EP Power Europe Annual Report 2017

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Annual Report
2017

EP Power Europe, a. s.

EP Power Europe

EP Power Europe, a.s.

Consolidated Annual Report for the Year 2017

ANNUAL REPORT 2017

Content

EP Power Europe

Financial Highlights of the Year

ANNUAL REPORT 2017

		31/12/2017	31/12/2016
INCOME STATEMENT			
Sales	€ million	2,849	1,905
Gross profit	€ million	914	790
Earnings before interest, taxes, depreciation and amortization (EBITDA)[1]	€ million	304	137
Earnings before interest and tax (EBIT)	€ million	178	(32)
Net financial result	€ million	(49)	(18)
Profit before tax	€ million	217	231
Profit for the year	€ million	177	222
BALANCE SHEET			
Balance sheet total	€ million	3,878	2,846
Equity total	€ million	959	890
Net working capital	€ million	(210)	(199)
Net financial debt[2]	€ million	814	128
Net financial debt[2] (excl. loans and borrowings provided by EPH5)	€ million	136	31
CASH FLOW STATEMENT			
Cash flow from operating activities	€ million	191	319
Cash flow from investing activities	€ million	(554)	(411)
Cash flow from financing activities	€ million	238	240
Change in cash and cash equivalents	€ million	(125)	148
Cash and cash equivalents	€ million	188	308
Capital expenditures (CAPEX)	€ million	293	346
Tax paid	€ million	73	24

Financial Highlights of the Year

		31/12/2017	31/12/2016
RATIOS			
EBITDA margin[3]	%	10.67%	7.19%
Leverage[4]	x	2.7x	0.9x
Leverage[4] (excl. loans and borrowings provided by EPH5)	x	0.4x	0.2x
Operating KPIs			
Average number of employees	#	3,416	3,352
Net installed capacity	MW	10,181	7,146
Net power production	TWh	19.7	14.3
Emissions intensity	t CO_2/GWh	568	703

1 EBITDA = Operating profit/loss + Depreciation and Amortization – Negative goodwill.
2 Net financial debt = Loans and borrowings – Cash and cash equivalents.
3 EBITDA margin = EBITDA/Sales.
4 Leverage = Net financial debt/EBITDA. Net financial debt used for calculation of Leverage in 2017 is impacted by new acquisitions and major investment project Lynemouth, whereas the 2017 EBITDA does not yet fully capture earnings associated with these business activities.
5 Energetický a průmyslový holding, a.s. ("EPH") is a parent company of EP Power Europe, a.s.

EP Power Europe

Introduction by the Chairman of the Board of Directors

Introduction by the Chairman of the Board of Directors

Dear shareholders, business partners, colleagues, and friends,

Over the past few years, EPH, mainly through EP Power Europe, has been gradually building its position as one of the most important power producers in the EU with the mission to provide our customers in the countries of our operations with stable and secure power supplies at affordable prices while reducing greenhouse gas emissions per unit of power generated.

EP Power Europe, a.s. („EPPE“ or „Group“) further strengthened its market position in 2017. Sales of EPPE Group reached EUR 2,849 million (EUR 1,905 million in 2016). The extensive increase is attributable to great performance of the Generation and Mining segment. Particularly the Italian generation assets increased revenue significantly, driven by increased production volumes. Acquisitions in the UK, Germany and in Italy also had positive impact on sales. Another steep increase in sales of the segment EPPE Other reflected top line growth at the in-house trading entity EP Commodities, a.s. There was also a corresponding rise in Group EBITDA which increased to EUR 304 million (EUR 137 million in 2016).

In 2017, the companies under exclusive or joint control of EPPE produced in aggregate some 100 TWh of power. Our generation fleet is well balanced: 60% of the total installed capacity of 11.2 GW coming from either completely emission free power plants or from plants with low carbon emissions. Thanks to numerous active steps and investments, we were able to reduce the emission factor of EPPE consolidated assets by a noteworthy 19%. In addition, we place strategic emphasis on the development of our renewable resources segment, where we invested more than EUR 700 million over the past 18 months. Conversion of the Lynemouth power plant to a pure biomass plant is a major example of such projects. With an installed capacity of 400 MW, the project is among the largest in the EU. The main part of the modifications took place in 2017, and the plant is to be commissioned in 2018.

At the end of 2017, EPPE also completed the acquisition of two Italian biomass power plants from Bioenergie S.P.A. (50 %) and Api NòVa Energia S.R.L. (50 %) – Biomasse Italia S.P.A. and Biomasse Crotone S.P.A. Through this acquisition, Group became the leader in the power production from biomass in Italy.

In 2017, EPPE also substantially strengthened its position in Great Britain, where it purchased two modern, highly efficient CCGT power plants from CENTRICA PLC. Langage and South Humber Bank plants with a total installed capacity of 2.3 GW having 57% and 55% efficiency, respectively.

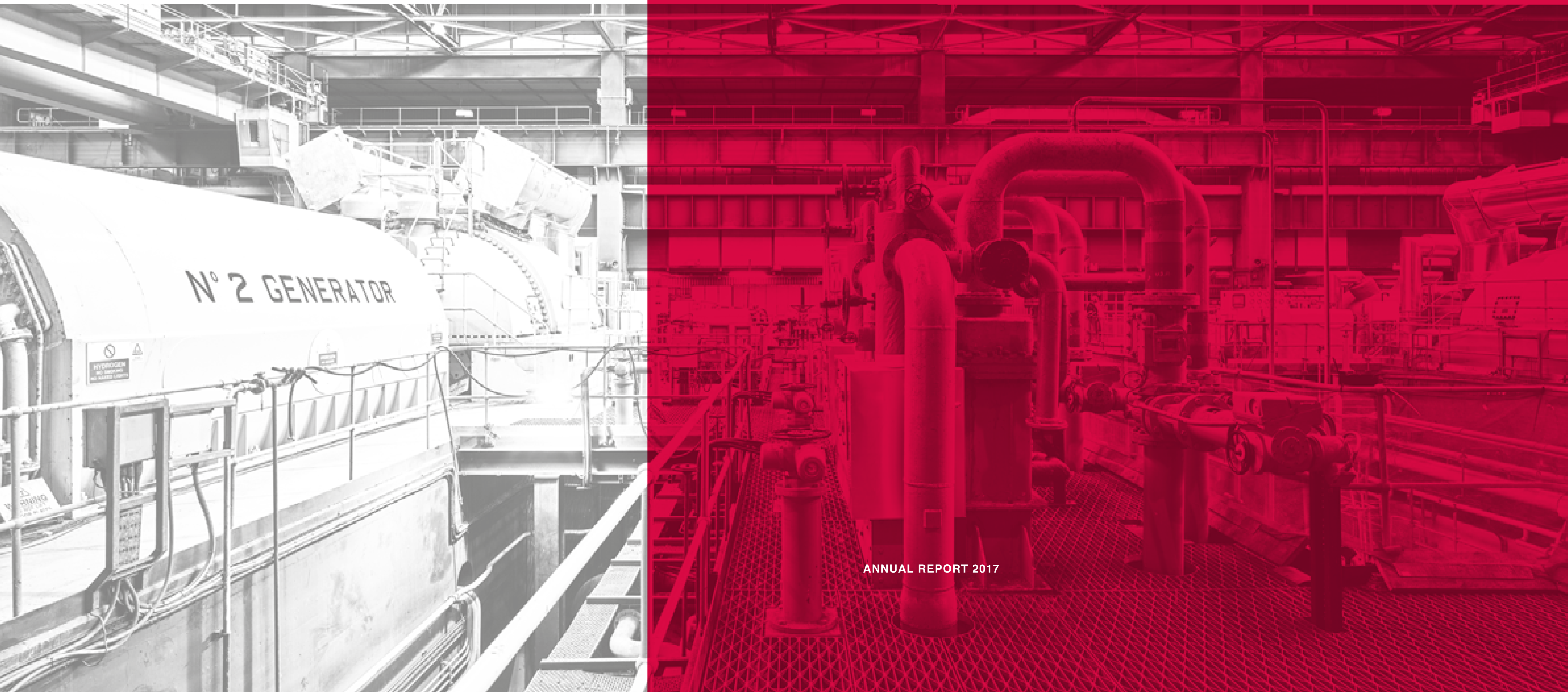
To conclude, I would like to express my thanks to our employees across the segments and countries for their hard work as well as to our investors and business partners who have been participating in the implementation of our strategy for placing their trust and support in our into our business activities. To all of them, we owe the success we achieved this year and we look forward to executing our strategy, together with all of our stakeholders in the years to come.

JUDr. Daniel Křetínský

Chairman of the Board of Directors

EP Power Europe

1 Combined Review of Operations



ANNUAL REPORT 2017

1.1 Market development

MACROECONOMIC DEVELOPMENTS

Global economic recovery continued in 2017. According to the Organization for Economic Co-operation and Development ("OECD"), global gross domestic product ("GDP") grew by 3.6% annually. The European Union ("EU") recorded year-on-year change of GDP in both the EU and the Eurozone of 2.5%. German GDP growth amounted for 2.2%. The economy in Central Europe experienced significantly stronger GDP growth than the EU average: Poland had an estimated growth rate of 4.6%, the Czech Republic with 4.3%, Hungary with 4% and Slovakia with 3.4%. In Italy, the year-on-year growth was 1.5%. The uncertainties following Brexit led to a lower growth rate of 1.8% in the UK, the lowest since 2012. The inflation in 2017 was 1.7% in the EU and 1.5% in the Eurozone respectively.

ENERGY DEVELOPMENTS

ELECTRICITY PRODUCTION AND ELECTRICITY MIX

Despite robust economic activity in Europe, the electricity production declined by 0.8% in 2017, amounting to a total of 3,075 Terawatt hours ("TWh"), as reported by Eurostat. The generation from conventional thermal plants declined in Europe by 1.5% to 1,486 TWh (a 48.3% share in overall power generation). Especially coal based generation declined progressively, notably in countries like Netherlands, Italy and Portugal, which joined efforts of the United Kingdom, and France to phase-out coal of their energy mixes. Nuclear generation declined 1.2% to a total of 786 TWh (a 25.6% share in overall power generation).

WEATHER AND RENEWABLE ELECTRICITY GENERATION

Despite significantly cooler weather in January 2017, temperatures in Europe throughout the year were slightly above seasonal averages, causing a minor decrease in consumer demand for heating. A higher European industrial output resulted in the increase of overall electricity demand. An increase in wind generation installed capacity (combined with more favourable wind conditions) resulted in wind generation increasing by 19.6% to 359 TWh (an 11.7% share in overall power generation), with two thirds of this growth coming from the UK and Germany. The share of solar generation in overall electricity mix also increased from 3.5% in 2016 to 3.9% (totalling 119 TWh). Hydro generation in Europe suffered due to a low rainfall and fell from 12.1% of overall electricity production in 2016 to just 10.3% (317 TWh) in 2017. Excess renewable generation during periods of high wind and or solar coupled with periods of low demand led to 146 hours of negative spot power prices in Germany in 2017, an increase from 97 negative hours in 2016.

Combined Review of Operations

POWER PRICES

After a reduction in uncertainty around the French nuclear generation fleet, power prices experienced relatively calm first half of the year. Wholesale prices then grew rapidly in the second half of 2017 mainly due to raising cost of fuels and carbon allowances resulting in increases of variable costs of power plants. Despite coal being mostly lower cost than gas, new gas power plants proved to be more profitable than older coal plants. In Germany, spot electricity prices surged up to 34.2 €/MWh for baseload (an increase of 5.2 € from 2016) and 42.7 MWh for peak load (an increase of 7.5 €). Italian spot prices increased by 21.6% to average 53.9 €/MWh especially at the end of the year with a significant price increases of both gas and coal. Decrease in gas flexibility because of closure of Rough storage facility was one of the factors, which supported an increase of UK wholesale average prices by 5.3% to 51 pounds sterling per MWh. Price increases in Britain were even further accentuated with the strengthening of the common currency against the pound by 4%.

GAS

According to the International Energy Agency, European demand for gas reached 466 billion cubic meters ("bcm") with imports amounting to 408.7 bcm. This represents a 5.55% rise from 2016. Russia remains the main European supplier and as deliveries of much promised American liquefied natural gas did not fully materialize, it is expected to remain unchallenged. Spot gas prices rose in Netherlands' Title Transfer Facility ('TTF'), the most liquid market in Europe, to price levels of approximately 17 € per MWh, two Euros higher from spot gas prices in 2016. The first quarter of the year was marked by a relatively high demand of gas in electricity sector based on combination of below average temperatures and nuclear generation problems. Increased demand for gas led consequently to high withdrawal rates from gas storages, ceasing only with the arrival of warm temperatures in March. Consequently, in October, gas volumes in storage facilities were 5% below the level compared to the previous year but managed to reduce this deficit to 1.5% at the end of the year. Gas consumption was on rise in Europe except in the United Kingdom, where mild weather resulted in a decrease of approximately 2% compared to the 2016 level. It is estimated that gas consumption rose in Germany by approximately 6% and in Italy by 7.4%. While gas consumption increased in Hungary by 11.7%, it rose in Czech Republic by only 1%. 2017 was also marked by the closure of Rough gas storage facility In the United Kingdom, reducing the UK´s gas supply flexibility.

COAL

Coal prices rose in 2017, resulting in a greater relative competitiveness of gas. At the beginning of the year, coal prices were fairly low with a cost approximately $70 per metric ton. However, the rising demand predominantly in China and Korea, declining production in Asia, and strikes in both Australia and South Africa led to a shortage of coal supply and thus pushed coal prices up. Rising freight costs and a weakened US Dollar also caused the increase in coal prices. The main driver behind the excessive demand for coal at the end of the year 2017 was China, which was trying to build up its reserves to satisfy the upsurge in industrial activity. In Europe, the cost of API 2 2018 coal forward traded in Amsterdam, Rotterdam and Antwerp rose the last year from approximately $54 to $74 per metric ton.

ALLOWANCES

The ETS allowances prices were low in the first half of the year; in the range of 4 to 5 € per ton. The upturn in the prices of allowances came in August after the declaration of Germany and France to work together on reforming oversaturated ETS carbon market, but the final catalyser came only in November with the joint informal proposal of the European Parliament with the Council of Ministers for a new reform for an efficient reduction of allowances until 2030. This increase in prices of CO_2 was influenced also by increased demand for allowances from the energy sector as well as uncertainty concerning the closure of nuclear plants in Europe and consequently a bigger need for fossil fuel generation. Carbon allowances rose to 8.2 € per ton in December 2017 compared to just 1.6 € per ton in late 2016.

POLITICAL DEVELOPMENTS

GRID MODERNIZATION ACT

In 2017, no additional major reforms on Energiewende were passed in Germany except the Grid Modernization Act. This act aims to harmonize grid charges among German electricity transmission companies and introduces new regulations to improve liquidity and transparency in the market. Under this act, renewable generation (wind and solar) is free of any rules on avoided grid charges and transmission grid operators are given the possibility to decide to tender contracts with an amount up to 1200 megawatts for both new plants and interruptible loads. The Act was adopted in June 2017 and entered into force in August 2017.

