company as of 31 March 2017 was as follows:

	Interest in share capital		Voting rights
	MEUR	%	%
EP Infrastructure, a.s.	505	100.00	100.00
<b>Total</b>	<b>505</b>	<b>100.00</b>	<b>100.00</b>

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

	Interest in share capital		Voting rights
	MEUR	%	%
EP Infrastructure, a.s.	505	100.00	100.00
<b>Total</b>	<b>505</b>	<b>100.00</b>	<b>100.00</b>

The shareholders of Energetický a průmyslový holding, a.s., the parent company of EP Infrastructure, a.s. and ultimate parent of EP Energy, a.s. as of 31 March 2017 and 31 December 2016 were as follows:

	Interest in share capital %		Voting rights %	
	31 March 2017	31 December 2016	31 March 2017	31 December 2016
BIQUES LIMITED (part of J&T PARTNERS I L.P.)	-	25.66	-	25.66
EP Investment S.à r.l. (owned by Daniel Křetínský)	37.10	37.17	53.00	37.17
MILEES LIMITED (part of J&T PARTNERS II L.P.)	-	37.17	-	37.17
EP Investment II S.à r.l.	32.90	-	47.00	-
Own shares <sup>(1)</sup>	30.00	-	-	-
<b>Total</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>

(1) The shareholders of EPH concluded a series of transactions, through which Daniel Křetínský and selected members of the existing management of EPH will become sole owners of EPH. In the first phase of transaction the shareholders Biques Limited (25.67%), Milees Limited (2.17%) and EP Investment S.à r.l. (2.17%) sold their shares in EPH representing in aggregate 30% of EPH share capital. In the second phase, Milees Limited sold remaining shares (35%) to EP Investment S.à r.l. (2.1%) and EP Investment II S.à r.l. (32.9%). After the transaction is completed and own shares are cancelled, Daniel Křetínský (94%) and selected members of management of EPH (6%) will become sole owners of EPH

The members of the Board of Directors as of 31 March 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 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 parent Energetický a průmyslový holding, a.s. under the common control principle, the Company opted to restate its comparatives, i.e. reported the entities contributed to the share capital of the Company as of 16 December 2010 as if contributed by the parent company on the date when the respective entities were acquired by the EPH Group or were contributed to the EPH Group.

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

acquired or contributed by the parent company was presented as a pricing difference in Other capital reserves in Equity.

## **2. Basis of preparation**

### **(a) Statement of compliance**

These condensed consolidated interim financial statements have been prepared in accordance with international accounting standards (International Accounting Standards – IAS and International Financial Reporting Standards – IFRS), specifically IAS 34 Interim Financial Reporting issued by International Accounting Standards Board (IASB), as adopted by the European Union. These statements do not include all the information required for a complete set of IFRS financial statements, and should be read in conjunction with the consolidated financial statements of the EPE Group as of and for the year ended 31 December 2016.

These condensed consolidated interim financial statements were approved by the Board of Directors on 30 May 2017.

### **(b) Critical accounting estimates and assumptions**

The preparation of condensed consolidated interim financial statements in accordance with International Financial Reporting Standards requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise judgement 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.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements as of and for the year ended 31 December 2016.

### **(c) Changes in accounting policies**

There were no changes in the accounting policies applied in these condensed consolidated interim financial statements. The accounting policies used are the same as those applied in the Group's consolidated financial statements as of and for the year ended 31 December 2016.

### **(d) 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 and thus have not been adopted by the Group:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The standard IFRS 16 will replace the earlier leasing standard, IAS 17. A primary principle of IFRS 16 is that all leases should be reported on the balance sheet, although there are exceptions for small items and for leases with a term of less than 12 months. For lessors, however, the accounting remains largely unchanged and the distinction between operating and finance leases is retained.

Under IFRS 16, a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other nonfinancial assets and depreciated accordingly, and the liability accrues interest. The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if this rate can be readily determined. If the rate cannot be readily determined, the lessee's incremental borrowing rate should be used.

Like IAS 17, IFRS 16 requires lessors to classify leases as operating or finance leases. A lease is classified as a finance lease if it transfers substantially all the risks and rewards of ownership of an underlying asset. Otherwise, the lease is classified as an operating lease.

The new standard increases the disclosure burden for lessees and lessors.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**(e) Basis of preparation**

The condensed consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial instruments, financial assets and liabilities at fair value through profit or loss and available for sale.

**(f) Foreign exchange rates used in the condensed consolidated interim financial statements**

The following exchange rates were used during translations of the assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, that 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.

These condensed consolidated interim 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.

<b>Date</b>	<b>Closing exchange rate CZK/EUR</b>	<b>Average exchange rate CZK/EUR for the 3-month (12-month) period</b>
31 March 2017	27.030	27.020
31 December 2016	27.020	27.033
31 March 2016	27.055	27.039

### 3. Seasonality of operations

The seasonal character of sales revenues in the heat generation industry is affected by the climate of the temperate climatic zone. The heating season generally runs from the beginning of September to the end of May the next year. The length of the heating season differs year to year depending on the average day temperature and weather conditions, and as such, period to period comparability of heat revenues and associated expenses is limited.

### 4. Operating segments

The Group operates in six reportable segments: Mining, Heat Infra, Renewables, Power Distribution and Supply, Holding and Other. Heat Infra and Power Distribution and Supply are the core segments of the Group. Mining segment was classified as discontinued operation in 2015 (valid also for the three-month period ended 31 March 2016).

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

#### *i. Mining (discontinued)*

The Mining segment, represented by Mitteldeutsche Braunkohlengesellschaft GmbH (MIBRAG), produces brown coal, which it supplies to power plants under long-term supply agreements. The two biggest customers – the Lippendorf and Schkopau-power plants – are highly efficient, state-of-the-art power plants operating in base load and are well positioned in the German power merit order. This segment was classified as discontinued operation in 2015 and during 2016 was disposed off.

#### *ii. Heat Infra*

The Heat Infra segment owns and operates four large-scale combined heat and power plants (CHPs) in the Czech Republic primarily operated in highly efficient co-generation mode and represented primarily by: Elektrárny Opatovice, a.s., United Energy, a.s., Plzeňská energetika a.s. and Pražská teplárenská a.s., which is operating the largest district heating system in the Czech Republic, supplying heat to the City of Prague, and three CHPs in Hungary, represented by Budapesti Erőmű Zrt., which is supplying the City of Budapest. The heat generated in its co-generation power plants is supplied mainly to retail customers through well maintained and robust district heating systems that the EPE Group owns in most of the cases. Czech based heat supply is regulated in a way of cost plus a reasonable profit margin while the Hungarian operations are regulated using the standard Regulated Asset Base ("RAB") multiplied by WACC plus eligible operating expenditures and allowed depreciation formula.

The segment also includes Saale Energie GmbH purchased in 2012, which owns 41.9% of the Schkopau-power plant representing a beneficial use right over 400MW of the plant's total capacity of 900MW. In December 2013, the EPE Group acquired a 100% share in Helmstedter Revier GmbH which operates a condensation mode power plant in Lippendorf with an installed capacity of 390MW. These entities were classified as discontinued operations in 2015 and during 2016 were disposed off.

#### *iii. Renewables*

The Renewables segment owns and operates three solar power plants and holds a minority interest in an additional solar power plant and a majority interest in one wind farm in the Czech Republic. The Group also owns two solar power plants in Slovakia, a biogas facility in Slovakia and one wind farm in Germany at MIBRAG, which was classified as discontinued operation in 2015 and during 2016 was disposed off.

***iv. Power Distribution and Supply***

The Power Distribution and Supply segment consists of a Power Distribution division and a Supply division. The Supply division supplies power and natural gas to end-consumers in the Czech Republic and Slovakia. The Power Distribution division purchases and sells in the wholesale market power generated by the Heat Infra segment and purchases from external sources and purchases electricity and natural gas to supply customers through the Supply division. In addition, this segment distributes electricity in the central Slovakia region. This segment is mainly represented by Stredoslovenská energetika Group, EP Sourcing, a.s., EP Cargo a.s. and EP ENERGY TRADING, a.s.

SSE-Distribúcia, which provides distribution of natural gas and power, is required by law to provide non-discriminatory access to the distribution network. Prices are subject to the review and approval of Energy Regulatory Authority ("RONI"). Entity operates under similar regulatory frameworks whereby allowed revenues are based on the RAB multiplied by the allowed regulatory WACC plus eligible operating expenditures and allowed depreciation in line with regulatory frameworks in other European countries. All key tariff parameters are set for a given regulatory period of five years.

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

***v. Other***

The segment Other consists of minor operations not fitting to the key segments of the EPE Group.