NUCLEAR GENERATION

European nuclear generation dropped in 2017 by approximately 1% (9 TWh) and thus hit its lowest level since 2010. This production drop was caused by both the ever-bigger share of renewable generation in power mix but and by aging of reactors what led to an increased frequency of power outages. France witnessed in 2017 a substantial debate on nuclear phase-out, as many plants of its nuclear fleet are aging and are to be replaced or renewed, adding uncertainty to electricity markets. While current Environment Minister Nicolas Hulot initially reiterated the targets – for the closure of nuclear reactors set by the government under the former president François Hollande (closing 50% of its 58 reactors by 2025), no additional details on which of these reactors were to be closed and when were not presented. Hulot later acknowledged that these targets seemed unrealistic, as it would damage electricity supply in the country and increase CO_2 emissions. The Environment Minister most recently indicated that France would provide detail of how many nuclear reactors would be closed by the end of 2018; the initial estimate being closing 17 reactors by 2025. In Germany, nuclear generation fell by approximately 11% and Brokdorf one of the oldest nuclear reactors was forced to shut down because of ramping damage. The Gundremmingen B reactor with a capacity of 1284 MWh was disconnected from the grid on 31 December, serving since 1984. Above-mentioned uncertainty concerning nuclear plants especially in France as well as below average temperatures significantly contributed to surge in power prices toward the end of 2017.

GERMAN FEDERAL ELECTION

The victory of Angela Merkel and CDU/CSU came costly, as these twinned parties were unable to find an ally to form the government for months. The initial talks to form coalition among the so-called Jamaica parties (CDU/CSU, FDP, Greens) had significant impact on forward power prices volatility right after the elections. However, as this try to form coalition failed, forward power prices reacted accordingly. In the end, after several rounds of talks, CDU/CSU formed coalition with the Social Democratic Party of Germany. This announcement was not without influence on energy industry in Germany: while this coalition pledged to rise the share of renewables in the electricity mix from 50% to 65%, it was recognized at the same time that the self-imposed resolution to cut 40% of greenhouse gases by 2020 compared to the 1990 level was a challenging, if not potentially unrealistic task. Both parties agreed to create a special commission for the German Climate Action Plan 2050, which would also address the question of the coal phasing out. No further details on this phase-out were presented so far.

EMISSIONS TRADE SYSTEM REFORM

The most important event in European energy came only at the end of year 2017. In November, both the European Parliament and the Council of Ministers concluded an informal agreement on the reform of carbon allowances market in Europe to assist with the aim to reach the previously set 2030 greenhouse gas emissions target. The carbon allowance market in Europe has been in substantial surplus resulting in very low carbon prices. The price of allowances was continuously dropping due to decreased industrial activity after the financial crisis and many electricity producers opted during this period to switch from coal to less polluting gas. This created a glut of allowances with a low price what was contrary to EU's targets to reduce carbon emissions. The reform to which the European Parliament gave green light in February 2018 and will yet negotiate in detail with the European Commission contains two major provisions to decrease this glut. The first provision envisions reduce emissions ceiling over the period from 2012 until 2030: the current withdrawal rate of carbon allowances is 1.74% and the new planned rate for the future period is set to be 2.2%. The other tool envisaged to help in reducing this glut is transferring a larger volume of allowances into the Market Stability Reserve ("MSR") which will start in 2019. Under the MSR, the equivalent of 24% of CO_2 surplus is subtracted from the annual allowances.

COAL IN CHINA

China, heavily reliant on coal for power generation (more than 60% of its energy mix) is trying to curb its consumption to ease carbon emissions and improve air quality. However, after three years of decline, its coal consumption grew again in 2017 by 0.4%. In order to counter the allegations of renewed Chinese appetite for coal, Chinese government shortened the mining calendar from 330 to 276 days in 2016. To avoid negative consequence of latter decision the 276-day limit was finally lifted in 2017 and the production returned to the 330-days schedule. Moreover, after its declaration of 'War on pollution', China vowed to halt the construction of more than 100 new coal power plants in 2017. This list is nevertheless smaller than previously suggested and it seems that this pledge will not meet the reality as more than 550 coal-fired power plants in China are being planned or built by Chinese corporations.

LIQUEFIED NATURAL GAS

Much forecasted global LNG oversupply was lower than expected in 2017. A fresh new demand resulted from China and its efforts to switch to gas from coal, colder winter in Europe and technical incidents, such as the Austria's Baumgarten incident in December. A stronger demand for gas pushed spot prices in Asia above from oil-linked LNG contracts from $8–9 / MMBtu to 10 / MMBtu (from 22–24.85 € / MWh to 27.6 € / MWh respectively). It is nevertheless uncertain whether a tightened demand-to-supply gap will endure in the future, as Qatar and Russia presented in 2017 their expansion plans coupled with rise of LNG exports in the future from Australia and America. Russia aims to cover 18–20% of global LNG demand while Qatar wants to expand its capacity by 30%. Two liquid gas markets in the world: USA, confident in the effort to capitalize on Henry Hub differentials to the Asian market with its LNG exports projects and Europe's permanently low utilized LNG regasification terminals will compete for their role in the yet more global LNG market.

1.2 Major events

EVENTS IN THE REVIEWED FISCAL YEAR

ACQUISITION OF LANGAGE AND SOUTH HUMBER BANK GAS-FIRED POWER STATIONS

On 31 August 2017, the EPPE Group has acquired from CENTRICA PLC operational Langage and South Humber Bank combined cycle gas turbine power stations, with a combined capacity of 2.3 GW. EP UK INVESTMENTS LTD, representing the UK interests of the Group, will manage the power stations. The acquisition was a part of the EPPE Group's strategy to extend its presence in the UK, where EPPE already owns Eggborough and Lynemouth power stations.

ACQUISITION OF MEHRUM POWER PLANT

On 1 November 2017, the EPPE Group has acquired Kraftwerk Mehrum GmbH ("KWM") from Enercity (Stadwerke Hannover Aktiengesellschaft) and BS Energy. KWM owns and operates Mehrum coal-fired power plant with an installed capacity of 750 MW. EP Mehrum GmbH, representing the Germany interests of the Group, will manage the power plant.

Combined Review of Operations

ACQUISITION OF BIOMASSE ITALIA AND BIOMASSE CROTONE

On 15 December 2017, the EPPE Group has acquired from Bioenergie S.P.A. and Api No'Va Energia S.R.L. biomass power plants owned by Biomasse Italia S.P.A. and Biomasse Crotone S.P.A., with a combined capacity of 73 MW. EP New Energy Italia S.R.L., representing the Italy interests of the Group, will manage the biomass power plants.

The acquisition was a part of the EPPE Group´s strategy to expand into the European renewables business. The acquired companies operate in the energy valorisation of the Italian wooden biomass. Italy represents an excellence in this industry at European level. This, through the sustainable and efficient maintenance activities of the wood forests, also generates important environmental benefits, like the prevention of fires and the reduction of hydrogeological risks. Thanks to the removal of wooden materials from the riverbanks, the likelihood of disasters in case of floods is reduced.

ACQUISITION OF JTSD

On 15 December 2017, the EPPE Group has acquired 90% share in JTSD Group ("MIBRAG") from Energetický a průmyslový holding, a.s. MIBRAG operates 2 brown coal mines, 3 conventional cogeneration power plants and a wind farm in Germany. The acquisition of MIBRAG is part of the Group´s long-term strategic plan to strengthen the energy sector activities in Germany.

OTHER MAJOR EVENTS

In February 2017, NATIONAL GRID PLC awarded a Capacity Agreement EGGBOROUGH POWER LIMITED. Under the terms of the agreement, the company will earn a fixed income in return for making capacity available during the period October 2017 to September 2018. This fixed income is an additional payment above the market-derived income that can be earned from commercial despatch of electricity over this period.

On 10 July 2017, Ep Produzione S.P.A. and Fiume Santo S.P.A. received tax assessments from the financial authority totalling approximately EUR 50 million. The tax assessments relate to the registration tax connected with the acquisition of going concerns held by both entities. In accordance with the Asset and Share Purchase Agreement between entities of Energetický a průmyslový holding, a.s. and the sellers (entities from E.ON Group), the EPPE Group should have a full indemnification on these tax assessments by E.ON, therefore no provisions were recorded.

EVENTS THAT OCCURRED AFTER THE REPORTING DATE

TRANSACTION RELATED TO MÁTRAI EROMU ZRT. FROM RWE POWER AND ENBW

On 21 March 2018, EPPE Group together with Status Power Invest Kft., has acquired 72.6% stake in the Hungarian electricity producer Mátrai Eromu Zrt. ("Mátrai") held by RWE Power and EnBW. Buyer's joint venture had a 50-50 ownership split. On 3 May 2018, the Group sold 25.41% stake in Mátrai.

THE CONVERSION OF LYNEMOUTH POWER PLANT TO COMBUSTION OF BIOMASS

The Lynemouth power plant is converting to combustion of biomass, which is expected to produce approximately 2.3 TWh of electricity at low carbon emissions. The expected time of completion is second half of the year 2018. Once completed, this will become one of the biggest biomass plant globally.

OTHER MAJOR EVENTS

EGGBOROUGH POWER LIMITED was not successful in obtaining T-1 capacity contract. Without capacity, contract contribution further operations of Eggborough power plant are no longer economic and it is not anticipated that market conditions would move in favour of coal. Regrettably and consequently, EPPE decided to cease company´s operations and launch process of power plant decommissioning during 2018.

Except for the matters described above and elsewhere in the Annual Report or Notes to the Financial Statements, the Company's management is not aware of any other material subsequent events that could have an effect on the Statutory and Consolidated Financial Statements as at 31 December 2017.

1.3 Business performance

OPERATIONAL PERFORMANCE

PERFORMANCE OF POWER GENERATION ASSETS

EPPE Group consolidates 10.2 GW of net installed power capacity in Germany, the UK and Italy (7.2 GW in 2016). These assets generated 19.7 TWh power (14.3 TWh in 2016). Increase in both installed capacity and generation were impacted namely by acquisitions executed in the year under review. The overall increase in generation was less pronounced compared to capacity additions, as

the generation from the newly acquired assets was consolidated only from the date of each respective acquisition and generation from the existing coal assets in Germany and the UK declined for the third consecutive year.

Capacity increase of 690 MW in Germany is represented by acquisition of Mehrum hard coal plant in November 2017. EPPE Group generated 1.0 TWh of power in Germany (2.4 TWh in 2016). The decrease was caused namely by the fact that Buschhaus lignite plant entered security standby regime in October 2016 and practically ceased generation since. This decrease in generation was partially countered by new consolidation of Mehrum for 2 months since acquisition in 2017.

The UK saw similar development as Germany in terms of additions of new capacity and decrease of generation from existing assets. The 2.3 GW increase in capacity is represented by acquisition of Langage and South Humber Bank, gas-fired power stations. The increase in generation in the UK is attributed namely to new consolidation of these gas plants for 4 months since their acquisition in 2017. On the contrary, generation in Eggborough hard coal plant decreased in yet another year.

The 74 MW capacity increase in Italy is represented by acquisition of Italia and Crotone biomass power plants together with a small adjacent photovoltaic plant. Generation from these newly acquired assets was not yet consolidated in 2017. The increase in Italian generation by 5.4 TWh is attributable largely to our highly efficient gas plants. These were favourably impacted by market conditions including dry year with subsequent low hydro generation and French nuclear outages.

KPI	Unit	2017	2016	2017 - 2016	%
Net installed capacity – Electricity – Total					
EPPE Group					
Germany		1,157	467	690	148%
UK		4,625	2,355	2,270	96%
Italy		4,399	4,324	75	2%
Total – EPPE Group		**10,181**	**7,146**	**3,035**	**42%**

KPI	Unit	2017	2016	2017 - 2016	%
Net power production – Total					
EPPE Group					
Germany		1.0	2.4	(1.4)	-57%
UK		3.7	2.2	1.5	66%
Italy		15.0	9.7	5.3	55%
Total – EPPE Group		**19.7**	**14.3**	**5.4**	**38%**

EPPE owns non-controlling stakes in several power generation companies that are accounted for using the equity method and so are not fully consolidated by EPPE. These companies have a net installed power capacity of 9.0 GW (9.1 GW in 2016) and generated 59.2 TWh power (59.4 TWh in 2016). LEAG Group represents the major share of this.

SUSTAINABILITY PERFORMANCE

EMISSIONS AND ENVIRONMENTAL PROTECTION ACTIVITIES

EPPE Group produced 11.3 million tons of CO_2 emissions (10.2 million tons in 2016) with intensity of 568 ton CO_2/GWh (703 ton CO_2/GWh in 2016). The increase of 1.1 million tons is attributable to increase in Italian power production, compensated by decrease in Germany. Significant decrease of emissions intensity is attributable to improved fuel mix.

KPI	Unit	2017	2016	2017 - 2016	%
Direct GHG Emissions (Scope 1)					
EPPE Group					
Germany		1.4	2.8	(1.4)	-50%
UK		2.0	2.1	(0.1)	-3%
Italy		7.9	5.3	2.6	49%
Total – EPPE Group		**11.3**	**10.2**	**1.1**	**11%**

KPI	Unit	2017	2016	2017 - 2016	%
Emissions intensity – Including heat component					
EPPE Group					
Germany		1,045	1,056	(12)	-1%
UK		551	937	(386)	-41%
Italy		529	551	(22)	-4%
Total – EPPE Group		**568**	**703**	**(135)**	**-19%**

In 2017, the EPPE Group continued to be very active in terms of environmental protection. The companies within the EPPE Group continued to be operated in a manner ensuring their failure-free operation and high efficiency in producing electricity and heat, which has direct impact on the volume of produced emissions.

A number of environmental regulations in the Germany, Italy, United Kingdom, and the European Union regulates the EPPE Group activities. These include regulations governing the discharge and emission of pollutants, the handling of hazardous substances and their disposal, cleaning of contaminated sites and health and safety of employees. For example, EPPE Group is subject to regulations that impose strict limits on emissions of CO_2, sulphur oxides (SO_x), nitrogen oxides (NO_x), carbon monoxide (CO) and solid dust particles emissions (SDP).

Although the EPPE Group currently does not employ an environmental policy at the Group level, the respective subsidiaries implement their own policies focused on meeting the legislative requirements and on mitigating the environmental footprint of EPPE Group. This affects not only the activities

for which EPPE Group seeks to minimise their impact on the environment but also the investment activities.

EPPE Group will continue to maintain its compliance with the environmental legislative requirements.

In 2017, the British Standards Institution assessed Lynemouth Power Station’s management systems against the internationally recognised ISO 14001 (environment) and ISO 50001 (energy) standards. The plant passed this stringent examination with no ‘non-conformities’ identified and the auditor gave positive feedback on management systems, waste and contractor management.

EPPE Group also owns and operates other smaller renewable energy generation assets (solar, biomass, wind and hydro) in Italy and Germany, as part of EP Produzione and MIBRAG. The biomass conversion project underway in Lynemouth, together with the acquisition of Italian biomass power plants prove the aim of the EPPE Group to take environmental matters very seriously within the organisation and be prepared to invest significant financial proceeds in projects decreasing the carbon footprint while securing stability of supply in the power grid.

The EPPE Group enjoys a positive image in the market and a significant level of political and public support resulting from the fact that several of its production facilities operate in a highly efficient combined cogeneration mode that has much lower CO_2 emissions than a typical power plant. As a result, EPPE saves energy, avoids network losses and improves the security of Europe’s internal energy supply.

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

EMPLOYMENT RELATIONS AND EMPLOYEES

The main strengths of the EPPE Group include good relations with employees and their loyalty. The Group maintain good and fair relations with the trade unions within the entities of Group through regular meetings and discussions on labour, social and wage related issues. Safety and quality management covers health protection at work, safety management system, technology and human resources all of which are an integral part of the management of the Group.

The management believes that that the Group, its companies and equipment comply with all legislative requirements and best practice methods. Moreover, they are constantly striving to improve the safety level of the Group´s activities by introducing measures focused on risk assessment, elimination, mitigation and prevention. The Group also provides general training programs on employee safety and when selecting or assessing potential suppliers, the Group also takes into account their approach and attitude towards security issues.

EPPE employees are interested in overall EPPE economic performance. As internal stakeholders, they are engaged in business issues at the local level, being especially interested in the performance of the subsidiary they work for.

The average number of employees in EPPE Group during 2017 was 3,416 (3,352 in 2016), of which 81 were executives (63 in 2016). The increase in employees is attributable to recent acquisitions countered by decrease in Germany, associated with a decrease of mining activity.

KPI	Unit	2017	2016	2017 - 2016	%
Headcount					
EPPE Group					
Czech Republic		65	15	50	333%
Germany		2,435	2,473	(38)	-2%
UK		414	370	44	12%
Italy		503	494	9	2%
Total – EPPE Group		**3,416**	**3,352**	**64**	**2%**

KPI	Unit	2017	2016	2017 - 2016	%
Headcount					
EPPE Group					
Executives		81	63	19	30%
Other Employees		3,335	3,289	46	1%
Total – EPPE Group		**3,416**	**3,352**	**64**	**2%**

CORRUPTION AND BREACHES

EPPE maintains consistently high standards in ethics throughout its operations and supply chain and does not tolerate corruption at any level. Any breaches of this could result in major and serious reputational damage to the Company. Compliance requirements are factored into all decisions when entering into business relations with suppliers or business partners. While these principles were adhered to in the past, their importance is increasing in today's environment and as such, EPPE, including all subsidiaries, adheres to overall formalised policy applicable across the parent company EPH.

EPPE strives to operate all its facilities safely and in compliance with licensing regulations at all times. The compliance with such systems is ensured with regular on-site checks. In addition, the Company regularly undertake analyses and evaluations of environmental issues in order to assess their relevance for its companies. The main focus of our internal compliance management is to raise the level of awareness among its employees in order to prevent any possible breaches.

FINANCIAL PERFORMANCE

EPPE achieved impressive financial results in the year under the review. Results reflect positive market development on the revenue side as well as cautious approach towards expenses, with further enhancement coming from the impact of new acquisitions and expected finalization of Lynemouth.

SALES

Sales of EPPE Group reached EUR 2,849 million (EUR 1,905 million in 2016). The extensive increase is attributable to great performance of the Generation and Mining segment. Particularly the Italian generation assets increased revenue significantly, driven by increased production volumes. The acquisitions in the UK and in Germany had also positive impact on sales. Another steep increase in EPPE Other sales reflected extended flows channelled via the in-house trading entity EP Commodities, a.s.

External Sales	Unit	2017	2016	2017 - 2016	%
EPPE Group					
Generation and Mining		2,101	1,534	567	37%
Renewable Energy		69	2	67	33,5x
EPPE Other		678	369	309	84%
Holding Entities		1	-	1	-
Total EPPE Group		**2,849**	**1,905**	**944**	**50%**

EBITDA

EBITDA of EPPE Group reached EUR 304 million (EUR 137 million in 2016). The presented EBITDA is defined as profit from operations plus depreciation and amortisation and is further netted for eventual impact of negative goodwill. Apart from this, the EBITDA calculation does not include any further adjustments.

The increase in EBITDA is attributable mainly to improved performance of our Italian generation assets as well as to the positive impact of first consolidation of newly acquired generation assets in the UK. These were consolidated for 4 months in 2017; full EBITDA impact should materialize in 2018. Further positive impact was felt from the security of supply-induced earnings in both the UK and Germany. Renewable Energy segment posted negative EBITDA result attributable to continued funding of Lynemouth operating expenses during the ongoing biomass conversion project. Once the conversion project is completed, Lynemouth should make an important EBITDA contribution. The acquisition of biomass assets in Italy had no impact on EBITDA in 2017, as it was completed only towards the end of the year and the full EBITDA impact should materialise in 2018.

EBITDA	Unit	2017	2016	2017 - 2016	%
EPPE Group					
Generation and Mining		347	164	183	112%
Renewable Energy		-34	-25	-9	36%
EPPE Other		-2	-1	-1	100%
Holding Entities		-6	-	-6	-
Inter-segment eliminations		-1	-1	-	-
Total EPPE Group		**304**	**137**	**167**	**122%**

CAPEX

CAPEX of EPPE Group reached EUR 293 million (EUR 346 million in 2016). The presented CAPEX is defined as additions to tangible and intangible assets excluding any potential impact of expenses for emissions rights, which might be categorized as CAPEX under the IFRS rules. The 15% decrease in CAPEX is explained to large extent by non-recurrence of outage expenditures as well as environmentally induced flue gas desulphurisation investments from 2016 on the Italian assets in the Generation and Mining segment. On the other hand, Renewable Energy segment sustained high capital expenditures driven by the ongoing Lynemouth biomass conversion project.

CAPEX	Unit	2017	2016	2017 - 2016	%
EPPE Group					
Generation and Mining		92	158	-66	-42%
Renewable Energy		200	188	12	6%
EPPE Other		1	-	1	-
Holding Entities		-	-	-	-
Inter-segment eliminations		-	-	-	-
Total EPPE Group		**293**	**346**	**-53**	**-15%**

NET FINANCIAL DEBT AND LEVERAGE

Net financial debt stood at EUR 814 million at the end of the year under review (EUR 128 million in 2016). Net financial debt is influenced by the financial resources provided by the parent company of EP Power Europe in the amount of EUR 678 million in 2017 (EUR 97 million in 2016). Excluding those resources, the net financial debt stood at EUR 136 million (EUR 31 million in 2016).

The presented figures is calculated summing up Loans and borrowings, netted for Cash and cash equivalents.

The key drivers behind the increase in Net financial debt were new acquisitions and continuation of Lynemouth biomass conversion project.

The new acquisition of UK, Italian and German generation assets had overall impact in higher triple digit EUR million. Full impact on earnings of the newly acquired companies shall materialize in the coming years.

The significant financial proceeds were utilised for capital and operating expenditure on the Lynemouth project and are presented in under respective figures in Renewable Energy segment. This impact shall reverse to positive contribution, once Lynemouth is successfully commissioned.

Leverage stood at 2.7x in 2017 (0.9x in 2016), the increase was mainly given due above mentioned investments and EBITDA not capturing the full performance of the said assets. In case the full year contribution of new acquisitions and expected performance of the Lynemouth biomass plant are taken into account, the Leverage would be noticeably lower. Excluding resources mentioned above, the leverage stood at 0.4x in 2017 (0.2x in 2016).

Net financial debt and Leverage	Unit	2017	2016	2017 - 2016	%
Loans and borrowings	million EUR	1,002	436	566	130%
out of which: loans and borrowings provided by EPH	million EUR	678	97	581	596%
Cash and cash equivalents	million EUR	188	308	-120	-39%
Net financial debt	**million EUR**	**814**	**128**	**686**	**536%**
Net financial debt (excl. loans and borrowings provided by EPH)	**million EUR**	**136**	**31**	**105**	**345%**
EBITDA	million EUR	304	137	167	122%
Leverage	**million EUR**	**2.7**	**0.9**	**1.7**	**187%**
Leverage (excl. loans and borrowings provided by EPH)	**million EUR**	**0.4**	**0.2**	**0.2**	**101%**

1.4 Other Information

DESCRIPTION OF THE DIVERSITY POLICY APPLIED TO THE STATUTORY BODY, SUPERVISORY BODY OR OTHER SIMILAR BODY

The Company does not apply a diversity policy; however, when taking positions in its bodies, it treats all candidates impartially, irrespective of their age, gender, religion, ethnic origin, nationality, sexual orientation, disability, belief or worldview, and considers solely the candidate´s skills and expertise. The Company believes that a dynamic approach, unbounded on fixed quotas, leads to the selection of the highest-quality candidates and best ensures the fulfilment of its business goals. The Company consistently complies with all the requirements of Act No. 198/2009 Coll., on equal treatment and legal means of protection against discrimination.

RIGHTS AND OBLIGATIONS ASSOCIATED WITH SHARES

Act No. 90/2012 Coll., Commercial Companies, as amended, and the Company´s Articles of Association govern the rights and obligations associated with the Company´s shares. The current version of Articles of Association is placed into the collection of documents of the Commercial Register maintained by the Municipal Court in Prague.

LEI CODE

The company EP Power Europe, a.s. was registered with LEI (Legal Entity Identifier) code No. 31570057DWBI3XH9SZ23 CDCP (Centrální depozitář cenných papírů). LEI code of other companies within the EPH Group can be found on http://www.lei-lookup.com/.

BRANCHES

The EPPE Group has no organizational unit or another branch abroad.

RESEARCH AND DEVELOPMENT ACTIVITIES

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

ACQUISITION OF OWN SHARES OR OWN OWNERSHIP INTERESTS

During the 2017, EPPE Group did not acquire any own shares or ownership interests within the Group.

RISKS AND RISK MANAGEMENT POLICIES

The EPPE Group is exposed to a variety of financial and market risks. The risk management policies are set out in the notes to the consolidated financial statements.

IMPACT OF BREXIT

Now, the exact conditions of Brexit and post-Brexit cooperation between United Kingdom and European Union are not yet known. Impact of Brexit on EPPE Group therefore cannot be comprehensively evaluated. We expect following chapters to be of the highest relevance:

(i) rules concerning power and gas flows between United Kingdom And European Union;

(ii) rules related to state aid issue which impacts various subsidy programmes;

(iii) impact on decarbonisation policy.

In the previous years, we have experienced high volatility of British sterling and its depreciation compared to other major currencies. This had so far positive impact on EPPE Group.

OUTLOOK FOR 2018

EPPE Group intends to continue to develop its activities within the Group and expects to achieve positive financial results in the following years.

Profitability in the EPPE group shall increase as a result of first full year earnings contribution from companies acquired during 2017 as well as positive earnings impact expected with the commissioning of the Lynemouth biomass power plant. This positive trend may be partially countered by normalisation of market conditions compared to 2017.

EP Power Europe

2 Management Statement

ANNUAL REPORT 2017

The Board of Directors and the Executive Board have today considered and adopted the Annual Report of EP Power Europe, a.s. (further “the Company”) for the year ended 31 December 2017, which is prepared in accordance with the Czech accounting legislation.

The Statutory Financial Statements of the Company have been prepared in compliance with Act No. 563/1991 Coll., on Accounting, as amended, and relevant regulations and decrees applicable to entrepreneurs, in particular Decree No. 500/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll., on Accounting.

The Consolidated Financial Statements of the EPPE Group have been prepared in accordance with International accounting standards (IAS) and International Financial Reporting Standards (IFRS) issued by International Accounting Standards Board (IASB), as adopted by the European Union.

In our opinion, the both accompanying financial statements give true and fair view of the assets, liabilities, financial position, profit or loss as well as cash flows for the financial year 2017. In addition, the Group´s review of operations includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal opportunities and risks associated with the expected development of the Group.

We recommend the Consolidated annual report for authorisation and approval at the Annual General Meeting.

Prague, 15 June 2018

Mgr. Marek Spurný

Vice-Chairman of the Board of Directors

Mgr. Pavel Horský

Vice-Chairman of the Board of Directors

EP Power Europe

3 Report on Relations

ANNUAL REPORT 2017

Report on Relations

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

–

prepared by the Board of Directors of **EP Power Europe, a.s.** (“the Company”), with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 278 58 685, in accordance with Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended).

(the “**Report**”)

I. PREAMBLE

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

The Report has been submitted for review to the Company’s Supervisory Board in accordance with Section 83 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended), and the Supervisory Board’s position will be communicated to the Company’s General Meeting deciding on the approval of the Company’s ordinary financial statements and on the distribution of the Company’s profits or the settlement of its loss.

The Report has been prepared for the 2017 accounting period.

II. STRUCTURE OF RELATIONS BETWEEN THE ENTITIES

CONTROLLED ENTITY

The controlled entity is EP Power Europe, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 278 58 685, recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, insert 21599.

DIRECT CONTROLLING ENTITY

Energetický a průmyslový holding, a.s.
Registered office: Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
ID No.: 283 56 250

INDIRECT CONTROLLING ENTITY

EP Investment S.à.r.l.
Registered office: 39A, Avenue J.F. Kennedy, L – 1855 Luxembourg, Luxembourg
Reg. No.: B 184488

OTHER CONTROLLED ENTITIES

The companies controlled by the same controlling entities are disclosed in note 35 to the consolidated financial statements of the controlled entity.

III. ROLE OF THE CONTROLLED ENTITY; METHOD AND MEANS OF CONTROL

ROLE OF THE CONTROLLED ENTITY

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

METHOD AND MEANS OF CONTROL

The controlling entities hold a majority share of voting rights in EP Power Europe, a.s. over which they exercise a controlling influence.

IV. OVERVIEW OF ACTS SPECIFIED BY SECTION 82 (2) (D) OF ACT NO. 90/2012 COLL., THE CORPORATIONS ACT

The Company was part of a merger by acquisition with the decisive date of 1 May 2017. This merger was recorded by the Commercial Court on 11 December 2017.

On 23 June 2017, Energetický a průmyslový holding, a.s. decided to increase the share capital of EP Power Europe, a.s.

A share subscription agreement concluded between EP Power Europe, a.s. as the issuer and Energetický a průmyslový holding, a.s. as the subscriber, was signed on 14 July 2017.

In 2017, a contribution was made into the other capital funds of EPPE Germany, a.s., a subsidiary, and the Company acquired shares in NADURENE a.s. and EPPE Italy N.V.

Apart from matters mentioned above, during the 2017 accounting period, no act was carried out in the interest or at the initiative of the controlling entity or entities controlled by the controlling entity that would relate to assets exceeding 10% of the controlled entity's equity as presented in the latest financial statements.

V. AGREEMENTS CONCLUDED BETWEEN EP POWER EUROPE, A.S. AND OTHER RELATED ENTITIES

V.1.1. IN 2017 THE FOLLOWING LOAN AGREEMENTS WERE IN PLACE

On 4 February 2015, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP UK Investments Ltd as the debtor. On 15 December 2016, the receivable was assigned by virtue of an agreement on assignment of receivable to EP United Kingdom, s.r.o. In 2017, EP Power Europe, a.s. became the legal successor of EP United Kingdom, s.r.o.

On 13 April 2016, a loan agreement, including valid amendments, was signed by and between EP Power Europe, a.s. (formerly RILENTAR a.s.) as the creditor and EPPE Germany, a.s. (formerly PLACER CIERTA a.s.) as the debtor.

On 13 April 2016, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. (formerly RILENTAR a.s.) as the debtor.

On 21 December 2016, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 21 December 2016, a loan agreement was signed by and between EP Power Europe, a.s. as the creditor and EP United Kingdom, s.r.o. as the debtor.

On 15 January 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 15 January 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 13 February 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 13 February 2017, a loan agreement was signed by and between EP Power Europe, a.s. as the creditor and Lynemouth Power Limited as the debtor.

On 15 February 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 2 June 2017, a loan agreement was signed by and between EP Power Europe, a.s. as the creditor and EPPE Germany, a.s. as the debtor.

On 1 July 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EP Power Europe, a.s. as the creditor.

On 1 July 2017, a loan agreement was signed by and between EP Power Europe, a.s. as the creditor and EP Commodities, a.s. as the debtor.

On 1 August 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 1 August 2017, a loan agreement was signed by and between EP Power Europe, a.s. as the creditor and EP United Kingdom, s.r.o. as the debtor.

On 27 October 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 27 October 2017, a loan agreement was signed by and between EP Power Europe, a.s. as the creditor and EPPE Germany, a.s. as the debtor.

On 14 November 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 14 November 2017, a loan agreement was signed by and between EP Power Europe, a.s. as the creditor and EP UK Investments Ltd as the debtor.

On 29 November 2017, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

On 6 December 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Power Europe, a.s. as the debtor.

V.1.2. IN 2017 THE FOLLOWING AGREEMENTS ON THE CONTRIBUTION INTO THE OTHER CAPITAL FUNDS WERE CONCLUDED

On 15 November 2017, an agreement on the contribution into the other capital funds was signed with EP Power Europe, a.s. as the shareholder and NADURENE a.s.