***vi. 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.

Notes to the condensed consolidated interim financial statements of EP Energy, a.s. as of and for the three-month period ended 31 March 2017

## Profit or loss

### For the three-month period ended 31 March 2017

<i>In millions of EUR</i>	Heat Infra	Power Distribution and Supply	Renewables	Other	Total segments	Holding	Inter-segment eliminations	Consolidated Financial Information
Sales: Energy	208	382	1	-	591	-	(50)	541
<i>external revenues</i>	178	362	1	-	541	-	-	541
<i>inter-segment revenues</i>	30	20	-	-	50	-	(50)	-
Sales: Other	3	2	-	-	5	-	-	5
<i>external revenues</i>	3	2	-	-	5	-	-	5
Gain (loss) from commodity derivatives from trading with electricity and gas, net	-	(3)	-	-	(3)	-	-	(3)
<b>Total sales</b>	<b>211</b>	<b>381</b>	<b>1</b>	<b>-</b>	<b>593</b>	<b>-</b>	<b>(50)</b>	<b>543</b>
Cost of sales: Energy	(114)	(284)	-	-	(398)	-	32	(366)
<i>external cost of sales</i>	(113)	(253)	-	-	(366)	-	-	(366)
<i>inter-segment cost of sales</i>	(1)	(31)	-	-	(32)	-	32	-
Cost of sales: Other	(4)	(14)	-	-	(18)	-	13	(5)
<i>external cost of sales</i>	(4)	(1)	-	-	(5)	-	-	(5)
<i>inter-segment cost of sales</i>	-	(13)	-	-	(13)	-	13	-
Personnel expenses	(12)	(10)	-	-	(22)	-	-	(22)
Depreciation and amortisation	(19)	(15)	(1)	-	(35)	-	-	(35)
Repairs and maintenance	(1)	(1)	-	-	(2)	-	-	(2)
Emission rights, net	(6)	-	-	-	(6)	-	-	(6)
Taxes and charges	(1)	-	-	-	(1)	-	-	(1)
Other operating income	10	1	-	-	11	-	2	13
Other operating expenses	(7)	(9)	-	-	(16)	-	3	(13)
<b>Operating profit</b>	<b>57</b>	<b>49</b>	<b>-</b>	<b>-</b>	<b>106</b>	<b>-</b>	<b>-</b>	<b>106</b>
Finance income	-	-	-	-	-	5	(5)	-
<i>external finance revenues</i>	-	-	-	-	-	-	-	-
<i>inter-segment finance revenues</i>	-	-	-	-	-	5	(5)	-
Finance expense	(4)	(1)	-	-	(5)	(15)	4	(16)
Profit (loss) from derivative financial instruments	2	-	-	-	2	1	-	3
<b>Profit (loss) before income tax</b>	<b>55</b>	<b>48</b>	<b>-</b>	<b>-</b>	<b>103</b>	<b>(9)</b>	<b>(1)</b>	<b>93</b>
Income tax expenses	(10)	(10)	-	-	(20)	(1)	-	(21)
<b>Profit for the continuing operations</b>	<b>45</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>83</b>	<b>(10)</b>	<b>(1)</b>	<b>72</b>
Discontinued operations	-	-	-	-	-	-	-	-
<b>Profit (loss) for the period</b>	<b>45</b>	<b>38</b>	<b>-</b>	<b>-</b>	<b>83</b>	<b>(10)</b>	<b>(1)</b>	<b>72</b>
<b>Other financial information:</b>								
Adjusted EBITDA <sup>(1)</sup>	76	64	1	-	141	-	-	141

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



Notes to the condensed consolidated interim financial statements of EP Energy, a.s. as of and for the three-month period ended 31 March 2017

**For the three-month period ended 31 March 2016**

<i>In millions of EUR</i>	<b>Mining (discontinued)</b>	<b>Heat Infra</b>	<b>Power Distribution and Supply</b>	<b>Renewables</b>	<b>Other</b>	<b>Total segments</b>	<b>Holding</b>	<b>Inter- segment eliminations</b>	<b>Consolidated Financial Information</b>
Sales: Energy	-	202	379	1	-	582	-	(37)	545
<i>external revenues</i>	-	186	358	1	-	545	-	-	545
<i>inter-segment revenues</i>	-	16	21	-	-	37	-	(37)	-
Sales: Other	-	3	7	-	1	11	-	-	11
<i>external revenues</i>	-	3	7	-	1	11	-	-	11
<i>inter-segment revenues</i>	-	-	-	-	-	-	-	-	-
Gain (loss) from commodity derivatives from trading with electricity and gas, net	-	-	(1)	-	-	(1)	-	-	(1)
<b>Total sales</b>	-	<b>205</b>	<b>385</b>	<b>1</b>	<b>1</b>	<b>592</b>	-	<b>(37)</b>	<b>555</b>
Cost of sales: Energy	-	(107)	(304)	-	-	(411)	-	24	(387)
<i>external cost of sales</i>	-	(99)	(288)	-	-	(387)	-	-	(387)
<i>inter-segment cost of sales</i>	-	(8)	(16)	-	-	(24)	-	24	-
Cost of sales: Other	-	(4)	(17)	-	-	(21)	-	11	(10)
<i>external cost of sales</i>	-	(4)	(6)	-	-	(10)	-	-	(10)
<i>inter-segment cost of sales</i>	-	-	(11)	-	-	(11)	-	11	-
Personnel expenses	-	(13)	(8)	-	-	(21)	(1)	-	(22)
Depreciation and amortisation	-	(21)	(18)	(1)	-	(40)	-	-	(40)
Repairs and maintenance	-	(2)	-	-	-	(2)	-	-	(2)
Emission rights, net	-	(5)	-	-	-	(5)	-	-	(5)
Taxes and charges	-	(1)	-	-	-	(1)	-	-	(1)
Other operating income	-	4	5	-	-	9	-	-	9
Other operating expenses	-	(4)	(12)	-	-	(16)	-	1	(15)
<b>Operating profit</b>	-	<b>52</b>	<b>31</b>	-	<b>1</b>	<b>84</b>	<b>(1)</b>	<b>(1)</b>	<b>82</b>

Notes to the condensed consolidated interim financial statements of EP Energy, a.s. as of and for the three-month period ended 31 March 2017

	Mining (discontinued)	Heat Infra	Power Distribution and Supply	Renewables	Other	Total segments	Holding	Inter- segment eliminations	Consolidated Financial Information
Finance income	-	-	-	-	-	-	14	(5)	9
<i>external finance revenues</i>	-	-	-	-	-	-	9	-	9
<i>inter-segment finance revenues</i>	-	-	-	-	-	-	5	(5)	-
Finance expense	-	(4)	(2)	-	-	(6)	(20)	6	(20)
Profit (loss) from derivative financial instruments	-	(2)	-	-	-	(2)	1	-	(1)
Gain (loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-	1	-	-	1	-	-	1
<b>Profit (loss) before income tax</b>	-	<b>46</b>	<b>30</b>	-	<b>1</b>	<b>77</b>	<b>(6)</b>	-	<b>71</b>
Income tax expenses	-	(11)	(7)	-	-	(18)	1	-	(17)
<b>Profit for the continuing operation</b>	-	<b>35</b>	<b>23</b>	-	<b>1</b>	<b>59</b>	<b>(5)</b>	-	<b>54</b>
Discontinued operations	(7)	(5)	-	-	-	(12)	-	-	(12)
<b>Profit (loss) for the period</b>	<b>(7)</b>	<b>30</b>	<b>23</b>	-	<b>1</b>	<b>47</b>	<b>(5)</b>	-	<b>42</b>

**Other financial information:**

Adjusted EBITDA <sup>(1)</sup>	-	73	49	1	1	124	(1)	(1)	122
--------------------------------	---	----	----	---	---	-----	-----	-----	-----

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

Notes to the condensed consolidated interim financial statements of EP Energy, a.s. as of and for the three-month period ended 31 March 2017

#### Adjusted EBITDA reconciliation to the closest IFRS measure

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

#### For the period ended 31 March 2017

*In millions of EUR*

	Heat Infra	Power distribution and supply	Renewables	Other	Total segments	Holding	Inter- segment eliminations	Consolidated financial information
<b>Profit from operations</b>	<b>57</b>	<b>49</b>	<b>-</b>	<b>-</b>	<b>106</b>	<b>-</b>	<b>-</b>	<b>106</b>
Depreciation and amortisation	19	15	1	-	35	-	-	35
<b>Adjusted EBITDA</b>	<b>76</b>	<b>64</b>	<b>1</b>	<b>-</b>	<b>141</b>	<b>-</b>	<b>-</b>	<b>141</b>

#### For the period ended 31 March 2016

*In millions of EUR*

	Heat Infra	Power distribution and supply	Renewables	Other	Total segments	Holding	Inter- segment eliminations	Consolidated financial information
<b>Profit from operations</b>	<b>52</b>	<b>31</b>	<b>-</b>	<b>1</b>	<b>84</b>	<b>(1)</b>	<b>(1)</b>	<b>82</b>
Depreciation and amortisation	21	18	1	-	40	-	-	40
<b>Adjusted EBITDA</b>	<b>73</b>	<b>49</b>	<b>1</b>	<b>1</b>	<b>124</b>	<b>(1)</b>	<b>(1)</b>	<b>122</b>