On 20 December 2017, an agreement on the contribution into the other capital funds was signed with EP Power Europe, a.s. as the shareholder and EPPE Germany, a.s.

V.1.3. OTHER CONTRACTS VALID IN 2017

On 1 July 2017, an agreement on assumption of debt was signed by and between EP Commodities, a.s. as the creditor, Energetický a průmyslový holding, a.s. as the debtor and EP Power Europe, a.s. as the new debtor.

On 1 July 2017, an agreement on the set-off receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Power Europe, a.s.

On 1 July 2017, an agreement on the set-off receivables was signed by and between EP Power Europe, a.s. and EP Commodities, a.s.

On 31 July 2017, an agreement on the set-off receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Power Europe, a.s.

On 1 December 2017, a framework agreement on the provision of guarantees was signed by and between Energetický a průmyslový holding, a.s. as the guarantor and EP Power Europe, a.s. as the debtor.

On 20 December 2017, an agreement on assignment of receivable was signed by and between Energetický a průmyslový holding, a.s. as the assignee and EP Power Europe, a.s. as the assignor, against EPPE Germany, a.s.

On 20 December 2017, an agreement on the set-off receivables was signed by and between EP Power Europe, a.s. and EPPE Germany, a.s.

On 20 December 2017, an agreement on the set-off receivables was signed by and between EP Power Europe, a.s. and Energetický a průmyslový holding, a.s.

V.1.4. IN 2017 THE FOLLOWING OPERATING AGREEMENTS WERE IN PLACE

An agreement on providing professional assistance dated 12 April 2016 concluded between EP Power Europe, a.s. (formerly RILENTAR, a.s.) as the interested party and EP Investment Advisors, s.r.o. as the provider.

An agreement on providing professional assistance concluded between EP Power Europe, a.s. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2017.

An agreement on the sublease of business premises dated 2 November 2017 concluded between EP Power Europe, a.s. as the sub-lessee and EP Investment Advisors, s.r.o. as the lessee.

Report on Relations

V.2. OTHER JURIDICAL ACTS MADE BETWEEN EP POWER EUROPE, A.S. AND OTHER RELATED ENTITIES

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

EP Power Europe, a.s. did not adopt or carry out any other juridical acts or measures in the interest or at the initiative of related entities.

V.3. TRANSACTIONS, RECEIVABLES AND PAYABLES OF EP POWER EUROPE, A.S. VIS-À-VIS RELATED ENTITIES

The receivables and payables of EP Power Europe, a.s. from/to related entities as at 31 December 2017 are disclosed in the notes to the financial statements.

VI.

We hereby confirm that we have included in this Report on relations between related entities of EP Power Europe, a.s. prepared pursuant to Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended), for the accounting period from 1 January 2017 to 31 December 2017, all information regarding:

- agreements between related entities;
- supplies and considerations provided to related entities;
- other juridical acts carried out in the interest of related entities; and
- all measures taken or implemented in the interest or at the initiative of related entities that was known to us as at the date of this Report.

In addition, the Board of Directors of EP Power Europe, a.s. declares that EP Power Europe, a.s. incurred no damage as a result of the actions of the controlling entity or of any entity controlled by the same entity. All transactions between the controlled entity and the controlling entity/entities controlled by the same controlling entity were concluded at arm's length. The contractual and other relations with related entities resulted in no loss or financial advantage or disadvantage to EP Power Europe, a.s.

In Prague, on 29 March 2018

Mgr. Marek Spurný

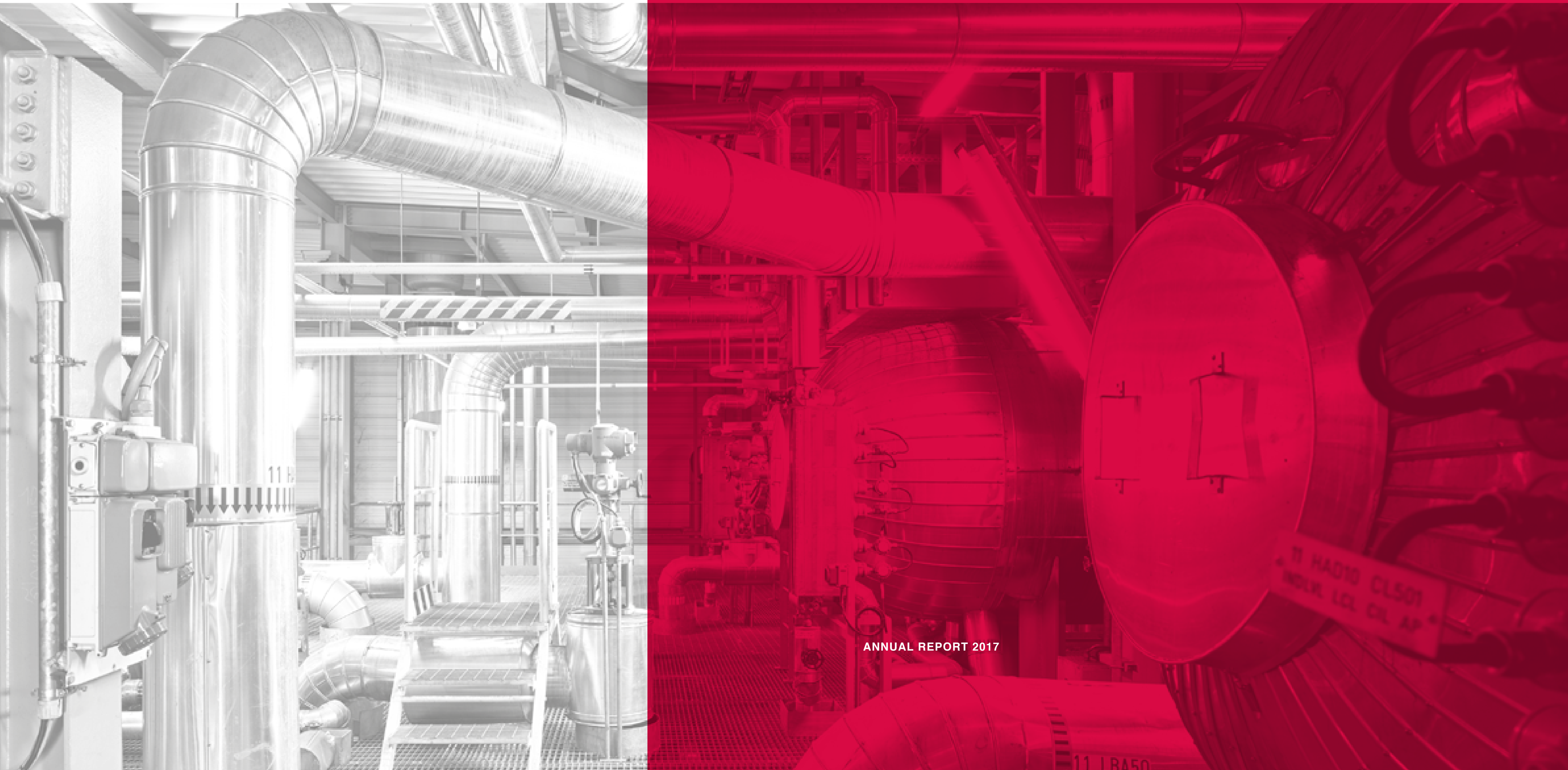
Vice-chairman of the Board of Directors

Mgr. Pavel Horský

Vice-chairman of the Board of Directors

EP Power Europe

4 Consolidated Financial Statements



ANNUAL REPORT 2017

EP Power Europe

Independent Auditor's Report
to the Consolidated Financial Statements

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

Independent Auditor's Report to the Shareholders of EP Power Europe, a.s.

Opinion

We have audited the accompanying consolidated financial statements of EP Power Europe, a.s. ("the Company"), prepared in accordance with International Financial Reporting Standards as adopted by the European Union, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Statutory Auditor Responsible for the Engagement

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

Prague
15 June 2018

KPMG Česká republika Audit

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

Vladimír Dvořáček
Partner
Registration number 2332

EP Power Europe

Consolidated Financial Statements

as of and for the year ended 31 December 2017

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

Consolidated statement of comprehensive income

For the year ended 31 December 2017
In millions of EUR ("MEUR")

	Note	2017	2016
Sales: Energy	6	2,713	1,814
of which: Electricity		*1,746*	*1,209*
Gas		*696*	*360*
Coal		*267*	*242*
Heat		*2*	*2*
Other energy products		*2*	*1*
Sales: Other	6	156	97
Gain (loss) from commodity derivatives for trading with electricity and gas, net		(20)	(6)
Total sales		**2,849**	**1,905**
Cost of sales: Energy	7	(1,870)	(1,058)
Cost of sales: Other	7	(65)	(57)
Total cost of sales		**(1,935)**	**(1,115)**
Subtotal		**914**	**790**
Personnel expenses	8	(259)	(286)
Depreciation and amortisation	15, 16	(180)	(169)
Repairs and maintenance		(47)	(54)
Emission rights, net	9	(83)	(46)
Negative goodwill	5	54	-
Taxes and charges	10	(59)	(52)
Other operating income	11	50	29
Other operating expenses	12	(212)	(244)
Profit (loss) from operations		**178**	**(32)**
Finance income	13	17	9
Finance expense	13	(48)	(50)
Profit (loss) from financial instruments	13	(18)	23
Net finance income (expense)		**(49)**	**(18)**
Share of profit (loss) of equity accounted investees, net of tax	17	88	281
Profit (loss) before income tax		**217**	**231**
Income tax expenses	14	(40)	(9)
Profit (loss) for the year		**177**	**222**

	Note	2017	2016
Items that are or may be reclassified subsequently to profit or loss:			
Foreign currency translation differences from foreign operations	14	(60)	(5)
Foreign currency translation differences from presentation currency	14	42	2
Effective portion of changes in fair value of cash-flow hedges, net of tax	14	(39)	165
Fair value reserve included in other comprehensive income, net of tax	14	(6)	(24)
Other comprehensive income for the year, net of tax		**(63)**	**138**
Total comprehensive income for the year		**114**	**360**
Profit (loss) attributable to:			
Owners of the Company		178	226
Non-controlling interest		(1)	(4)
Profit (loss) for the year		**177**	**222**
Total comprehensive income attributable to:			
Owners of the Company		114	365
Non-controlling interest		-	(5)
Total comprehensive income for the year		**114**	**360**
Total basic and diluted earnings per share in EUR	25	**2,437.89**	**3,095.30**

The notes presented on pages 70 to 171 form an integral part of these consolidated financial statements.

Consolidated statement of financial position

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

	Note	31 December 2017	31 December 2016	1 January 2016
Assets				
Property, plant and equipment	15	1,824	1,228	1,055
Intangible assets	16	88	142	85
Goodwill	16	41	5	36
Equity accounted investees	17	512	438	154
Restricted cash	22	23	29	32
Financial instruments and other financial assets	29	54	43	44
Trade receivables and other assets	20	85	28	25
Deferred tax assets	18	66	55	61
Total non-current assets		**2,693**	**1,968**	**1,492**
Inventories	19	181	103	96
Extracted minerals and mineral products		7	6	9
Trade receivables and other assets	20	466	224	243
Financial instruments and other financial assets	29	209	144	165
Prepayments and other deferrals		26	14	88
Tax receivables	23	101	79	54
Restricted cash	22	7	-	5
Cash and cash equivalents	21	188	308	155
Total current assets		**1,185**	**878**	**815**
Total assets		**3,878**	**2,846**	**2,307**
Equity				
Share capital	24	555	(1) -	-
Other reserves	24	(330)	327	119
Retained earnings		679	506	281
Total equity attributable to equity holders		904	833	400
Non-controlling interest	26	55	57	59
Total equity		**959**	**890**	**459**

	Note	31 December 2017	31 December 2016	1 January 2016
Liabilities				
Loans and borrowings	27	299	302	488
Financial instruments and financial liabilities	29	3	-	-
Provisions	28	779	682	686
Deferred tax liabilities	18	43	55	50
Trade payables and other liabilities	30	86	92	102
Total non-current liabilities		**1,210**	**1,131**	**1,326**
Trade payables and other liabilities	31	721	455	336
Loans and borrowings	27	703	134	23
Financial instruments and financial liabilities	29	70	13	6
Provisions	28	203	197	143
Current income tax liability		12	26	14
Total current liabilities		**1,709**	**825**	**522**
Total liabilities		**2,919**	**1,956**	**1,848**
Total equity and liabilities		**3,878**	**2,846**	**2,307**

(1) As at 31 December 2016, EP Power Europe, a.s. reported share capital in amount of CZK 2 million (approximately EUR 74 thousand). On 23 June 2017 share capital of the Company increased by CZK 14,601 million (approximately EUR 555 million).

The notes presented on pages 70 to 171 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2017
In millions of EUR ("MEUR")

	Attributable to owners of the Company												
	Share capital	Share premium	Reserve for own shares	Other capital funds from capital contributions	Non-distributable reserves	Translation reserve	Fair value reserve	Other capital reserves	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total Equity
Balance as at 1 January 2017 (A)	**-**	**-**	**-**	**65**	**-**	**9**	**(28)**	**116**	**165**	**506**	**833**	**57**	**890**
Total comprehensive income for the year:													
Profit or loss (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**178**	**178**	**(1)**	**177**
Other comprehensive income:													
Foreign currency translation differences for foreign operations	-	-	-	-	-	(57)	-	-	-	-	(57)	(3)	**(60)**
Foreign currency translation differences from presentation currency	-	-	-	-	-	38	-	-	-	-	38	4	**42**
Fair value reserve included in other comprehensive income, net of tax	-	-	-	-	-	-	(6)	-	-	-	(6)	-	**(6)**
Effective portion of changes in fair value of cash-flow hedges, net of tax	-	-	-	-	-	-	-	-	(39)	-	(39)	-	**(39)**
Total other comprehensive income (C)	**-**	**-**	**-**	**-**	**-**	**(19)**	**(6)**	**-**	**(39)**	**-**	**(64)**	**1**	**(63)**
Total comprehensive income for the year (D) = (B + C)	**-**	**-**	**-**	**-**	**-**	**(19)**	**(6)**	**-**	**(39)**	**178**	**114**	**-**	**114**
Contributions by and distributions to owners:													
Increase of share capital	555	-	-	-	-	-	-	-	-	-	555	-	**555**
Contribution to equity	-	-	-	16	-	-	-	-	-	-	16	-	**16**
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-	(2)	**(2)**
Transfer to non-distributable reserves – creation of legal fund	-	-	-	-	5	-	-	-	-	(5)	-	-	**-**
Total contributions by and distributions to owners (E)	**555**	**-**	**-**	**16**	**5**	**-**	**-**	**-**	**-**	**(5)**	**571**	**(2)**	**569**
Changes in ownership interests in subsidiaries:													
Effect of acquisition under common control (Note 5)	-	-	-	-	-	-	-	(614)	-	-	(614)	-	**(614)**
Total changes in ownership interests in subsidiaries (F)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(614)**	**-**	**-**	**(614)**	**-**	**(614)**
Total transactions with owners (G) = (E + F)	**555**	**-**	**-**	**16**	**5**	**-**	**-**	**(614)**	**-**	**(5)**	**(43)**	**(2)**	**(45)**
Balance as at 31 December 2017 (H) = (A + D + G)	**555**	**-**	**-**	**81**	**5**	**(10)**	**(34)**	**(498)**	**126**	**679**	**904**	**55**	**959**

The notes presented on pages 70 to 171 form an integral part of these consolidated financial statements.

For the year ended 31 December 2016

In millions of EUR ("MEUR")

	Attributable to owners of the Company												
	Share capital	**Share premium**	**Reserve for own shares**	**Other capital funds from capital contributions**	**Non-distributable reserves**	**Translation reserve**	**Fair value reserve**	**Other capital reserves**	**Hedging reserve**	**Retained earnings**	**Total**	**Non-controlling interest**	**Total Equity**
Balance as at 1 January 2016 (A)	**-**	**-**	**-**	**-**	**-**	**12**	**(5)**	**112**	**-**	**280**	**399**	**59**	**458**
Total comprehensive income for the year:													
Profit or loss (B)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**226**	**226**	**(4)**	**222**
Other comprehensive income:													
Foreign currency translation differences for foreign operations	-	-	-	-	-	(5)	-	-	-	-	(5)	-	**(5)**
Foreign currency translation differences from presentation currency	-	-	-	-	-	2	-	-	-	-	2	-	**2**
Revaluation reserve included in other comprehensive income, net of tax	-	-	-	-	-	-	(23)	-	-	-	(23)	(1)	**(24)**
Effective portion of changes in fair value of cash-flow hedges, net of tax	-	-	-	-	-	-	-	-	165	-	165	-	**165**
Total other comprehensive income (C)	**-**	**-**	**-**	**-**	**-**	**(3)**	**(23)**	**-**	**165**	**-**	**139**	**(1)**	**138**
Total comprehensive income for the year (D) = (B + C)	**-**	**-**	**-**	**-**	**-**	**(3)**	**(23)**	**-**	**165**	**226**	**365**	**(5)**	**360**
Contributions by and distributions to owners:													
Contributions to equity	-	-	-	65	-	-	-	64	-	-	129	7	**136**
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-	(4)	**(4)**
Total contributions by and distributions to owners (E)	**-**	**-**	**-**	**65**	**-**	**-**	**-**	**64**	**-**	**-**	**129**	**3**	**132**
Changes in ownership interests in subsidiaries:													
Effects from acquisitions under common control (Note 5)	-	-	-	-	-	-	-	(60)	-	-	(60)	-	**(60)**
Total changes in ownership interests in subsidiaries (F)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(60)**	**-**	**-**	**(60)**	**-**	**(60)**
Total transactions with owners (G) = (E + F)	**-**	**-**	**-**	**65**	**-**	**-**	**-**	**4**	**-**	**-**	**69**	**3**	**72**
Balance as at 31 December 2016 (H) = (A + D + G)	[1]**-**	**-**	**-**	**65**	**-**	**9**	**(28)**	**116**	**165**	**506**	**833**	**57**	**890**

(1) As at 31 December 2016, EP Power Europe, a.s. reported share capital in amount of CZK 2 million (approximately EUR 74 thousand). On 23 June 2017 share capital of the Company increased by CZK 14,601 million (approximately EUR 555 million).

The notes presented on pages 70 to 171 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

Consolidated statement of cash flows

For the year ended 31 December 2017
In millions of EUR ("MEUR")

	Note	2017	2016
OPERATING ACTIVITIES			
Profit (loss) for the year		177	222
Adjustments for:			
Income taxes	14	40	9
Depreciation and amortisation	15, 16	180	169
Dividend income	13	(2)	-
Impairment losses on property, plant and equipment, intangible assets and financial assets	12, 13	-	29
Non-cash (gain) loss from commodity derivatives for trading with electricity and gas, net		20	6
(Gain) loss on disposal of property, plant and equipment, investment property and intangible assets	11	(6)	(1)
Emission rights	9	83	46
Share of (profit) loss of equity accounted investees	17	(88)	(281)
(Gain) loss on financial instruments	13	18	(23)
Net interest expense	13	17	22
Change in allowance for impairment to trade receivables and other assets, write-offs		4	1
Change in provisions		24	64
Negative goodwill	5	(54)	-
Unrealised foreign exchange (gains) losses, net		(34)	(38)
Operating profit before changes in working capital		**379**	**225**
Change in trade receivables and other assets		(240)	70
Change in inventories (including proceeds from sale)		(11)	(6)
Change in extracted minerals and mineral products		(1)	3
Change in trade payables and other liabilities		150	63
Change in restricted cash		(2)	8
Cash generated from (used in) operations		**275**	**363**
Interest paid		(11)	(20)
Income taxes paid		(73)	(24)
Cash flows generated from (used in) operating activities		**191**	**319**

	Note	2017	2016
INVESTING ACTIVITIES			
Dividends received from associates and joint-ventures		2	-
Change in financial instruments not at fair value		(10)	-
Loans provided to the owners		(76)	(119)
Repayment of loans provided to the owners		23	63
Proceed (outflows) from sale (settlement) of financial instruments		(56)	113
Acquisition of property, plant and equipment and intangible assets	15, 16	(293)	(346)
Purchase of emission rights	16	(4)	(97)
Proceeds from sale of emission rights		10	-
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		7	9
Acquisition of subsidiaries and special purpose entities, net of cash acquired	5	(164)	(39)
Interest received		7	5
Cash flows from (used in) investing activities		**(554)**	**(411)**
FINANCING ACTIVITIES			
Contribution to equity from shareholders		-	10
Proceeds from loans received		575	593
Repayment of borrowings		(335)	(359)
Dividends paid		(2)	(4)
Cash flows from (used in) financing activities		**238**	**240**
Net increase (decrease) in cash and cash equivalents		*(125)*	*148*
Cash and cash equivalents at beginning of the year		**308**	**155**
Effect of exchange rate fluctuations on cash held		5	5
Cash and cash equivalents at end of the year		**188**	**308**

The notes presented on pages 70 to 171 form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Background

EP Power Europe, a.s. (the “Parent Company” or “the Company” or “EPPE” or “power subholding”) is a joint-stock company, with its registered office at Pařížská 130/26, 110 00 Praha 1, Czech Republic. The Company was founded on 13 July 2008 and acquired by Energetický a průmyslový holding, a.s. (“EPH”) on 13 April 2016.

The main activities of the EPPE Group are corporate investments in the power generation, coal mining and commodity trading sectors.

On 23 June 2017 the Company’s shareholder decided to issue new shares. This issue of shares increased share capital of the Company by EUR 555 million (CZK 14 601 million).

The consolidated financial statements of the Company for the year ended 31 December 2017 comprise the statements of the Parent Company and its subsidiaries (together referred to as the “Group” or “EPPE Group”) and the Group’s interests in associates and joint ventures. The Group entities are listed in Note 35 – Group entities.

The shareholders of the Company as at 31 December 2017 were as follows:

In millions of EUR

	Interest in share capital		Voting rights
	MEUR	%	%
Energetický a průmyslový holding, a.s.	555	100.00	100.00
Total	**555**	**100.00**	**100.00**

The shareholders of the Company as at 31 December 2016 were as follows:

In millions of EUR

	Interest in share capital		Voting rights
	MEUR	%	%
Energetický a průmyslový holding, a.s.	0.07	100.00	100.00
Total	**0.07**	**100.00**	**100.00**

The shareholders of Energetický a průmyslový holding, a.s. as at 31 December 2017 were as follows:

In millions of EUR

	Interest in share capital		Voting rights
	MEUR	%	%
EP Investment S.à.r.l.	81	37.10	53.00
EP Investment II S.à.r.l. (owned by Daniel Křetínský)	71	32.90	47.00
Own shares(1)	-	30.00	-
Total	**152**	**100.00**	**100.00**

(1) In 2017, EPH acquired 30% of its own shares, 2.17% from each MILEES LIMITED and EP Investment S.à.r.l. and 25.66% from BIQUES LIMITED. As at 31 December 2017, these shares were reported within EPH’s equity as the shares were not yet cancelled.

The shareholders of Energetický a průmyslový holding, a.s. as at 31 December 2016 were as follows:

In millions of EUR

	Interest in share capital		Voting rights
	MEUR	%	%
BIQUES LIMITED (part of J&T PARTNERS I L.P.)	54	25.66	25.66
MILEES LIMITED (part of J&T PARTNERS II L.P.)	77	37.17	37.17
EP Investment S.à.r.l. (owned by Daniel Křetínský)	77	37.17	37.17
Total	**208**	**100.00**	**100.00**

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

- JUDr. Daniel Křetínský (Chairman of the Board of Directors)
- Mgr. Marek Spurný (Vice-chairman of the Board of Directors)
- Mgr. Ing. Tomáš David (Vice-chairman of the Board of Directors)
- Mgr. Pavel Horský (Vice-chairman of the Board of Directors)
- Ing. Jan Špringl (Vice-chairman of the Board of Directors)
- Ing. Jiří Feist (Member of the Board of Directors)
- Ing. Tomáš Novotný (Member of the Board of Directors)
- Leif Timmermann (Member of the Board of Directors)
- Brendan Massam (Member of the Board of Directors)

As the Company exists under the common control by its ultimate parent Energetický a průmyslový holding, a.s., the Company opted to retrospectively adjust its comparatives, i.e. reported the entities sold to the Company by EPH as if sold by EPH on the date when the respective entities were acquired by the EPH Group or were contributed to the EPH Group (refer to Note 3 – Significant Accounting Policies).

2. Basis of preparation

A STATEMENT OF COMPLIANCE

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

The consolidated financial statements were approved by the Board of Directors on 15 June 2018.

B BASIS OF MEASUREMENT

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

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

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

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

C FUNCTIONAL AND PRESENTATION CURRENCY

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

D USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in accordance with International Financial Reporting Standards requires the use of certain critical accounting estimates that affect the reported amounts of assets, liabilities, income and expenses. It also requires management to exercise 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.

I. ASSUMPTIONS AND ESTIMATION UNCERTAINTIES

Information about assumptions and estimation uncertainties that have a significant risk resulting in a material adjustment in the following years is included in the following notes:

- Notes 5 and 16 – Accounting for business combinations, recognition of goodwill / negative goodwill, impairment testing of goodwill,
- Note 6 – Revenues,
- Note 28 – Measurement of defined benefit obligations, recognition and measurement of provisions,
- Notes 27, 29 and 33 – Valuation of financial instruments,
- Note 36 – Litigations.

MEASUREMENT OF FAIR VALUES

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

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

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

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

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: inputs other than quoted prices included in Level 1 that are observable on the market for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

II. JUDGEMENTS

Information about judgements made in the application of accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements is included in the following notes:

- Notes 5 and 16 – Accounting for business combinations, recognition of goodwill / negative goodwill, impairment testing of goodwill,
- Note 28 – Measurement of defined benefit obligations, recognition and measurement of provisions,
- Note 29 – Own use exemption application for forward contracts on power and CO_2 emission allowances,
- Note 29 and 33 – Hedge accounting application.

E APPLICATION OF IFRS 1

These are the EPPE Group's first financial statements prepared in accordance with IFRSs as adopted by EU.

As the Group has never prepared any financial statements before these consolidated financial statements the Group has not prepared a reconciliation of these financial statements which are based on IFRS-EU to previous GAAP. The reason for the set-up and the basis of preparation of these consolidated financial statements are described in the Note 1 and 2.

The Group reflected mandatory exception in applying IFRS 1 in these consolidated financial statements as follows:

- Estimates – The Group applied the same accounting policies with each IFRS effective at the end of 31 December 2015. All the estimates taken over at the beginning of the first period presented are consistent with estimates from IFRS group reporting packages of relevant entities used for consolidation purposes of EPH.

- Derecognition of financial instruments – as the group has not prepared consolidated financial statements before these consolidated financial statements, this mandatory exemption is not applicable.

- Assets and liabilities of subsidiaries, associates and joint ventures – In these consolidated financial statements, the assets and liabilities of the subsidiaries are measured at the same carrying amounts as in the IFRS financial statements of the subsidiaries (if prepared in accordance with IFRS), after adjusting for the effects of consolidation procedures and business combination accounting.

The Group did not elect to apply any of the optional exemption when applying IFRS 1.

F RECENTLY ISSUED ACCOUNTING STANDARDS

I. NEWLY ADOPTED STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 THAT HAVE BEEN APPLIED IN PREPARING THE GROUP'S FINANCIAL STATEMENTS

The following paragraphs provide a summary of the key requirements of IFRSs that are effective for annual periods beginning on or after 1 January 2017 and that have thus been applied by the Group for the first time.

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

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

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

Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses (Effective for annual periods beginning on or after 1 January 2017)

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

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

II. STANDARDS NOT YET EFFECTIVE

At the date of authorisation of these consolidated financial statements, the following significant Standards, Amendments to Standards and Interpretations have been issued but are not yet effective for the period ended 31 December 2017 and thus have not been adopted by the Group:

IFRS 15 Revenue from Contracts with Customers (Effective for annual periods beginning on or after 1 January 2018) and Clarifications to IFRS 15 Revenue from Contract with Customers (Effective for annual periods beginning on or after 1 January 2018)

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

- over time, in a manner that depicts the entity's performance; or

- at a point in time, when control of the goods or services is transferred to the customer.

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

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

IFRS 9 Financial Instruments (Effective for annual periods beginning on or after 1 January 2018; to be applied retrospectively with some exemptions. The restatement of prior periods is not required, and is permitted only if information is available without the use of hindsight.) and Amendments to IFRS 9 Prepayment Features with Negative Compensation (Effective for annual periods beginning on or after 1 January 2019 (not adopted by EU yet))

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

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

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

- the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and,

- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

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

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

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

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

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

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

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

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

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

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

- Hedge accounting – for hedge accounting, the Group has chosen to apply requirements of IFRS 9 from 1 January 2018. The Group confirmed that current hedge accounting relationships will meet the requirements of IFRS 9 and are aligned with the Group's risk management strategy and objectives.

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

The Group has assessed the estimated impact of the adoption of IFRS 9 on its consolidated financial statements. Based on the result of the assessment the Group expect that the new Standard will not have a material impact on the financial statements.

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

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

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

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

- leases with a lease term of 12 months or less and containing no purchase options, and

- leases where the underlying asset has a low value ('small-ticket' leases).

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

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

IFRIC 22 Foreign Currency 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.

Basis of preparation

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

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

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

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

Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions (Effective for annual periods beginning on or after 1 January 2018 (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 has assessed the estimated impact of the adoption of amendments to IFRS 2 on its consolidated financial statements. Based on the result of the assessment the Group expect that the new Standard will not have a material impact on the financial statements.

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

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

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

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

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

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

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

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

3. Significant Accounting Policies

The EPPE Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

A BASIS OF CONSOLIDATION

I. SUBSIDIARIES

Subsidiaries are entities controlled by the Company. Control exists when the Company has power over the investee, exposure to variable returns from its involvement with the investee and is able to use its power over investee to affect the amount of its returns. The existence and effect of potential voting rights that are substantive is considered when assessing whether the Group controls another entity. The consolidated financial statements include the Group's interests in other entities based on the Group's ability to control such entities regardless of whether control is actually exercised or not. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

II. EQUITY ACCOUNTED INVESTEES

Associates are enterprises in which the Group has significant influence, but not control, over financial and operating policies. Investments in associates are accounted for under the equity method and are initially recognised at cost (goodwill relating to an associate or a joint venture is included in the carrying amount of the investment). The consolidated financial statements include the Group's share of the total profit or loss and other comprehensive income of associates from the date that the significant influence commences until the date that the significant influence ceases. When the Group's share of losses exceeds the carrying amount of the associate, the carrying amount is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has incurred obligations in respect of or has made payments on behalf of the associate.