Notes to the condensed consolidated interim financial statements of EP Energy, a.s. as of and for the three-month period ended 31 March 2017

## Non-current assets and liabilities

### As of and for the period ended 31 March 2017

<i>In millions of EUR</i>	<b>Heat Infra</b>	<b>Power Distribution and Supply</b>	<b>Renewables</b>	<b>Other</b>	<b>Total segments</b>	<b>Holding</b>	<b>Inter- segment eliminations</b>	<b>Consolidate d Financial Information</b>
Reportable segment assets	1,087	1,239	37	3	2,366	835	(571)	2,630
Reportable segment liabilities	(540)	(407)	(45)	-	(992)	(1,311)	570	(1,733)
Additions to tangible and intangible assets <sup>(1)</sup>	11	6	-	-	17	-	-	17
Additions to tangible and intangible assets (excl. emission rights)	2	6	-	-	8	-	-	8
Equity accounted investees	14	2	-	-	16	-	-	16

1) *This balance includes additions to emission rights*

### As of and for the year ended 31 December 2016

<i>In millions of EUR</i>	<b>Heat Infra</b>	<b>Power Distribution and Supply</b>	<b>Renewables</b>	<b>Other</b>	<b>Total segments</b>	<b>Holding</b>	<b>Inter- segment eliminations</b>	<b>Consolidated Financial Information</b>
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 <sup>(1)</sup>	82	62	-	-	144	-	-	144
Additions to tangible and intangible assets (excl. emission rights)	64	62	-	-	126	-	-	126
Equity accounted investees	14	2	-	-	16	-	-	16

1) *This balance includes additions to emission rights*

### Information about geographical areas

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

#### As of and for the period ended 31 March 2017

*In millions of EUR*

	<b>Czech Republic</b>	<b>Slovakia</b>	<b>Hungary</b>	<b>Total segments</b>	<b>Consolidated Financial Information</b>
Property, plant and equipment	652	840	42	1,534	1,534
Intangible assets	118	20	6	144	144
<b>Total</b>	<b>770</b>	<b>860</b>	<b>48</b>	<b>1,678</b>	<b>1,678</b>

*In millions of EUR*

	<b>Czech Republic</b>	<b>Slovakia</b>	<b>Hungary</b>	<b>Other</b>	<b>Total segments</b>	<b>Consolidated Financial Information</b>
Sales: Electricity	88	217	35	18	358	358
Sales: Heat	106	-	28	-	134	134
Sales: Gas	26	17	-	-	43	43
Sales: Coal	6	-	-	-	6	6
Sales: Other	5	-	-	-	5	5
Gain (loss) from commodity derivatives from trading with electricity and gas, net	(3)	-	-	-	(3)	(3)
<b>Total</b>	<b>228</b>	<b>234</b>	<b>63</b>	<b>18</b>	<b>543</b>	<b>543</b>

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

Notes to the condensed consolidated interim financial statements of EP Energy, a.s. as of and for the three-month period ended 31 March 2017

**For the year ended 31 December 2016**

*In millions of EUR*

	<b>Czech Republic</b>	<b>Slovakia</b>	<b>Hungary</b>	<b>Total segments</b>	<b>Consolidated Financial Information</b>
Property, plant and equipment	672	848	44	1,564	1,564
Intangible assets	132	21	4	157	157
<b>Total</b>	<b>804</b>	<b>869</b>	<b>48</b>	<b>1,721</b>	<b>1,721</b>

**For the period ended 31 March 2016**

*In millions of EUR*

	<b>Czech Republic</b>	<b>Slovakia</b>	<b>Hungary</b>	<b>Other</b>	<b>Total segments</b>	<b>Consolidated Financial Information</b>
Sales: Electricity	79	215	34	23	351	351
Sales: Heat	116	-	30	-	146	146
Sales: Coal	35	4	-	3	42	42
Sales: Gas	4	-	-	2	6	6
Sales: Other	7	1	-	3	11	11
Gain (loss) from commodity derivatives from trading with electricity and gas, net	(1)	-	-	-	(1)	(1)
<b>Total</b>	<b>240</b>	<b>220</b>	<b>64</b>	<b>31</b>	<b>555</b>	<b>555</b>

The geographical area "Other" comprises income items primarily from Poland and Luxemburg.

## 5. 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 condensed consolidated interim financial statements, the contributions by the parent company are presented using one of the following two methods:

1. If the contributed entities were previously acquired by the parent company Energetický a průmyslový holding, a.s. under the scope of IFRS 3, the Company presents the contributed entities in its consolidated financial statements under the scope of IFRS 3 from the original date of acquisition by the parent company Energetický a průmyslový holding, a.s. From the view of the EPE Group consolidated financial statements, these transactions are reflected as if carried out directly by the Company, including all goodwill or negative goodwill impacts. The difference between the value contributed to the statutory share capital of the Company as determined by the independent valuation specialist, and net book value (including fair value adjustments as part of the net book value in EPH's consolidated financial statements) of the contributed entity in EPH's consolidated financial statement as of 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.<sup>(3)</sup> and its subsidiary (acquired by EPH on 6 October 2009)
  - f. HC Fin3 N.V.<sup>(2)</sup> (acquired by EPH on 16 March 2010) including:
    - (a) EAST BOHEMIA ENERGY HOLDING LIMITED<sup>(2)</sup> and its subsidiaries (acquired by EPH on 31 December 2010)
    - (b) LIGNITE INVESTMENTS 1 LIMITED<sup>(2)</sup> 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 of 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.<sup>(2)</sup> and its subsidiaries and associate (acquired by EPH on 6 October 2009)
  - b. Honor Invest, a.s.<sup>(2)</sup> and its associate Pražská energetika, a.s. (acquired by EPH on 10 August 2009)
  - c. První energetická a.s.<sup>(1)</sup> (acquired by EPH on 6 October 2009)

(1) *První energetická a.s. merged with EP ENERGY TRADING, a.s. as of 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 of 4 November 2013. EP Energy, a.s. is the successor company.*

(3) *ROLLEON a.s. and its subsidiary were disposed by the Group as of 2 December 2015.*

**(a) Acquisitions**

**i. 31 March 2017**

There were no acquisitions or step-acquisitions in the period from 1 January 2017 to 31 March 2017.

**ii. 31 December 2016**

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

**(b) Effect of acquisitions**

There were no acquisitions or step-acquisitions in the period from 1 January 2017 to 31 March 2017 nor in 2016.

**(c) Disposal of investments in 2017 and 2016**

**i. 31 March 2017**

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

**ii. 31 December 2016**

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

*In millions of EUR*

	<b>Date of disposal</b>	<b>Sales price</b>	<b>Equity interest disposed</b>	<b>Equity interest after disposal</b>
			<b>%</b>	<b>%</b>
<b>Subsidiaries disposed</b>				
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	-
<b>Total</b>		<b>249</b>	<b>-</b>	<b>-</b>

\* 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*

	<b>Net assets sold in 2016</b>
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)
<b>Net identifiable assets and liabilities</b>	<b>39</b>
Non-controlling interest	(9)
<b>Net assets value disposed</b>	<b>30</b>
Sales price	93
<b>Gain (loss) on disposal</b>	<b>63</b>



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

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

(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.

## 6. Sales

<i>In millions of EUR</i>	<b>31 March 2017 (three months)</b>	<b>31 March 2016 (three months)</b>
<b>Sales: Energy</b>		
Electricity	358	351
Heat	134	146
Gas	43	42
Coal	6	6
<b>Total Energy</b>	<b>541</b>	<b>545</b>
<b>Sales: Other</b>	<b>5</b>	<b>11</b>
<b>Gain (loss) from commodity derivatives for trading with electricity and gas, net</b>	<b>(3)</b>	<b>(1)</b>
<b>Total</b>	<b>543</b>	<b>555</b>

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

## 7. Cost of sales

<i>In millions of EUR</i>	<b>31 March 2017 (three months)</b>	<b>31 March 2016 (three months)</b>
<b>Cost of Sales: Energy</b>		
Cost of sold electricity	207	237
Cost of sold/consumed gas and other energy products	86	88
Consumption of energy	36	35
Cost of coal and other material	34	25
Other cost of sales	3	2
<b>Total Energy</b>	<b>366</b>	<b>387</b>
<b>Cost of Sales: Other</b>		
Cost of goods sold	2	6
Consumption of material	1	1
Consumption of energy	1	1
Changes in WIP, semi-finished products and finished goods	-	(1)
Other cost of sales	1	3
<b>Total Other</b>	<b>5</b>	<b>10</b>
<b>Total</b>	<b>371</b>	<b>397</b>

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.).