III. ACCOUNTING FOR BUSINESS COMBINATIONS

The Group acquired its subsidiaries in two ways:

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

IV. NON-CONTROLLING INTERESTS

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

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

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

V. TRANSACTIONS ELIMINATED ON CONSOLIDATION

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

VI. UNIFICATION OF ACCOUNTING POLICIES

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

VII. PRICING DIFFERENCES

The Group accounted for pricing differences which arose from the acquisition of subsidiaries from Energetický a průmyslový holding, a.s. As these acquired entities and its subsidiaries and associates were under common control of Energetický a průmyslový holding, a.s. they were therefore excluded from the scope of IFRS 3, which defines recognition of goodwill raised from business combination as the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Acquirees under common control are treated under the net book value presented in the consolidated financial statements of Energetický a průmyslový holding, a.s. (i.e. including historical goodwill less potential impairment) as at the date these entities were acquired by Energetický a průmyslový holding, a.s. (acquisition date). The difference between the cost of acquisition and carrying values of net assets of the acquire and original goodwill carried forward as at the acquisition date were recorded to consolidated equity as pricing differences. Pricing differences are presented in Other capital reserves in Equity. Note 5 – Acquisitions and disposals of subsidiaries, joint ventures and associates summarises the effects of all common control transactions in both periods.

VIII. DISPOSAL OF SUBSIDIARIES AND EQUITY ACCOUNTED INVESTEES

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

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

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

B FOREIGN CURRENCY

I. FOREIGN CURRENCY TRANSACTIONS

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

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

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

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

A summary of the main foreign exchange rates applicable for the reporting period is presented in Note 33 – Risk management policies and disclosures.

II. FINANCIAL STATEMENTS OF FOREIGN OPERATIONS

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated into Czech crowns at foreign exchange rates at the reporting date. The income and expenses of foreign operations are translated into Czech crowns using a foreign exchange rate that approximates the foreign exchange rate at the date of the transaction.

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

III. TRANSLATION TO PRESENTATION CURRENCY

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

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

C NON-DERIVATIVE FINANCIAL ASSETS

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

I. CLASSIFICATION

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

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

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

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

II. RECOGNITION

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

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

III. MEASUREMENT

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

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

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

IV. GAINS AND LOSSES ON SUBSEQUENT MEASUREMENT

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

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

V. DE-RECOGNITION

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

VI. OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

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

D NON-DERIVATIVE FINANCIAL LIABILITIES

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

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

E DERIVATIVE FINANCIAL INSTRUMENTS

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

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

OTHER NON-TRADING DERIVATIVES

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

Significant Accounting Policies

SEPARABLE EMBEDDED DERIVATIVES

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

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

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

CASH FLOW HEDGES AND FAIR VALUE HEDGES

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

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

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

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

In case the future transaction is still expected to occur then the balance remains in equity and is recycled to profit or loss when the transaction occurs.

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

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

TRANSACTIONS WITH EMISSION RIGHTS AND ENERGY

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

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

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

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

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

F CASH AND CASH EQUIVALENTS

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

G INVENTORIES

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

Purchased inventory and inventory in transit are initially stated at cost, which includes the purchase price and other directly attributable expenses incurred in acquiring the inventories and bringing them to their current location and condition. Inventories of a similar nature are valued using the weighted average method except for the energy production segment, where the first-in, first-out principle is used.

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

H IMPAIRMENT

I. NON-FINANCIAL ASSETS

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

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

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

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

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

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

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

II. FINANCIAL ASSETS (INCLUDING TRADE AND OTHER RECEIVABLES)

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

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment. IAS 39 does not provide clear guidance on what is significant relative to cost or what is a prolonged decline in the fair value. As such, the Group policy states that impairment should be considered if declines in equity markets have been, and continue to be, severe with many equity global indices down by nearly 50% from their 12-month highs for a period longer than 6 months (impairment criteria).

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

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

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

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

III. EQUITY ACCOUNTED INVESTEES

An impairment loss in respect of an equity accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognised in profit or loss, and is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

I PROPERTY, PLANT AND EQUIPMENT

I. OWNED ASSETS

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

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

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

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

II. LEASED ASSETS

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

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

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

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

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

III. SUBSEQUENT COSTS

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

IV. DEPRECIATION

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

The estimated useful lives are as follows:

• Power plant buildings and structures	50–100 years
• Buildings and structures	20–80 years
• Machinery, electric generators, gas producers, turbines and boilers	7–50 years
• Mines and mine property	15–30 years
• Machinery and equipment	4–40 years
• Fixtures, fittings and others	3–20 years

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

J INTANGIBLE ASSETS

I. GOODWILL AND INTANGIBLE ASSETS ACQUIRED IN A BUSINESS COMBINATION

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

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

Upon acquisition of non-controlling interests (while maintaining control), no goodwill is recognised.

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

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

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

II. RESEARCH AND DEVELOPMENT

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

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

In 2017 and 2016, expenditures incurred by the Group did not meet these recognition criteria. Development expenditure has thus been recognised in profit or loss.

III. EMISSION RIGHTS

RECOGNITION AND MEASUREMENT

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

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

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

IMPAIRMENT OF EMISSION RIGHTS

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

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

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

RECOGNITION OF GRANTS

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

RECOGNITION, MEASUREMENT OF PROVISION

A provision is recognised regularly during the year based on the estimated number of tonnes of CO_2 emitted.

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

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

IV. SOFTWARE AND OTHER INTANGIBLE ASSETS

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

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

V. AMORTISATION

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

• Software	2–7 years
• Other intangible assets	2–20 years

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

K PROVISIONS

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

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

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

I. EMPLOYEE BENEFITS

LONG-TERM EMPLOYEE BENEFITS

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

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

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

Pension plans

In accordance with IAS 19, the projected unit credit method is the only permitted actuarial method. The benchmark (target value) applied to measure defined benefit pension obligations is the present value of vested pension rights of active and former employees and beneficiaries (present value of the defined benefit obligation). It must in general be assumed that each partial benefit of the pension commitment is earned evenly from commencement of service until the respective due date.

If specific plan assets are established to cover the pension payments, these plan assets can be netted against the pension obligations and only the net liability is shown. The valuation of existing plan assets is based on the fair value at the balance sheet date in accordance with IAS 19.

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

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

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

SHORT-TERM EMPLOYEE BENEFITS

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

II. WARRANTIES

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

III. PROVISION FOR LAWSUITS AND LITIGATIONS

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

IV. PROVISION FOR EMISSION RIGHTS

A provision for emission rights is recognised regularly during the year based on the estimated number of tonnes of CO_2 emitted. It is measured at the best estimate of the expenditure required to settle the present obligation at the reporting date.

V. RESTRUCTURING

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

VI. ASSET RETIREMENT OBLIGATION AND PROVISION FOR ENVIRONMENTAL REMEDIATION

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

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

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

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

Rehabilitation provisions are recognised for the following restoration activities:

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

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

All the provisions for environmental remediation and asset retirement obligation are presented under Provision for restoration and decommissioning.

VII. ONEROUS CONTRACTS

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

L REVENUE

I. REVENUES FROM OWN PRODUCTS AND GOODS SOLD AND SERVICES RENDERED

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

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

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

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

Other revenues represent revenues from non-energy activities.

REVENUES FROM SALE OF ELECTRICITY, HEAT AND GAS

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

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

REVENUES FROM SALE OF COAL

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

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

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

ENERGY TRADING

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

DERIVATIVES WHERE THE UNDERLYING ASSET IS A COMMODITY

Cash-settled contracts and contracts that do not qualify for the application of the own-use exemption are regarded as trading derivatives.

The following procedure applies to other commodity and financial derivatives that are not designated as hedging derivatives and are not intended for the sale of electricity from the Group's sources or for delivery to end customers (the own-use exemption is not applied).

At the date of the financial statements, trading derivatives are measured at fair value. The change in fair value is recognised in profit or loss. In the separate accounts, the measurement is recognised in profit or loss from financial operations. For the purposes of Group reporting, where trading in commodity derivatives forms a significant part of the Group's total trading activities, the measurement effect is recognised in "Gain (loss) from commodity derivatives for trading with electricity and gas, net", a separate line item under "Total sales".

II. GOVERNMENT GRANTS

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

III. RENTAL INCOME

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

M FINANCE INCOME AND COSTS

I. FINANCE INCOME

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

II. FINANCE COSTS

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

III. BORROWING COSTS

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset, from the time of acquisition or from the beginning of construction or production until entry into service, are capitalised and subsequently amortised alongside the related asset. In the case of a specific financing arrangement, the respective borrowing costs for that arrangement are used. For non-specific financing arrangements, borrowing costs to be capitalised are determined based on a weighted average of the borrowing costs.

N INCOME TAXES

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

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

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

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

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

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

O DIVIDENDS

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

P NON-CURRENT ASSETS HELD FOR SALE AND DISPOSAL GROUPS

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

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

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

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

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

4. Determination of fair values

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

A PROPERTY, PLANT AND EQUIPMENT

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

B INTANGIBLE ASSETS

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

C INVENTORIES

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

D NON-DERIVATIVE FINANCIAL ASSETS

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

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

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

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

E NON-DERIVATIVE FINANCIAL LIABILITIES

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

F DERIVATIVES

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

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

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

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

5. Acquisitions and disposals of subsidiaries, joint ventures and associates

On 15 December 2016 EPPE acquired from EPH 100% share in EP United Kingdom, s.r.o. (“EP UK”) for EUR 33 million and 100% share in EP Commodities (“EPC”) for EUR 27 million, on 9 February 2017 acquired a 100% share in EPPE Italy, N.V. (former Czech Gas Holding N.V.)(“EPPE Italy”) for EUR 481 million and on 15 December 2017 acquired through its subsidiary EPPE Germany, a.s., 90% share in JTSD – Braunkohlebergbau GmbH (“JTSD”) for EUR 133 million. The Company, as a part of its accounting policy on common control transactions, opted to restate its comparatives.

For the purpose of preparation of these consolidated financial statements, the entities acquired as part of acquisition of shares in EP UK, EPC, EPPE Italy and JTSD are presented in the consolidated financial statements of the Company from the original date of acquisition under the scope of IFRS 3 by the parent company Energetický a průmyslový holding, a.s. From the view of the EPPE Group consolidated financial statements, these transactions are reflected as if carried out directly by the Company, including all goodwill or negative goodwill impacts. The consideration paid or payable by the EPPE Group is presented as a decrease of Other capital reserves in Equity.

A ACQUISITIONS

I. 31 DECEMBER 2017

In millions of EUR

	Date of acquisition	Purchase price	Cash paid	Purchase price liability	Equity interest acquired %	Equity interest after acquisition %
New subsidiaries						
EP SHB Limited and EP Langage Limited	31/08/2017	86	(86)	-	100	100
Kraftwerk Mehrum GmbH	1/11/2017	1	(1)	-	100	100
EP New Energy Italia S.R.L., and its subsidiaries (EPNEI Group)	15/12/2017	121	(100)	(1)(21)	100	100
Total		**208**	**(187)**	**(21)**	**-**	**-**

(1) As at 31 December 2017, EUR 21 million of the purchase price liability was not yet settled.

EP LANGAGE LIMITED AND EP SHB LIMITED

On 31 August 2017 EPPE Group through EP UK INVESTMENTS LTD (“EP UK”) acquired EP LANGAGE LIMITED and EP SHB LIMITED from Centrica plc for GBP 80 million (EUR 86 million). The acquired companies operate Langage Limited and South Humber Bank combined cycle gas turbine (“CCGT”) power stations with a combined capacity of 2.3 GW The acquisition is part of EPPE’s strategy to extend its presence in the UK, where EPPE already owns Eggborough and Lynemouth power stations.

KRAFTWERK MEHRUM GMBH

On 1 November 2017 EPPE Group acquired Kraftwerk Mehrum GmbH ("KWM") from Enercity (Stadtwerke Hannover Aktiengesellschaft) and BS Energy for EUR 1.2 million. KWM owns and operates Mehrum coal-fired power plant with installed capacity of 750 MW. EP Mehrum GmbH (a 100% subsidiary of EP Power Europe, a.s), representing the Germany interests of the Group, will manage the power plant.

EPNEI GROUP

On 15 December 2017 EPPE Group acquired the biomass power plants owned by Biomasse Italia S.P.A. and Biomasse Crotone S.P.A., with a combined capacity of 73 MW from Bioenergie S.P.A. and Api No´Va Energia S.R.L. for EUR 121 million. EP New Energy Italia S.R.L., representing the Italy interests of the Group, will manage the biomass power plants. The acquisition was a part of the EPH Group's strategy to expand into the European renewables business. The acquired companies operate in the energy valorisation of the Italian wooden biomass.

II. 31 DECEMBER 2016

In millions of EUR

	Date of acquisition	Purchase price	Cash paid	Purchase price liability	Equity interest acquired %	Equity interest after acquisition %
New subsidiaries						
LYNEMOUTH POWER LIMITED	05/01/2016	53	(53)	-	100	100
Total		**53**	**(53)**	**-**	**-**	**-**

In millions of EUR

	Date of acquisition	Equity interest acquired %	Equity interest after acquisition %
New associates and joint ventures			
LEAG Group(1)	01/10/2016	50	50
Total		**-**	**-**

(1) Comprising LEAG Holding, a.s.; Lausitz Energie Verwaltungs GmbH; Lausitz Energie Kraftwerke AG; Kraftwerk Schwarze Pumpe GmbH; Lausitz Energie Bergbau AG; GMB GmbH and Transport- und Speditionsgesellschaft Schwarze Pumpe mbH.

LEAG GROUP

On 1 October, LEAG Holding, a.s., an entity jointly controlled by Gemcol Ltd. (a Cypriot investment vehicle legally fully controlled by PPF Investments Ltd.) and EPPE, acquired a 100% stake in Vattenfall Europe Mining Aktiengesellschaft and Vattenfall Europe Generation, a German group dealing with the extraction, processing, refining and sale of lignite and the generation of electricity and heat. The group operates four open pit mines, four power plants and one refining plant.

The joint venture was subsequently renamed to LEAG (Lausitz Energie) and in the Group's consolidated accounts it is accounted for using the equity method. The consolidated statement of comprehensive income includes a share on LEAG's financial performance since the acquisition (refer to Note 17 – Equity accounted investees).

In accordance with IFRS 3, LEAG performed a purchase price allocation exercise ("PPA") based on which the acquired assets and assumed liabilities of the acquired business were restated to their respective fair values. The excess of the fair values of identified assets and liabilities over the purchase price resulted in the recognition of negative goodwill.

B EFFECT OF ACQUISITIONS

I. 31 DECEMBER 2017

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed as at the acquisition date of EP SBH LIMITED, EP LANGAGE LIMITED, Kraftwerk Mehrum Gmbh and EP New Energy Italia S.R.L. and its subsidiaries (EPNEI Group) are provided in the following table.

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2017 Total(1)
Property, plant, equipment, land, buildings	477	(3)	474
Intangible assets	11	-	11
Trade receivables and other assets	98	-	98
Financial instruments – assets	1	-	1
Inventories	68	-	68
Cash and cash equivalents	23	-	23
Deferred tax asset	1	5	6
Provisions	(35)	(19)	(54)
Deferred tax liabilities	(11)	1	(10)
Loans and borrowings	(333)	(1)	(334)
Financial instruments – liabilities	(3)	-	(3)
Trade payables and other liabilities	(54)	-	(54)
Net identifiable assets and liabilities	**243**	**(17)**	**226**
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			36
Negative goodwill on acquisition of new subsidiaries			(54)
Cost of acquisition			**208**
Consideration paid, satisfied in cash (A)			187
Purchase price liability			21
Total consideration transferred			**208**
Less: Cash acquired (B)			23
Net cash inflow (outflow) (C) = (B – A)			**(164)**

(1) Represents values at 100% share.

As at the date of publication of the consolidated financial statements, the purchase price allocation process for EP SHB LIMITED, EP LANGAGE LIMITED and Kraftwerk Mehrum GmbH has not been completed. It is therefore possible that adjustments will be made in the allocation of the purchase price to the individual assets and liabilities and recognition of negative goodwill.