## 8. Personnel expenses

<i>In millions of EUR</i>	<b>31 March 2017 (three months)</b>	<b>31 March 2016 (three months)</b>
Wages and salaries	15	15
Compulsory social security contributions	5	5
Board members' remuneration (including boards of subsidiaries)	1	1
Other social expenses	1	1
<b>Total</b>	<b>22</b>	<b>22</b>

The average number of employees in the three-month period ended 31 March 2017 was 3,767 (31 March 2016: 3,883), of which 97 (31 March 2016: 109) were executives.

## 9. Emission rights

<i>In millions of EUR</i>	<b>31 March 2017 (three months)</b>	<b>31 March 2016 (three months)</b>
Deferred income (grant) released to profit and loss	3	2
Creation of provision for emission rights	(9)	(7)
Use of provision for emission rights	20	17
Consumption of emission rights	(20)	(17)
<b>Total</b>	<b>(6)</b>	<b>(5)</b>

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 which represent the right to emit a specific amount of pollutant. The total amount of allowances and credits cannot exceed the cap, limiting total emissions to that level. Companies that need to increase their emission 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 Erőmű Zrt.

## 10. Other operating income

<i>In millions of EUR</i>	<b>31 March 2017 (three months)</b>	<b>31 March 2016 (three months)</b>
Property acquired free-of-charge and fees from customers	1	3
Consulting fees	1	2
Rental income	1	1
Compensation from insurance and other companies	1	1
Profit from disposal of tangible and intangible assets	(1) <sup>7</sup>	-
Contractual penalties	-	1
Other	2	1
<b>Total</b>	<b>13</b>	<b>9</b>

(1) Profit from disposal of tangible and intangible assets includes profit from sale of Nový Veleslavín, a.s. (holding a land plot and a not utilized building) in amount of EUR 6 million.

## 11. Other operating expenses

<i>In millions of EUR</i>	<b>31 March 2017 (three months)</b>	<b>31 March 2016 (three months)</b>
Contractual penalties	<sup>(1)</sup> 4	-
Outsourcing and other administration fees	2	2
Rent expenses	2	2
Office equipment and other material	2	2
Information technology costs	1	2
Consulting expenses	1	1
Impairment losses/reversals	1	1
Transport expenses	1	1
Change in provisions, net	(2)	3
Insurance expenses	-	1
Advertising expenses	-	-
Own work, capitalised	(2)	(1)
Other	3	1
<b>Total</b>	<b>13</b>	<b>15</b>

(1) Contractual penalties include penalty in the amount of EUR 4 million by ERO (see Note 34).

No research and development expenses were recognised in profit and loss for the three-month period ended 31 March 2017 and 31 March 2016.

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

### Recognised in profit or loss

<i>In millions of EUR</i>	<b>31 March 2017 (three months)</b>	<b>31 March 2016 (three months)</b>
Interest income	-	9
<b>Finance income</b>	<b>-</b>	<b>9</b>
Interest expense	(15)	(16)
Fees and commissions expense for other services	(1)	-
Net foreign exchange profit (loss)	-	(4)
<b>Finance costs</b>	<b>(16)</b>	<b>(20)</b>
Profit (loss) profit from interest rate derivatives for trading	1	-
Profit (loss) from cash flows hedge	2	-
Profit (loss) profit from currency derivatives for trading	-	1
Profit (loss) from financial assets at fair value	-	2
Profit (loss) from sale/settlement of assets at fair value	-	(4)
<b>Profit (loss) from financial instruments</b>	<b>3</b>	<b>(1)</b>
<b>Net finance (expense) recognised in profit or loss</b>	<b>(13)</b>	<b>(12)</b>

### 13. Income tax expenses

#### Income taxes recognised in profit or loss

*In millions of EUR*

	31 March 2017 (three months)	31 March 2016 (three months)
<i>Current taxes:</i>		
Current period	(24)	(20)
<b>Total current taxes</b>	<b>(24)</b>	<b>(20)</b>
<i>Deferred taxes:</i>		
Origination and reversal of temporary differences	3	3
<b>Total deferred taxes</b>	<b>3</b>	<b>3</b>
<b>Total income taxes (expense)/benefit recognised in profit or loss</b>	<b>(21)</b>	<b>(17)</b>

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 special sector tax effective in Slovakia and Hungary.

### 14. Property, plant and equipment

*In millions of EUR*

	Land and buildings	Technical equipment, plant and machinery	Other equipment, fixtures and fittings	Under construction	Total
<b>Cost</b>					
<b>Balance at 1 January 2017</b>	<b>1,379</b>	<b>856</b>	<b>5</b>	<b>33</b>	<b>2,273</b>
Additions	-	-	-	8	8
Disposals	(1)	(5)	-	-	(6)
Transfers	1	1	-	(2)	-
<b>Balance at 31 March 2017</b>	<b>1,379</b>	<b>852</b>	<b>5</b>	<b>39</b>	<b>2,275</b>
<b>Depreciation and impairment losses</b>					
<b>Balance at 1 January 2017</b>	<b>(376)</b>	<b>(327)</b>	<b>(2)</b>	<b>(4)</b>	<b>(709)</b>
Depreciation charge for the period	(18)	(15)	-	-	(33)
Disposals	-	1	-	-	1
<b>Balance at 31 March 2017</b>	<b>(394)</b>	<b>(341)</b>	<b>(2)</b>	<b>(4)</b>	<b>(741)</b>
<b>Carrying amounts</b>					
<b>At 1 January 2017</b>	<b>1,003</b>	<b>529</b>	<b>3</b>	<b>29</b>	<b>1,564</b>
<b>At 31 March 2017</b>	<b>985</b>	<b>511</b>	<b>3</b>	<b>35</b>	<b>1,534</b>

Notes to the condensed consolidated interim financial statements of EP Energy, a.s. as of and for the three-month period ended 31 March 2017

<i>In millions of EUR</i>	<b>Land and buildings</b>	<b>Technical equipment, plant and machinery</b>	<b>Other equipment, fixtures and fittings</b>	<b>Under construction</b>	<b>Total</b>
<b>Cost</b>					
<b>Balance at 1 January 2016</b>	<b>1,352</b>	<b>761</b>	<b>6</b>	<b>67</b>	<b>2,186</b>
Additions	1	3	-	9	13
Disposals	-	(3)	-	(2)	(5)
<b>Balance at 31 March 2016</b>	<b>1,353</b>	<b>761</b>	<b>6</b>	<b>74</b>	<b>2,194</b>
<b>Depreciation and impairment losses</b>					
<b>Balance at 1 January 2016</b>	<b>(307)</b>	<b>(266)</b>	<b>(1)</b>	<b>(6)</b>	<b>(580)</b>
Depreciation charge for the period	(21)	(16)	-	-	(37)
Disposals	-	2	-	-	2
<b>Balance at 31 March 2016</b>	<b>(328)</b>	<b>(280)</b>	<b>(1)</b>	<b>(6)</b>	<b>(615)</b>
<b>Carrying amounts</b>					
<b>At 1 January 2016</b>	<b>1,045</b>	<b>495</b>	<b>5</b>	<b>61</b>	<b>1,606</b>
<b>At 31 March 2016</b>	<b>1,025</b>	<b>481</b>	<b>5</b>	<b>68</b>	<b>1,579</b>

#### **Idle assets**

As of 31 March 2017 and as of 31 December 2016 the Group had no significant idle assets.

#### **Finance lease liabilities**

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

#### **Security**

As of 31 March 2017 property, plant and equipment with a carrying value of EUR 383 million (31 December 2016: EUR 395 million) is subject to pledges to secure bank loans.

## **15. Intangible assets (including goodwill)**

<i>In millions of EUR</i>	<b>Goodwill</b>	<b>Software</b>	<b>Emission rights</b>	<b>Customer relationships and other contracts</b>	<b>Other intangible assets</b>	<b>Total</b>
<b>Cost</b>						
<b>Balance at 1 January 2017</b>	<b>106</b>	<b>46</b>	<b>27</b>	<b>16</b>	<b>4</b>	<b>199</b>
Additions	-	-	9	-	-	9
Disposals	-	-	(20)	-	-	(20)
<b>Balance at 31 March 2017</b>	<b>106</b>	<b>46</b>	<b>16</b>	<b>16</b>	<b>4</b>	<b>188</b>
<b>Balance at 1 January 2017</b>	<b>(8)</b>	<b>(24)</b>	<b>-</b>	<b>(10)</b>	<b>-</b>	<b>(42)</b>
Amortisation for the period	-	(2)	-	-	-	(2)
Disposals	-	-	-	-	-	-
<b>Balance at 31 March 2017</b>	<b>(8)</b>	<b>(26)</b>	<b>-</b>	<b>(10)</b>	<b>-</b>	<b>(44)</b>
<b>Carrying amount</b>						
<b>At 1 January 2017</b>	<b>98</b>	<b>22</b>	<b>27</b>	<b>6</b>	<b>4</b>	<b>157</b>
<b>At 31 March 2017</b>	<b>98</b>	<b>20</b>	<b>16</b>	<b>6</b>	<b>4</b>	<b>144</b>

Notes to the condensed consolidated interim financial statements of EP Energy, a.s. as of and for the three-month period ended 31 March 2017

<i>In millions of EUR</i>	<b>Goodwill</b>	<b>Software</b>	<b>Emission rights</b>	<b>Customer relationships and other contracts</b>	<b>Other intangible assets</b>	<b>Total</b>
<b>Cost</b>						
<b>Balance at 1 January 2016</b>	<b>106</b>	<b>43</b>	<b>31</b>	<b>33</b>	<b>2</b>	<b>215</b>
Additions	-	1	8	-	-	9
Disposals	-	(2)	(17)	-	-	(19)
<b>Balance at 31 March 2016</b>	<b>106</b>	<b>42</b>	<b>22</b>	<b>33</b>	<b>2</b>	<b>205</b>
<b>Amortisation and impairment losses</b>						
<b>Balance at 1 January 2016</b>	<b>(8)</b>	<b>(19)</b>	<b>-</b>	<b>(8)</b>	<b>-</b>	<b>(35)</b>
Amortisation for the period	-	(3)	-	-	-	(3)
Disposals	-	2	-	-	-	2
<b>Balance at 31 March 2016</b>	<b>(8)</b>	<b>(20)</b>	<b>-</b>	<b>(8)</b>	<b>-</b>	<b>(36)</b>
<b>Carrying amount</b>						
<b>At 1 January 2016</b>	<b>98</b>	<b>24</b>	<b>31</b>	<b>25</b>	<b>2</b>	<b>180</b>
<b>At 31 March 2016</b>	<b>98</b>	<b>22</b>	<b>22</b>	<b>25</b>	<b>2</b>	<b>169</b>

As of 31 March 2017, the EPE Group purchased emission allowances of EUR 2 million (31 December 2016: EUR 9 million). The remaining part of EUR 7 million (31 December 2016: EUR 9 million) was allocated to the Group by the Ministry of the Environment of the Czech Republic.

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

Other intangible assets comprise valuable rights.

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

#### **Impairment testing for cash-generating units containing goodwill**

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

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

<i>In millions of EUR</i>	<b>31 March 2017</b>
Elektrárny Opatovice, a.s.	85
EP Cargo a.s.	5
EP ENERGY TRADING, a.s. <sup>(1)</sup>	5
Plzeňská energetika a.s.	3
<b>Total goodwill</b>	<b>98</b>
<i>In millions of EUR</i>	<b>31 December 2016</b>
Elektrárny Opatovice, a.s.	85
EP Cargo a.s.	5
EP ENERGY TRADING, a.s. <sup>(1)</sup>	5
Plzeňská energetika a.s.	3
<b>Total goodwill</b>	<b>98</b>

(1) Includes the amount of goodwill allocated to 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

For the three-month period ended 31 March 2017 the EPE group did not recognise any goodwill impairment (31 March 2016: EUR 0 million).

### Goodwill and impairment testing

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

The calculation of the recoverable amounts as at 31 December 2016 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 discount rates ranged from 5.22% to 6.30%. Decrease of used discount rates compared to prior year reflect recent market development, namely decrease in risk-free rates used for cost of equity calculation.

There were no impairment indicators as of 31 March 2017.

## 16. 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.

<i>In millions of EUR</i>		<b>Ownership</b>	<b>Carrying amount</b>
<b>Associates</b>	<b>Country</b>	<b>31 March 2017</b>	<b>31 March 2017</b>
		<b>%</b>	
Pražská teplárenská Holding a.s.	Czech Republic	49.00	14
Energotel, a.s.	Slovakia	20.00	2
<b>Total</b>			<b>16</b>

<i>In millions of EUR</i>		<b>Ownership</b>	<b>Carrying amount</b>
<b>Associates</b>	<b>Country</b>	<b>31 December 2016</b>	<b>31 December 2016</b>
		<b>%</b>	
Pražská teplárenská Holding a.s.	Czech Republic	49.00	14
Energotel, a.s.	Slovakia	20.00	2
<b>Total</b>			<b>16</b>

The Group had no significant share in the profit or loss of associates for the three-month period ended 31 March 2017 and 31 March 2016.

Summary financial information for standalone associates presented at 100% as of and for the three-month period ended 31 March 2017:

*In millions of EUR*

Associates	Revenue	Profit (loss)	Other comprehensive income	Total comprehensive income	Assets	Liabilities	Equity
Pražská teplárenská Holding a.s.	-	-	-	-	<sup>(1)</sup> 115	-	<sup>(1)</sup> 115
Energotel, a.s.	3	-	-	-	15	5	10
	<b>3</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>130</b>	<b>5</b>	<b>125</b>

*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.	5	10	-	5
	<b>91</b>	<b>39</b>	<b>-</b>	<b>5</b>

(1) Carrying amount covers investment in Pražská teplárenská a.s., which is eliminated in consolidation.

Summary financial information for standalone associates presented at 100% as of 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	<sup>(1)</sup> 28	-	<sup>(1)</sup> 28	115	-	<sup>(2)</sup> 115
Energotel, a.s.	13	2	-	2	15	6	9
	<b>41</b>	<b>30</b>	<b>-</b>	<b>30</b>	<b>130</b>	<b>6</b>	<b>124</b>

*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
	<b>93</b>	<b>37</b>	<b>-</b>	<b>6</b>

(1) Profit and Loss item represents primarily dividend income from an associate.

(2) Carrying amount covers investment in Pražská teplárenská a.s., which is eliminated in consolidation.

## 17. Inventories

*In millions of EUR*

	31 March 2017	31 December 2016
Fossil fuel	28	34
Raw material and supplies	6	6
Spare parts	6	6
Work in progress	2	2
<b>Total</b>	<b>42</b>	<b>48</b>

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



## 18. Trade receivables and other assets

<i>In millions of EUR</i>	<b>31 March 2017</b>	<b>31 December 2016</b>
Trade receivables	166	161
Accrued income	89	73
Advance payments	43	38
Estimated receivables	35	29
Uninvoiced supplies	9	19
Other receivables and assets	7	6
Allowance for bad debts	(19)	(18)
<b>Total</b>	<b>330</b>	<b>308</b>
<i>Non-current</i>	7	13
<i>Current</i>	323	295
<b>Total</b>	<b>330</b>	<b>308</b>

As of 31 March 2017 trade receivables with a carrying value of EUR 45 million (31 December 2016: EUR 62 million) were subject to pledges.

## 19. Cash and cash equivalents

<i>In millions of EUR</i>	<b>31 March 2017</b>	<b>31 December 2016</b>
Current accounts with banks	517	464
Term deposits	13	-
<b>Total</b>	<b>530</b>	<b>464</b>

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

As of 31 March 2017 cash equivalents of EUR 72 million are subject to pledges (31 December 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.

## 20. Tax receivables

<i>In millions of EUR</i>	<b>31 March 2017</b>	<b>31 December 2016</b>
Value added tax receivables	8	6
Current income tax receivables	10	15
Energy tax	2	2
<b>Total</b>	<b>20</b>	<b>23</b>

## 21. Assets and liabilities held for sale

As of 31 March 2017 the balance of asset held for sale (EUR 1 million; 31 December 2016: EUR 5 million) and balance of liabilities held for sale (EUR 0 million; 31 December 2016: EUR 1 million) is represented by Nová Invalidovna, a.s. (31 December 2016: Nová Invalidovna, a.s. and Nový Veleslavín, a.s.). Both entities do not represent businesses but a group of land plots and not used buildings.

## 22. Deferred tax assets and liabilities

As of 31 March 2017 the net deferred tax liability amounts to EUR 163 million (31 December 2016: EUR 167 million).

## 23. Equity

### Share capital and share premium

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

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

<b>31 March 2017</b>	<b>Number of shares 657 CZK</b>	<b>Ownership %</b>	<b>Voting rights %</b>
EP Infrastructure, a.s.	19,549,548	100.00	100.00
<b>Total</b>	<b>19,549,548</b>	<b>100.00</b>	<b>100.00</b>

<b>31 December 2016</b>	<b>Number of shares 657 CZK</b>	<b>Ownership %</b>	<b>Voting rights %</b>
EP Infrastructure, a.s.	19,549,548	100.00	100.00
<b>Total</b>	<b>19,549,548</b>	<b>100.00</b>	<b>100.00</b>

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

	<b>Number of shares</b>	
	<b>31 March 2017</b>	<b>31 December 2016</b>
Shares outstanding at the beginning of the period	19,549,548	19,549,548
<b>Shares outstanding at the end of the period</b>	<b>19,549,548</b>	<b>19,549,548</b>

Reserves recognised in equity comprise the following items:

<i>In millions of EUR</i>	<b>31 March 2017</b>	<b>31 December 2016</b>
Non-distributable reserves	1	1
Translation reserve	(36)	(35)
Hedging reserve	(51)	(51)
Other capital reserves	(320)	(320)
<b>Total</b>	<b>(406)</b>	<b>(405)</b>
Other capital funds from capital contributions	23	23
<b>Reserves</b>	<b>(383)</b>	<b>(382)</b>

### **Non-distributable reserves**

The creation of a legal reserve fund in the Czech Republic was prior to 1 January 2014 required at a minimum of 20% (10% for limited liability companies) of net profit (annually) and up to a minimum of 10% (5% for limited liability companies) of the registered share capital (cumulative balance). The legal reserve fund could have only been used to cover losses of the Company and may not have been distributed as a dividend. The calculation of the legal reserve was based on local statutory regulations. The legal reserve of EUR 1 million was reported as of 31 March 2017 (31 December 2016: EUR 1 million). From 1 January 2014, in relation to the newly enacted legislation, legal reserve fund and its creation are no longer, under certain circumstances, obligatory. Similarly, legal reserve fund can be from 1 January 2014, under certain conditions, distributed in a form of dividend.