II. 31 DECEMBER 2016

SUBSIDIARIES

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

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2016 Total(1)
Property, plant, equipment, land, buildings	10	-	10
Intangible assets	-	43	43
Trade receivables and other assets	11	-	11
Inventories	2	-	2
Cash and cash equivalents	14	-	14
Provisions	(11)	-	(11)
Deferred tax liabilities	-	(9)	(9)
Trade payables and other liabilities	(7)	-	(7)
Net identifiable assets and liabilities	**19**	**34**	**53**
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			-
Cost of acquisition			**53**
Consideration paid, satisfied in cash (A)			53
Total consideration transferred			**53**
Less: Cash acquired (B)			14
Net cash inflow (outflow) (C) = (B – A)			**(39)**

(1) Represents values at 100% share.

ASSOCIATES AND JOINT VENTURES

The fair value of the amounts recognized for assets acquired and liabilities assumed as at the acquisition date of LEAG Group are provided in the following table.

In millions of EUR

	2016 Total
Non-current assets	2,278
Current assets	1,762
Fair value of assets	**4,040**
Non-current liabilities	(2,804)
Current liabilities	(728)
Fair value of liabilities	**(3,532)**
Fair value of identifiable net assets	**508**
Net asset value attributable to the Group's share	254
Negative goodwill	**254**

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

III. RATIONALE FOR ACQUISITIONS

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

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

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

The Group's view is that there is long-term strategic value in these investments due to the development of the market and this resulted in historical goodwill in the total amount of EUR 41 million. For the development of historical goodwill, please refer to Note 16 – Intangible assets (including goodwill).

In 2017, the Group recognised goodwill of EUR 36 million from the acquisition of EPNEI Group and negative goodwill of EUR 48 million from the acquisition Kraftwerk Mehrum GmbH (2016: negative goodwill of EUR 254 million from the acquisition of LEAG Group).

In 2017, gain on a bargain purchase of Kraftwerk Mehrum GmbH is attributable to the following facts: The sellers were exiting the coal generation of their portfolio and due to sector characteristics there was a limited number of bidders. Furthermore, Kraftwerk Mehrum GmbH is heavily exposed to the commodity market as well energy/environmental regulation which both have been quite volatile during the last few years in Germany.

In 2016, gain on a bargain purchase of LEAG Group is attributable to the following facts: Vattenfall (the seller) was abandoning the lignite sector in Germany and due to the considerable size of disposed assets and sector characteristics there was a limited number of bidders. Furthermore, the disposed assets are heavily exposed to the commodity market as well energy/environmental regulation which both have been quite volatile during the last few years in Germany. Negative goodwill from the acquisition of interest in LEAG Group is presented in the consolidated statement of comprehensive income under Share of profit (loss) of equity accounted investees, net of tax.

The Group reconsidered the identification and measurement of all identified assets and liabilities acquired in these business combinations; consistent results were obtained in respect of negative goodwill.

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

In millions of EUR

	2017 Total
Revenue of the acquirees recognised since the acquisition date	212
Profit (loss) of the acquirees recognised since the acquisition date	24

In millions of EUR

	2016 Total
Revenue of the acquirees recognised since the acquisition date	14
Profit (loss) of the acquirees recognised since the acquisition date	(21)

The following table provides information on the estimated revenues and profit or loss that would have been included in the consolidated statement of comprehensive income, if the acquisition had occurred at the beginning of the reporting period (i.e. as at 1 January 2017 or as at 1 January 2016); this financial information was derived from the statutory or IFRS financial statements of the acquired entities.

In millions of EUR

	2017 Total
Revenue of the acquirees recognised in the year ended 31 December 2017*	535
Profit (loss) of the acquires recognised in the year ended 31 December 2017*	14

In millions of EUR

	2016 Total
Revenue of the acquirees recognised in the year ended 31 December 2016*	14
Profit (loss) of the acquires recognised in the year ended 31 December 2016*	(21)

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

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

C BUSINESS COMBINATIONS – ACQUISITION ACCOUNTING 2017 AND 2016

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

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

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

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

Fair value adjustments resulting from business combinations in 2017 are presented in the following table:

In millions of EUR

	Property, plant and equipment	Provisions	Deferred tax asset/ (liability)	Loans and borrowings	Total net effect on financial position
Subsidiary					
EP SHB LIMITED and EP LANGAGE LIMITED	(3)	(1)	(1) 1	(1)	**(4)**
Kraftwerk Mehrum GmbH	1	(18)	5	-	**(12)**
EP New Energy Italia S.R.L. and its subsidiaries	(1)	-	-	-	**(1)**
	(3)	**(19)**	**6**	**(1)**	**(17)**

(1) Represents decrease in deferred tax liability.

Fair value adjustments resulting from business combinations in 2016 are presented in the following table:

In millions of EUR

	Intangible assets	Deferred tax asset/ (liability)	Total net effect on financial position
Subsidiary			
LYNEMOUTH POWER LIMITED	43	(9)	**34**
	43	**(9)**	**34**

D DISPOSAL OF INVESTMENTS

I. 31 DECEMBER 2017

During the year 2017, the Group did not dispose any of its investments.

On 3 July 2017, in connection with the termination of the liquidation process of Eggborough Holdco 2 S. à r.l., the entity was deconsolidated without any significant impact on the Group's financial statements.

II. 31 DECEMBER 2016

For the year ended 31 December 2016, the Group did not dispose of any investment.

6. Sales

In millions of EUR

	2017	2016
Sales: Energy		
of which: Electricity	1,746	1,209
Gas	696	360
Coal	267	242
Heat	2	2
Other	2	1
Total Energy	**2,713**	**1,814**
Sales: Other	**156**	**97**
Gain (loss) from commodity derivatives for trading with electricity and gas, net	**(20)**	**(6)**
Total	**2,849**	**1,905**

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

7. Cost of sales

In millions of EUR

	2017	2016
Cost of Sales: Energy		
Consumption of coal and other material	869	563
Cost of sold gas and other energy products	739	350
Cost of sold electricity	141	55
Consumption of energy	6	3
Other cost of sales	115	87
Total Energy	**1,870**	**1,058**
Cost of Sales: Other		
Other cost of goods sold	43	17
Other cost of sales	11	20
Consumption of material	5	7
Consumption of energy	4	12
Changes in WIP, semi-finished products and finished goods	2	1
Total Other	**65**	**57**
Total	**1,935**	**1,115**

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 overheads (particularly personnel expenses, depreciation and amortisation, repairs and maintenance, emission rights, taxes and charges etc.).

8. Personnel expenses

In millions of EUR

	2017	2016
Wages and salaries	172	181
Compulsory social security contributions	48	51
Expenses and revenues related to employee benefits (IAS 19)	24	3
Board members' remuneration (including boards of subsidiaries)	5	36
Other social expenses	10	15
Total	**259**	**286**

The average number of employees during 2017 was 3,416 (2016: 3,352), of which 81 were executives (2016: 63).

9. Emission rights

In millions of EUR

	2017	2016
Profit (loss) from sale of emission rights	(10)	-
Creation of provision for emission rights	(73)	(46)
Use of provision for emission rights	54	68
Consumption of emission rights	(54)	(68)
Total	**(83)**	**(46)**

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

The companies that participate in the emission rights programme are JTSD – Braunkohlebergbau GmbH, Helmstedter Revier GmbH, Kraftwerk Mehrum GmbH, EGGBOROUGH POWER LIMITED, LYNEMOUTH POWER LIMITED, Fiume Santo S.P.A., Centro Energia Ferrara S.R.L. and Ep Produzione S.P.A.

10. Taxes and charges

In millions of EUR

	2017	2016
Carbon price support(1)	41	35
Property tax and real estate transfer tax	8	8
Electricity tax	7	7
Other taxes and charges expenses (revenues)	3	2
Total	**59**	**52**

(1) Carbon Price Support (CPS) is the rate of climate change levy that applies to fossil fuel used for electricity generation in the United Kingdom.

11. Other operating income

In millions of EUR

	2017	2016
Compensation from insurance companies	16	7
Consulting fees	6	3
Profit from disposal of tangible and intangible assets	6	1
Ecological tax reimbursement	5	5
Profit from sale of material	4	1
Revenues from written off liabilities	3	-
Rental income	1	1
Inventories surplus	1	2
Other	8	9
Total	**50**	**29**

12. Other operating expenses

In millions of EUR

	2017	2016
Office equipment and other material	45	36
Change in provisions, net	43	19
Consulting expenses	32	21
Outsourcing and other administration fees	22	20
Rent expenses	12	13
Insurance expenses	10	11
Re-transmission fee(1)	9	6
Information technologies costs	6	9
Impairment losses	4	30
Of which relates to: Trade receivables and other assets	*3*	-
Inventories	*1*	*1*
Goodwill	-	*29*
Transport expenses	3	3
Administrative expenses	2	7
Training, courses, conferences	2	2
Security services	2	2
Gifts and sponsorship	2	1
Advertising expenses	1	1
Communication expenses	1	1
Environmental expenses	1	1
Shortages and damages	1	20
Contractual penalties	-	6
Own work capitalised to fixed assets	(6)	(8)
Other	20	43
Total	**212**	**244**

(1) Re-transmission fee is National Grid's recovery of costs of installing and maintaining the transmission system in England, Wales and offshore. The amount paid is based on geographical location and size of generation.

No material research and development expenses were recognised in profit and loss for the year 2017 and 2016.

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

RECOGNISED IN PROFIT OR LOSS

In millions of EUR

	2017	2016
Interest income	14	8
Dividend income	2	-
Other finance income	1	1
Finance income	**17**	**9**
Interest expense incl. various financing and refinancing related fees	(20)	(16)
Interest expense from unwind of provision discounting	(11)	(14)
Fees and commissions expense for guarantees	(8)	(7)
Net foreign exchange loss	(8)	(12)
Fees and commissions expense for other services	(1)	(1)
Finance expense	**(48)**	**(50)**
Profit (loss) from other derivatives for trading	13	-
Profit (loss) from hedging derivatives	8	20
Profit (loss) from commodity derivatives for trading	(39)	3
Profit (loss) from financial instruments	**(18)**	**23**
Net finance income (expense) recognised in profit or loss	**(49)**	**(18)**

14. Income tax expenses

INCOME TAXES RECOGNISED IN PROFIT OR LOSS

In millions of EUR

	2017	2016
Current taxes:		
Current year	(55)	(31)
Adjustment for prior periods	(4)	(6)
Total current taxes	**(59)**	**(37)**
Deferred taxes:		
Origination and reversal of temporary differences	19	28
Total deferred taxes	**19**	**28**
Total income taxes (expense) benefit recognised in profit or loss	**(40)**	**(9)**

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 German federal income tax rate range for 2017 is 28.66% – 30.00% (2016: 28.22% – 29.13%). Italian income tax rate for fiscal year 2017 is 24% (2016: 27.50%) and British income tax rate for fiscal year 2017 is 19% (2016: 20%).

INCOME TAX RECOGNISED IN OTHER COMPREHENSIVE INCOME

In millions of EUR

		2017	
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	(60)	-	(60)
Foreign currency translation differences from presentation currency	42	-	42
Effective portion of changes in fair value of cash-flow hedges	(47)	8	(39)
Fair value reserve included in other comprehensive income	(6)	-	(6)
Total	**(71)**	**8**	**(63)**

In millions of EUR

		2016	
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	(5)	-	(5)
Foreign currency translation differences from presentation currency	2	-	2
Effective portion of changes in fair value of cash-flow hedges	198	(33)	165
Fair value reserve included in other comprehensive income	(24)	-	(24)
Total	**171**	**(33)**	**138**

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

RECONCILIATION OF THE EFFECTIVE TAX RATE

In millions of EUR

		2017		2016
	%		%	
Profit before tax				
		217		231
Income tax using the Company's domestic rate (19%)	19.0%	41	19.0%	44
Effect of tax rates in foreign jurisdictions	7.4%	16	3.5%	8
Non-deductible expenses(1)	2.2%	5	2.2%	5
Other non-taxable income(2)	(15.2%)	(33)	(29.9%)	(69)
Change in tax rate	-	-	(0.9%)	(2)
Current year losses for which no deferred tax asset was recognised	3.2%	7	4.3%	10
Withholding tax, income tax adjustments for prior periods	1.8%	4	4.8%	11
Effect of different tax rate used for deferred tax from local tax rate	-	-	0.9%	2
Income taxes recognised in profit or loss	**18.4%**	**40**	**3.9%**	9

(1) The basis consists mainly of impairment losses of financial assets of EUR 12 million (2016: EUR 28 million).
(2) The basis consists mainly of share of profit of equity accounted investees of EUR 88 million (2016: EUR 280 million) and negative goodwill of EUR 54 million (2016: EUR 0 million).

15. Property, plant and equipment

In millions of EUR

	Land and buildings	Technical equipment, plant and machinery	Other equipment, fixtures and fittings	Under construction	Total
Cost					
Balance at 1 January 2017	**268**	**1,321**	**2**	**227**	**1,818**
Effects of movements in foreign exchange rates	-	14	-	(11)	**3**
Additions	8	68	1	211	**288**
Additions through business combinations(1)	38	434	1	1	**474**
Disposals	-	(2)	-	-	**(2)**
Transfers	6	33	-	(39)	**-**
Balance at 31 December 2017	**320**	**1,868**	**4**	**389**	**2,581**
Depreciation and impairment losses					
Balance at 1 January 2017	**(58)**	**(532)**	**-**	**-**	**(590)**
Effects of movements in foreign exchange rates	1	-	(1)	-	**-**
Depreciation charge for the year	(12)	(156)	-	-	**(168)**
Disposals	-	1	-	-	**1**
Balance at 31 December 2017	**(69)**	**(687)**	**(1)**	**-**	**(757)**
Carrying amounts					
At 1 January 2017	**210**	**789**	**2**	**227**	**1,228**
At 31 December 2017	**251**	**1,181**	**3**	**389**	**1,824**

(1) Purchase of EP LANGAGE LIMITED, EP SHB LIMITED, Kraftwerk Mehrum GmbH and EPNEI Group.

In millions of EUR

	Land and buildings	Technical equipment, plant and machinery	Other equipment, fixtures and fittings	Under construction	Total
Cost					
Balance at 1 January 2016	**258**	**1,188**	**1**	**44**	**1,491**
Effects of movements in foreign exchange rates	(4)	(4)	-	(7)	**(15)**
Additions	8	118	1	215	**342**
Additions through business combinations(1)	1	9	-	-	**10**
Disposals	-	(5)	-	(5)	**(10)**
Transfers	5	15	-	(20)	**-**
Balance at 31 December 2016	**268**	**1,321**	**2**	**227**	**1,818**
Depreciation and impairment losses					
Balance at 1 January 2016	**(44)**	**(392)**	**-**	**-**	**(436)**
Effects of movements in foreign exchange rates	1	1	-	-	**2**
Depreciation charge for the year	(15)	(143)	-	-	**(158)**
Disposals	-	2	-	-	**2**
Balance at 31 December 2016	**(58)**	**(532)**	**-**	**-**	**(590)**
Carrying amounts					
At 1 January 2016	**214**	**796**	**1**	**44**	**1,055**
At 31 December 2016	**210**	**789**	**2**	**227**	**1,228**

(1) Purchase of LYNEMOUTH POWER LIMITED.

IDLE ASSETS

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

FINANCE LEASE LIABILITIES

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

SECURITY

As at 31 December 2017 and 31 December 2016, no property, plant and equipment is subject to pledges to secure bank loans.