### **Translation reserve**

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

### **Other capital reserves**

In 2009 the Group accounted for pricing differences that arose both from establishment of the Group as of 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 of the acquisition date was recorded in consolidated equity as pricing differences.

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

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

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

### Hedging reserves

The effective portion of fair value changes in financial derivatives designated as cash flow hedges are recognised in equity. The balance as of 31 March 2017 represents primarily derivative agreements to hedge an electricity price and a foreign exchange rate concluded by EP ENERGY TRADING, a.s. and an effect from a cash flow hedge recognised on the EPE Group level.

## 24. Earnings per share

### Basic earnings per share

Basic earnings per share in EUR per 1 share of CZK 657 (31 March 2016: in EUR per 1 share of CZK 657) nominal value is 2.51 (31 March 2016: 1.38).

The calculation of basic earnings per share as of 31 March 2017 was based on profit attributable to ordinary shareholders of EUR 49 million (31 March 2016: EUR 27 million, and a weighted average number of ordinary shares outstanding of 19,550 thousand (31 March 2016: 19,550 thousand).

Basic earnings per share from continuing operations in EUR per 1 share of CZK 657 (31 March 2016: in EUR per 1 share of CZK 657) nominal value equal 2.51 (31 March 2016: 1.99).

The calculation of basic earnings per share from continuing operations as of 31 March 2017 was based on profit attributable to ordinary shareholders of EUR 49 million (31 March 2016: EUR 39 million), and a weighted average number of ordinary shares outstanding of 19,550 thousand (31 March 2016: 19,550 thousand).

### Weighted average number of ordinary shares as of 31 March 2017

<i>In thousands of pieces</i>	<b>Nominal</b>	<b>Weighted</b>
Issued ordinary shares	19,550	19,550
<b>Total</b>	<b>19,550</b>	<b>19,550</b>

### Weighted average number of ordinary shares as of 31 March 2016

<i>In thousands of pieces</i>	<b>Nominal</b>	<b>Weighted</b>
Issued ordinary shares	19,550	19,550
<b>Total</b>	<b>19,550</b>	<b>19,550</b>

### 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.

## 25. Non-controlling interest

<b>31 March 2017</b>	<b>Pražská teplárenská a.s. and its subsidiaries</b>	<b>Stredoslovenská energetika, a.s. and its subsidiaries<sup>(3)</sup></b>	<b>Stredoslovenská energetika - Distribúcia, a.s.</b>	<b>Other individually immaterial subsidiaries</b>	<b>Total</b>
<i>In millions of EUR</i>					
<b>Non-controlling percentage</b>	<b>26.18%</b>	<b>51.00%</b>	<b>51.00%</b>		
Business activity	Production and distribution of heat	Distribution of electricity	Distribution of electricity		
Country <sup>(1)</sup>	Czech Republic	Slovakia	Slovakia		
<b>Carrying amount of NCI at 31 March 2017</b>	<b>81</b>	<b>438</b>	<b>(41)</b>	<b>9</b>	<b>487</b>
<b>Profit (loss) attributable to non-controlling interest for the period</b>	<b>3</b>	<b>2</b>	<b>17</b>	<b>1</b>	<b>23</b>
<b>Statement of financial position information<sup>(2)</sup></b>					
Total assets	382	1,004	977		
<i>of which: non-current</i>	256	887	805		
<i>current</i>	126	117	172		
Total liabilities	68	145	232		
<i>of which: non-current</i>	30	27	169		
<i>current</i>	38	118	63		
<b>Net assets</b>	<b>314</b>	<b>859</b>	<b>745</b>	<b>-</b>	<b>-</b>
<b>Statement of comprehensive income information<sup>(2)</sup></b>					
<b>31 March 2017</b>					
Total revenues	80	174	139		
<i>of which: dividends received</i>					
Profit after tax	15	3	33		
Total other comprehensive income for the period, net of tax	-	-	-		
<b>Total comprehensive income for the period<sup>(2)</sup></b>	<b>15</b>	<b>3</b>	<b>33</b>	<b>-</b>	<b>-</b>
<b>Net cash inflows (outflows)<sup>(2)</sup></b>	<b>(1)</b>	<b>15</b>	<b>5</b>		

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 33 – Group entities).

(2) Financial information derived from financial statements prepared in accordance with local statutory accounting standards.

(3) Excluding Stredoslovenská energetika – Distribúcia, a.s.

<b>31 December 2016</b>	<b>Pražská teplárenská a.s. and its subsidiaries</b>	<b>Stredoslovenská energetika, a.s. and its subsidiaries<sup>(3)</sup></b>	<b>Other individually immaterial subsidiaries</b>	<b>Total</b>
<i>In millions of EUR</i>				
<b>Non-controlling percentage</b>	<b>26.18%</b>	<b>51.00%</b>		
Business activity	Production and distribution of heat	Distribution of electricity		
Country <sup>(1)</sup>	Czech Republic	Slovakia		
<b>Carrying amount of NCI at 31 December 2016</b>	<b>78</b>	<b>379</b>	<b>7</b>	<b>464</b>
<b>Profit (loss) attributable to non-controlling interest for the year</b>	<b>21</b>	<b>27</b>	<b>-</b>	<b>48</b>
<b>Dividends declared</b>	<b>(15)</b>	<b>(34)</b>	<b>-</b>	<b>(49)</b>
<b>Statement of financial position information<sup>(2)</sup></b>				
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		
<b>Net assets</b>	<b>299</b>	<b>742</b>	<b>-</b>	<b>-</b>
<b>Statement of comprehensive income information<sup>(2)</sup></b>				
<b>31 March 2016</b>				
Total revenues	87	235		
of which: dividends received	-	-		
Profit after tax	17	21		
Total other comprehensive income for the period, net of tax	-	-		
<b>Total comprehensive income for the period<sup>(2)</sup></b>	<b>17</b>	<b>21</b>	<b>-</b>	<b>-</b>
<b>Net cash inflows (outflows)<sup>(2)</sup></b>	<b>3</b>	<b>28</b>		

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 33 – Group entities).

(2) Financial information derived from financial statements prepared in accordance with local statutory accounting standards.

(3) Including Stredoslovenská energetika – Distribúcia, a.s.

## 26. Loans and borrowings

<i>In millions of EUR</i>	<b>31 March 2017</b>	<b>31 December 2016</b>
Issued debentures at amortised cost	1,113	1,098
Loans payable to credit institutions	36	38
Loans payable to other than credit institutions	14	14
<i>of which owed to the parent company/ultimate parent company</i>	-	-
<i>of which owed to other related companies</i>	14	14
<b>Total</b>	<b>1,163</b>	<b>1,150</b>
Non-current	1,130	1,140
<i>of which owed to the parent company/ultimate parent company</i>	-	-
<i>of which owed to other related companies</i>	14	14
Current	33	10
<b>Total</b>	<b>1,163</b>	<b>1,150</b>

## 27. Provisions

<i>In millions of EUR</i>	<b>Employee benefits</b>	<b>Provision for emission rights</b>	<b>Provision for restoration and decommissioning</b>	<b>Other</b>	<b>Total</b>
<b>Balance at 1 January 2017</b>	<b>12</b>	<b>24</b>	<b>3</b>	<b>9</b>	<b>48</b>
Provisions made during the period	-	9	-	-	9
Provisions used during the period	-	(20)	-	(5)	(25)
<b>Balance at 31 March 2017</b>	<b>12</b>	<b>13</b>	<b>3</b>	<b>4</b>	<b>32</b>
<b>Non-current</b>	<b>12</b>	<b>-</b>	<b>2</b>	<b>2</b>	<b>16</b>
<b>Current</b>	<b>-</b>	<b>13</b>	<b>1</b>	<b>2</b>	<b>16</b>

<i>In millions of EUR</i>	<b>Employee benefits</b>	<b>Provision for emission rights</b>	<b>Provision for restoration and decommissioning</b>	<b>Other</b>	<b>Total</b>
<b>Balance at 1 January 2016</b>	<b>12</b>	<b>22</b>	<b>3</b>	<b>2</b>	<b>39</b>
Provisions made during the period	-	7	-	-	7
Provisions used during the period	-	(17)	-	-	(17)
<b>Balance at 31 March 2016</b>	<b>12</b>	<b>12</b>	<b>3</b>	<b>2</b>	<b>29</b>
<b>Non-current</b>	<b>12</b>	<b>-</b>	<b>3</b>	<b>1</b>	<b>16</b>
<b>Current</b>	<b>-</b>	<b>12</b>	<b>-</b>	<b>1</b>	<b>13</b>

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.

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

### Provision for emission rights

Provision for emission rights is recognised regularly during the year based on the estimated number of tonnes of CO<sub>2</sub> emitted. It is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

## 28. Deferred income

<i>In millions of EUR</i>	<b>31 March 2017</b>	<b>31 December 2016</b>
Government grants	32	32
Government grants for emission rights	4	-
Other deferred income	64	64
<b>Total</b>	<b>100</b>	<b>96</b>
<i>Non-current</i>	78	75
<i>Current</i>	22	21
<b>Total</b>	<b>100</b>	<b>96</b>

Balance of government grants in amount of EUR 32 million (31 December 2016: EUR 32 million) is mainly represented by Elektrárny Opatovice, a.s. of EUR 21 million (31 December 2016: EUR 21 million), Alternative Energy, s.r.o. of EUR 4 million (31 December 2016: EUR 4 million) and United Energy, a.s. of EUR 5 million (31 December 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 64 million (31 December 2016: EUR 64 million) is mainly represented by Stredoslovenská energetika - Distribúcia, a.s. This balance consists of deferred income related to the following items: fee for grid connection paid by customers (EUR 21 million; 31 December 2016: EUR 21 million), contributions for the acquisitions of tangible assets paid by customers (EUR 26 million; 31 December 2016: EUR 26 million), property acquired free-of-charge (EUR 5 million; 31 December 2016: EUR 5 million) and contributions paid by customers for the restoration of tangible assets related to distribution network (EUR 3 million; 31 December 2016: 3 million).

## 29. Financial instruments

### Financial instruments and other financial assets

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

### Financial instruments and other financial liabilities

<i>In millions of EUR</i>	<b>31 March 2017</b>	<b>31 December 2016</b>
<b>Liabilities carried at fair value</b>		
<b>Hedging: of which</b>	3	5
<i>Interest rate swaps cash flow hedge</i>	3	4
<i>Currency forwards cash flow hedge</i>	-	1
<b>Risk management purpose: of which</b>	8	10
<i>Commodity derivatives reported as trading</i>	2	3
<i>Interest rate swaps reported as trading</i>	6	7
<b>Total</b>	<b>11</b>	<b>15</b>
<i>Non-current</i>	9	11
<i>Current</i>	2	4
<b>Total</b>	<b>11</b>	<b>15</b>

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

<i>In millions of EUR</i>	<b>31 March 2017 Nominal amount buy</b>	<b>31 March 2017 Nominal amount sell</b>	<b>31 March 2017 Fair value buy</b>	<b>31 March 2017 Fair value sell</b>
<b>Hedging: of which</b>	105	(105)	-	(3)
<i>Interest rate swaps cash flow hedge</i>	100	(100)	-	(3)
<i>Interest rate swaps fair value hedge</i>	4	(4)	-	-
<i>Currency forwards cash flow hedge</i>	1	(1)	-	-
<b>Risk management purpose: of which</b>	560	(559)	1	(8)
<i>Currency forwards reported as trading</i>	87	(87)	-	-
<i>Commodity derivatives reported as trading</i>	273	(272)	1	(2)
<i>Interest rate swaps reported as trading</i>	200	(200)	-	(6)
<b>Total</b>	<b>665</b>	<b>(664)</b>	<b>1</b>	<b>(11)</b>



<i>In millions of EUR</i>	<b>31 December 2016</b>	<b>31 December 2016</b>	<b>31 December 2016</b>	<b>31 December 2016</b>
	<b>Nominal amount buy</b>	<b>Nominal amount sell</b>	<b>Fair value buy</b>	<b>Fair value sell</b>
<b>Hedging: of which</b>	128	(128)	1	(5)
Interest rate swaps cash flow hedge	100	(100)	-	(4)
Commodity derivatives cash flow hedge	1	-	1	-
Currency forwards cash flow hedge	23	(24)	-	(1)
Interest rate swaps fair value hedge	4	(4)	-	-
<b>Risk management purpose: of which</b>	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)
<b>Total</b>	<b>777</b>	<b>(777)</b>	<b>1</b>	<b>(15)</b>

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.

### Fair value hierarchy for financial instruments carried at fair value

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

<i>In millions of EUR</i>	<b>31 March 2017</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets carried at fair value:</b>				
<b>Risk management purpose: of which</b>	-	1	-	<b>1</b>
Commodity derivatives reported as trading	-	1	-	1
<b>Total</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>

<b>Financial liabilities carried at fair value:</b>				
<b>Hedging: of which</b>	-	3	-	<b>3</b>
Interest rate swaps cash flow hedge	-	3	-	3
<b>Risk management purpose: of which</b>	-	8	-	<b>8</b>
Interest rate swaps reported as trading	-	6	-	6
Commodity derivatives reported as trading	-	2	-	2
<b>Total</b>	<b>-</b>	<b>11</b>	<b>-</b>	<b>11</b>

<i>In millions of EUR</i>	<b>31 December 2016</b>			<b>Total</b>
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	
<b>Financial assets carried at fair value:</b>				
<b>Hedging: of which</b>	-	1	-	<b>1</b>
Commodity derivatives cash flow hedge	-	1	-	1
<b>Total</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>1</b>

<b>Financial liabilities carried at fair value:</b>				
<b>Hedging: of which</b>	-	5	-	<b>5</b>
Currency forwards cash flow hedge	-	1	-	1
Interest rate swaps cash flow hedge	-	4	-	4
<b>Risk management purpose: of which</b>	-	10	-	<b>10</b>
Interest rate swaps reported as trading	-	7	-	7
Commodity derivatives reported as trading	-	3	-	3
<b>Total</b>	<b>-</b>	<b>15</b>	<b>-</b>	<b>15</b>

There were no transfers between fair value levels as of either 31 March 2017 or 31 December 2016.

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

<i>In millions of EUR</i>	<b>Carrying value amount</b>	<b>Fair value</b>
<b>Financial assets</b>	<b>31 March 2017</b>	<b>31 March 2017</b>
Loans to other than credit institutions	6	6
Shares available for sale	1	(1)
<b>Financial instruments held at amortised costs</b>	<b>7</b>	<b>6</b>
<b>Financial liabilities</b>		
<b>Loans and borrowings</b>	<b>1,163</b>	<b>1,180</b>

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

(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.*

### 30. Trade payables and other liabilities

<i>In millions of EUR</i>	<b>31 March 2017</b>	<b>31 December 2016</b>
Trade payables	127	142
Advance payments received	61	62
Estimated payables	37	26
Payroll liabilities	14	17
Other tax liabilities	5	13
Liability from deferred earn-out	-	-
Accrued expenses	1	3
Uninvoiced supplies	1	1
Other liabilities	6	8
<b>Total</b>	<b>252</b>	<b>272</b>
<i>Non-current</i>	1	2
<i>Current</i>	251	270
<b>Total</b>	<b>252</b>	<b>272</b>

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

As of 31 March 2017 and 31 December 2016 no liabilities to social and health insurance or tax authorities were overdue.

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

## 31. Financial commitments and contingencies

### Off balance sheet liabilities

<i>In millions of EUR</i>	31 March 2017	31 December 2016
Granted pledges – securities	855	855
Guarantees given	135	117
Other granted pledges	854	886
<b>Total</b>	<b>1,844</b>	<b>1,858</b>

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

### Guarantees given

Guarantees given mainly include contracts for the future supply of energy for EUR 124 million (31 December 2016: EUR 113 million).

### Other granted pledges

<i>In millions of EUR</i>	31 March 2017	31 December 2016
Loans granted <sup>(1)</sup>	325	325
Property, plant and equipment	383	395
Cash and cash equivalents	72	75
Trade receivables	45	62
Inventories	29	29
<b>Total</b>	<b>854</b>	<b>886</b>

(1) Total balance of pledged granted loans includes intercompany loans of EUR 324 million (31 December 2016: EUR 319 million).

### Off balance sheet assets

<i>In millions of EUR</i>	31 March 2017	31 December 2016
Received promises	408	395
Other received guarantees and warranties	-	4
<b>Total</b>	<b>408</b>	<b>399</b>

### Received promises

Received promises mainly comprise the contracts for the future purchase of energy in amount of EUR 229 million (31 December 2016: EUR 197 million) and regulatory contingent assets related to green energy of EUR 123 million (31 December 2016: EUR 138 million) recognised by SSE Group, which are represented by the contingent assets related to green energy and loan commitment received by EP Energy, a.s. of EUR 50 million (31 December 2016: EUR 50 million).

#### *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 to purchase the green electricity generated, which is used to cover network losses and pay bonuses. The purchase tariff for green energy is set by RONI and is covered by the Tariff for system operation (“TPS”).

For the three-month period ended March 31, 2017 SSE recognised a loss of EUR 1 million (31 March 2016: loss of EUR 8 million) as the difference between the green energy support costs and revenues from TPS in the period from 1 January 2017 to 31 March 2017. The loss disregards effects from recognition and release of accrued income which represented in total an income of EUR 16 million (31 March 2016: loss of EUR 1 million).

Based on the current Regulatory Framework the cumulated losses incurred in 2015 and 2016 will be compensated in two years’ time, i.e. relevant amounts in 2017 and 2018 through an increase of revenues from TPS. Contingent asset as at March 31, 2017 comprises 9/12 of 2016 loss totalling EUR 138 million

(i.e. EUR 104 million) and EUR 20 million as a loss incurred in three-month period ended March 31, 2017 (contingent assets as at December 31, 2016 amounted to EUR 138 million).

Based on the RONI decision dated in December 2016 the resulting contingent asset of EUR 73 million originating in the year 2015 was recognized as accrued income in the combined statement of financial position as of 31 December 2016 and will be fully collected in the course of 2017 (31 December 2015: EUR 77 million originating in the year 2014 was recognized as accrued income in the consolidated statement of financial position as of 31 December 2015 and was fully collected in the course of 2016).

The loss for 2017 (EUR 20 million) 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 an RONI confirmation on the exact amount shall be received.

## 32. 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 of 31 March 2017 and 31 December 2016 was as follows:**

*In millions of EUR*

	Accounts receivable and other financial assets	Accounts payable and other financial liabilities	Accounts receivable and other financial assets	Accounts payable and other financial liabilities
	31 March 2017	31 March 2017	31 December 2016	31 December 2016
Ultimate shareholders	-	-	-	-
Companies controlled by ultimate shareholders	17	27	7	16
Companies under significant influence by ultimate shareholders	3	8	4	15
Associates	6	14	6	14
Other related parties	-	-	-	-
<b>Total</b>	<b>26</b>	<b>49</b>	<b>17</b>	<b>45</b>

**(b) The summary of transactions with related parties during the period ended 31 March 2017 and 31 March 2016 was as follows:**

*In millions of EUR*

	Revenues 31 March 2017	Expenses 31 March 2017	Revenues 31 March 2016	Expenses 31 March 2016
Ultimate shareholders	-	-	3	-
Companies controlled by ultimate shareholders	13	32	10	18
Companies under significant influence by ultimate shareholders	9	23	-	-
Associates	-	5	-	-
Other related parties	-	-	-	-
<b>Total</b>	<b>22</b>	<b>60</b>	<b>13</b>	<b>18</b>

### Transactions with Members of the EPE Board

As of 31 March 2017 and 31 December 2016 EPE did not provide any significant monetary and non-monetary remuneration to the members of Board of Directors of the Company.

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

### 33. Group entities

The list of the Group entities as of 31 March 2017 and 31 December 2016 is set out below:

		31 March 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
EP Energy, a.s.	Czech Republic	-	-	-	-	-	-
AISE, s.r.o.	Czech Republic	80	Direct	80	Direct	Full	Full
PT Holding Investment B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Pražská teplárenská Holding a.s. *	Czech Republic	49	Direct	49	Direct	Equity	Equity
Pražská teplárenská a.s.	Czech Republic	47.42	Direct	47.42	Direct	Full	Full
Pražská teplárenská Trading, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Termonta Praha a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Energotrans SERVIS, a.s.	Czech Republic	95	Direct	95	Direct	Full	Full
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	Full	Full
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	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
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	99.50	Direct	99.50	Direct	Full	Full
Arisun, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Greeninvest Energy, a.s.	Czech Republic	41.70	Direct	41.70	Direct	IFRS 5	IFRS 5
POWERSUN a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Triskata, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
MR TRUST s.r.o. *	Czech Republic	0.50	Direct	0.50	Direct	Full	Full
VTE Pchery, s.r.o.	Czech Republic	64	Direct	64	Direct	Full	Full
CHIFFON ENTERPRISES LIMITED *	Cyprus	100	Direct	100	Direct	Full	Full
Claymore Equity, s. r. o. *	Slovakia	80	Direct	80	Direct	Full	Full
Alternative Energy, s.r.o.	Slovakia	90	Direct	90	Direct	Full	Full
EBEH Opatovice, a.s. v likvidaci	Czech Republic	100	Direct	100	Direct	Full	Full
Elektrárny Opatovice, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
V A H O s.r.o.	Czech Republic	100	Direct	100	Direct	At cost	At cost
NPTH, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
Pražská teplárenská a.s.	Czech Republic	50.58	Direct	50.58	Direct	Full	Full
Pražská teplárenská Trading, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Termonta Praha a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Energotrans SERVIS, a.s.	Czech Republic	95	Direct	95	Direct	Full	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Real Estate, a.s.	Czech Republic	50.58	Direct	50.58	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	Full	Full
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	IFRS5

Notes to the condensed consolidated interim financial statements of EP Energy, a.s. as of and for the three-month period ended 31 March 2017

		31 March 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
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 měfení, 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.	Slovakia	100	Direct	100	Direct	Full	Full
Elektroenergetické montáže, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
SSE - Metrológia s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Stredoslovenská energetika - Projekt Development, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SSE-Solar, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SPX, s.r.o.	Slovakia	33.33	Direct	33.33	Direct	Equity	Equity
Energotel,a.s.	Slovakia	20	Direct	20	Direct	Equity	Equity
SSE CZ, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
EP ENERGY HR d.o.o.	Croatia	100	Direct	100	Direct	Full	Full
EP Cargo a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Hungary, a.s.*	Czech Republic	100	Direct	100	Direct	Full	Full
Budapesti Erőmű Zrt.	Hungary	95.62	Direct	95.62	Direct	Full	Full
KÖBÁNYAHŐ Kft.	Hungary	25	Direct	25	Direct	At cost	At cost
ENERGZET SERVIS a.s.	Czech Republic	100	Direct	100	Direct	Full	Full

\* *Holding entity*

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

### **34. Litigations and claims**

#### **Elektrárny Opatovice, a.s.**

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

#### **United Energy, a.s.**

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

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

The parallel dispute regarding inadequate compensation is still ongoing with no clear outcome. The next court hearing is planned for 6 June 2017 as a meeting with mediator in order to help the parties to reach their own solution.

#### **Plzeňská energetika a.s.**

In August 2012, Škoda Investment a.s. (SI) filed a claim for unjust enrichment against Plzeňská energetika a.s. (PE) for approximately EUR 2 million. This unjust enrichment claim allegedly arises from the fact that Plzeňská energetika a.s. owns and operates utility distribution systems (e.g., for gas, water and heat), which lie on the property of Škoda Investment a.s., thereby illegally restricting the ownership of Škoda Investment a.s. In February 2016 both parties, i.e. PE as well as SI, received an official request from the court to settle the dispute by mediation. Following this request the hearing has been adjourned until further notice. In June 2016 SI has filed an additional claim for unjust enrichment against PE for approximately EUR 1 million. Additional claim covers period 2013 – 2014. EPE Group’s management believes that the claim is unfounded and should be dismissed by the court. For this reason Plzeňská energetika a.s. did not create a provision for this litigation as at 31 March 2017.

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

The SSE Group is a party to various legal proceedings. As at 31 March 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 again conservatively recorded a provision of EUR 4 million. The next PT steps will depend on the final decision of the regional court on the action brought by PT.

### 35. Subsequent events

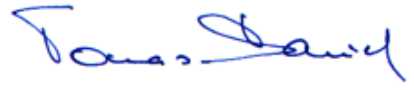
On 5 April 2017 the SSE Group acquired 100% share in SPV100, s.r.o. for consideration of EUR 1 million.

On 16 May 2017, the Company provided loan of EUR 50 million to EP Infrastructure, a.s., its sole shareholder.

On 18 May 2017 the sole shareholder, EP Infrastructure, a.s., confirmed previously paid interim dividends of EUR 20 million. Further the sole shareholder of the Company declared dividend of EUR 50 million, which was set off with the outstanding loan and accrued interest.

On 22 May 2017, the Company provided loan of EUR 8 million to EP Infrastructure, a.s., its sole shareholder.

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 March 2017.

Date:	Signature of the authorised representative	
		
30 May 2017	Pavel Horský Member of the Board of Directors	Tomáš David Chairman of the Board of Directors