16. Intangible assets (including goodwill)

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2017	**32**	**11**	**57**	**131**	**3**	**234**
Effect of movements in foreign exchange rates	-	-	(1)	(1)	-	**(2)**
Additions	-	5	4	-	-	**9**
Disposals	-	-	(60)	-	-	**(60)**
Additions through business combinations(1)	36	-	11	-	-	**47**
Balance at 31 December 2017	**68**	**16**	**11**	**130**	**3**	**228**
Amortisation and impairment losses						
Balance at 1 January 2017	**(27)**	**(6)**	**-**	**(54)**	**-**	**(87)**
Effect of movements in foreign exchange rates	-	-	-	-	-	**-**
Amortisation for the year	-	(3)	-	(9)	-	**(12)**
Balance at 31 December 2017	**(27)**	**(9)**	**-**	**(63)**	**-**	**(99)**
Carrying amount						
At 1 January 2017	**5**	**5**	**57**	**77**	**3**	**147**
At 31 December 2017	**41**	**7**	**11**	**67**	**3**	**129**

(1) Purchase of EP LANGAGE LIMITED, EP SHB LIMITED, Kraftwerk Mehrum GmbH and EPNEI Group.

In millions of EUR

	Goodwill	Software	Emission rights	Customer relationship and other contracts	Other intangible assets	Total
Cost						
Balance at 1 January 2016	**36**	**7**	**29**	**94**	**4**	**170**
Effect of movements in foreign exchange rates	(4)	-	(1)	(6)	(1)	**(12)**
Additions	-	4	97	-	-	**101**
Disposals	-	-	(68)	-	-	**(68)**
Additions through business combinations[1]	-	-	-	43	-	**43**
Balance at 31 December 2016	**32**	**11**	**57**	**131**	**3**	**234**
Amortisation and impairment losses						
Balance at 1 January 2016	**-**	**(4)**	**-**	**(45)**	**-**	**(49)**
Effect of movements in foreign exchange rates	2	-	-	-	-	**2**
Amortisation for the year	-	(2)	-	(9)	-	**(11)**
Impairment losses recognised in profit or loss	(29)	-	-	-	-	**(29)**
Balance at 31 December 2016	**(27)**	**(6)**	**-**	**(54)**	**-**	**(87)**
Carrying amount						
At 1 January 2016	**36**	**3**	**29**	**49**	**4**	**121**
At 31 December 2016	**5**	**5**	**57**	**77**	**3**	**147**

(1) Purchase of LYNEMOUTH POWER LIMITED.

In 2017, EPPE Group purchased emission allowances of EUR 4 million (2016: EUR 97 million). No emission allowances were allocated to the Group by the Ministry of the Environment of the Czech Republic.

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

Other intangible assets comprise valuable rights.

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

The Group has also carried out research activities reflected in these consolidated financial statements. Research costs are recognised as operating expenses in the income statement immediately when incurred. No significant research costs were incurred during 2017 and 2016.

Intangible assets (including goodwill)

IMPAIRMENT TESTING FOR CASH-GENERATING UNITS CONTAINING GOODWILL

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

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

In millions of EUR

	31 December 2017	31 December 2016
Biomasse Crotone S.P.A.	20	-
Biomasse Italia S.P.A.	16	-
Helmstedter Revier GmbH	5	5
Total goodwill	**41**	**5**

In 2017, the balance of goodwill increased by EUR 36 million as a result of acquisition of EPNEI Group.

In 2016, the balance of goodwill decreased by EUR 31 million. Due to the adverse changes in UK power market and decreased profitability and thus recoverability of EGGBOROUGH POWER LIMITED, the Group recorded an impairment of EUR 29 million to a goodwill of EUR 31 million initially recognised on acquisition. Remaining increase of EUR 2 million was caused by positive effect of changes in the FX rate.

GOODWILL AND IMPAIRMENT TESTING

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

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

Cash-flows were projected based on past experience, actual operating results and the one-year business plan followed by an additional four years of modelled projections followed by projected results based on an 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% (2016: 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 5.31% to 7.33% (2016: range from 4.94% to 6.34%).

The 2017 year testing showed no need for impairment as no CGU with the recoverable value lower than the carrying value including goodwill was identified (2016: no need for impairment except for the impairment recognised for a goodwill associated with EGGBOROUGH POWER LIMITED).

17. Equity accounted investees

The Group has the following investments in associates and joint ventures:

In millions of EUR

		Ownership 31 December 2017	Carrying amount 31 December 2017
Associates and joint ventures	**Country**	**%**	
LEAG Group(1)	*(2)*	50.00	359
Kraftwerk Schkopau GbR	Germany	(3)41.90	76
Ergosud S.P.A.	Italy	50.00	52
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	(3)50.00	21
Fernwärme GmbH Hohenmölsen – Webau	Germany	(3)48.96	4
Total		**-**	**512**

In millions of EUR

		Ownership 31 December 2016	Carrying amount 31 December 2016
Associates and joint ventures	**Country**	**%**	
LEAG Group(1)	*(2)*	50.00	282
Kraftwerk Schkopau GbR	Germany	(3)41.90	80
Ergosud S.P.A.	Italy	50.00	52
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	(3)50.00	20
Fernwärme GmbH Hohenmölsen – Webau	Germany	(3)48.96	4
Total		**-**	**438**

(1) Comprising LEAG Holding, a.s.; Lausitz Energie Verwaltungs GmbH; Lausitz Energie Kraftwerke AG; Kraftwerk Schwarze Pumpe GmbH; Lausitz Energie Bergbau AG; GMB GmbH and Transport- und Speditionsgesellschaft Schwarze Pumpe mbH.
(2) Country of incorporation varies, for details refer to Note 35 – Group entities.
(3) Represents ownership interest held by immediate parent companies Saale Energie GmbH and Mitteldeutsche Braunkohlengesellschaft mbH.

The Group has the following shares in the profit (loss) of associates and joint ventures:

In millions of EUR

		Ownership 31 December 2017	Share of profit (loss) 2017
Associates and joint ventures	**Country**	**%**	
LEAG Group	*(1)*	*(2)*	82
Ergosud S.P.A.	Italy	50.00	5
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	(3)50.00	2
Kraftwerk Schkopau GbR	Germany	(3)41.90	(1)
Total		**-**	**88**

In millions of EUR

		Ownership 31 December 2016	Share of profit (loss) 2016
Associates and joint ventures	**Country**	**%**	
LEAG Group	*(1)*	*(2)*	(4)275
Ergosud S.P.A.	Italy	50.00	7
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	(3)50.00	1
Kraftwerk Schkopau GbR	Germany	(3)41.90	(2)
Total		**-**	**281**

(1) Country of incorporation varies, for details refer to Note 35 – Group entities.
(2) Ownership percentage varies, for details refer to Note 35 – Group entities.
(3) Represents ownership interest held by immediate parent companies Saale Energie GmbH and Mitteldeutsche Braunkohlengesellschaft mbH.
(4) Including negative goodwill arising on the acquisition of LEAG Group, for details refer to Note 5 (b) – Effect of acquisitions.

Summary financial information for standalone associates and joint ventures, presented at 100% as at 31 December 2017 and for the year then ended.

In millions of EUR

Associates and joint ventures	Revenue	Profit (loss)	Other comprehensive income	Total comprehensive income	Assets	Liabilities	Equity
LEAG Group	2,153	164	(10)	154	4,209	3,494	715
Kraftwerk Schkopau GbR(1)	40	7	-	7	230	121	109
Kraftwerk Schkopau Betriebsgesellschaft GmbH(1)	104	-	-	-	10	10	-
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH(1)	53	5	-	5	58	30	28
Fernwärme GmbH Hohenmölsen – Webau(1)	5	-	-	-	14	5	9
Ergosud S.P.A.	67	9	-	9	300	195	105
Total	**2,422**	**185**	**(10)**	**175**	**4,821**	**3,855**	**966**

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

In millions of EUR

Associates and joint ventures	Non-current assets	Current assets	Non-current liabilities	Current liabilities
LEAG Group	2,149	2,060	2,576	918
Kraftwerk Schkopau GbR(1)	13	217	115	6
Kraftwerk Schkopau Betriebsgesellschaft GmbH(1)	-	10	-	10
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH(1)	30	28	16	14
Fernwärme GmbH Hohenmölsen – Webau(1)	13	1	1	4
Ergosud S.P.A.	218	82	160	35
Total	**2,423**	**2,398**	**2,868**	**987**

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

Summary financial information for standalone associates and joint ventures presented at 100% as at 31 December 2016 and for the year then ended.

In millions of EUR

Associates and joint ventures	Revenue	Profit (loss)	Other comprehensive income	Total comprehensive income	Assets	Liabilities	Equity
LEAG Group(1)	1,245	40	-	40	3,879	3,318	561
Kraftwerk Schkopau GbR(2)	36	6	-	6	232	124	108
Kraftwerk Schkopau Betriebsgesellschaft GmbH(2)	103	-	-	-	11	11	-
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH(1)	48	3	-	3	60	33	27
Fernwärme GmbH Hohenmölsen – Webau(2)	6	-	-	-	15	8	7
Ergosud S.P.A.	62	14	-	14	322	219	103
Total	**1,500**	**63**	**-**	**63**	**4,519**	**3,713**	**806**

(1) Revenue, Profit (loss) and Total comprehensive income represent amounts from the date of acquisition by the Group.
(2) Data from standalone financial statements according to German GAAP.

In millions of EUR

Associates and joint ventures	Non-current assets	Current assets	Non-current liabilities	Current liabilities
LEAG Group	2,873	1,006	2,852	466
Kraftwerk Schkopau GbR(1)	17	215	116	8
Kraftwerk Schkopau Betriebsgesellschaft GmbH(1)	-	11	-	11
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH(1)	34	26	24	9
Fernwärme GmbH Hohenmölsen – Webau(1)	14	1	3	5
Ergosud S.P.A.	275	47	192	27
Total	**3,213**	**1,306**	**3,187**	**526**

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

18. Deferred tax assets and liabilities

RECOGNISED DEFERRED TAX ASSETS AND LIABILITIES

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

In millions of EUR

	31 December 2017	31 December 2017	31 December 2017	31 December 2016	31 December 2016	31 December 2016
Temporary difference related to:	**Assets**	**Liabilities**	**Net**	**Assets**	**Liabilities**	**Net**
Property, plant and equipment	24	(83)	(59)	29	(82)	(53)
Intangible assets	26	(18)	8	26	(19)	7
Investment securities at amortised cost	-	(4)	(4)	-	-	-
Inventories	3	-	3	3	-	3
Provisions	88	(2)	86	87	(18)	69
Loans and borrowings	3	-	3	3	-	3
Tax losses	21	-	21	11	-	11
Derivatives	-	(25)	(25)	1	(35)	(34)
Other items	-	(10)	(10)	-	(6)	(6)
Subtotal	**165**	**(142)**	**23**	**160**	**(160)**	**-**
Set-off tax	(99)	99	-	(105)	105	-
Total	**66**	**(43)**	**23**	**55**	**(55)**	**-**

MOVEMENTS IN DEFERRED TAX DURING THE YEAR

In millions of EUR

Balances related to:	Balance at 1 January 2017	Recognised in profit or loss	Recognised in other comprehensive income	Acquired in business combinations(1)	Effect of movements in foreign exchange rate	Balance at 31 December 2017
Property, plant and equipment	(53)	(2)	-	(4)	-	(59)
Intangible assets	7	1	-	-	-	8
Investment securities at amortised cost	-	(4)	-	-	-	(4)
Inventories	3	-	-	-	-	3
Provisions	69	13	(1)	5	-	86
Loans and borrowings	3	-	-	-	-	3
Tax losses	11	10	-	-	-	21
Derivatives	(34)	-	9	-	-	(25)
Other	(6)	1	-	(5)	-	(10)
Total	**-**	**19**	**8**	**(4)**	**-**	**23**

(1) The purchase of EP LANGAGE LIMITED, EP SHB LIMITED, Kraftwerk Mehrum GmbH and EPNEI Group.

In millions of EUR

Balances related to:	Balance at 1 January 2016	Recognised in profit or loss	Recognised in other comprehen-sive income	Acquired in business combina-tions[1]	Effect of movements in foreign exchange rate	Balance at 31 December 2016
Property, plant and equipment	(42)	(12)	-	-	1	(53)
Intangible assets	12	3	-	(9)	1	7
Inventories	-	3	-	-	-	3
Provisions	40	26	3	-	-	69
Loans and borrowings	3	-	-	-	-	3
Tax losses	-	12	-	-	(1)	11
Derivatives	-	-	(36)	-	2	(34)
Other	(2)	(4)	-	-	-	(6)
Total	**11**	**28**	**(33)**	**(9)**	**3**	**-**

(1) The purchase of LYNEMOUTH POWER LIMITED.

UNRECOGNISED DEFERRED TAX ASSETS

A deferred tax asset has not been recognised in respect of the following items:

In millions of EUR

	31 December 2017	31 December 2016
Tax losses carried forward	6	6
Total	**6**	**6**

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

In millions of EUR

	31 December 2017	31 December 2016
EPPE Germany a.s.	3	3
EPPE Italy N.V.	3	3
Total	**6**	**6**

Considering the nature of revenues and expenses, the companies do not expect significant taxable profit growth, so no deferred tax asset was recognised. If sufficient taxable profit were to be achieved in 2017, then the associated tax income (savings) would be up to EUR 2 million (2016: EUR 2 million).

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

In millions of EUR

	2018	2019	2020	2021	After 2022	Total
Tax losses	-	-	-	3	3	**6**

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

19. Inventories

In millions of EUR

	31 December 2017	31 December 2016
Fossil fuel	56	9
Spare parts	51	31
Raw material and supplies	50	38
Overburden	22	25
Work in progress	2	-
Total	**181**	**103**

As at 31 December 2017, no inventories are subject to pledges (2016: EUR 0 million).

20. Trade receivables and other assets

In millions of EUR

	31 December 2017	31 December 2016
Trade receivables	455	230
Advance payments	54	13
Estimated receivables	13	-
Other receivables and assets	32	9
Allowance for bad debts	(3)	-
Total	**551**	**252**
Non-current	85	28
Current	466	224
Total	**551**	**252**

In 2017, no receivables were written-off through profit or loss (2016: EUR 0 million).

As at 31 December 2017, no trade receivables are subject to pledges (2016: EUR 0 million).

As at 31 December 2017 and 2016, trade receivables and other assets are not past due.

The Group's exposure to credit and currency risks and impairment losses related to trade and other receivables excluding construction work in progress is disclosed in Note 33 – Risk management policies and disclosures.

21. Cash and cash equivalents

In millions of EUR

	31 December 2017	31 December 2016
Current accounts with banks	188	308
Total	**188**	**308**

As at 31 December 2017, cash equivalents of EUR 20 million are subject to pledges (2016: EUR 38 million). As such, the pledged cash is readily available to the EPPE Group and does not represent restricted cash.

SIGNIFICANT INVESTING AND FINANCING ACTIVITIES NOT REQUIRING CASH

In millions of EUR

	31 December 2017	31 December 2016
Investing activities	13	12
Financing activities	-	-
Total	**13**	**12**

For the year 2017 non-cash investing activities include set-off of EP Commodities, a.s. loan provided to Energetický a průmyslový holding, a.s. which was set-off against trade payable.

For the year 2016 non-cash investing activities include loans provided by Ep Produzione S.P.A. of EUR 9 million and EPPE Italy N.V. (former Czech Gas Holding N.V.) of EUR 3 million to Energetický a průmyslový holding, a.s. which were set-off against trade payables.

22. Restricted cash

As at 31 December 2017, the balance of restricted cash is represented mainly by EUR 23 million (2016: EUR 24 million) representing security given by EGGBOROUGH POWER LIMITED ("EPL") to the pension fund, this is expected to remain in place until risk on the schemes funding deficit is eliminated. It may be partly used for early retirement obligations during 2018. EUR 2 million is represented by collateralised cash with National Grid by EP UK Investments Ltd. and EUR 5 million cash on clearing account in relation to funds received from the EPEX power exchange by EP UK Investments Ltd. (2016: EUR 4 million represented by banking collateral to form a credit line for banking provider for bankers' automated clearing service (BAC) and EUR 1 million represented collateral with National Grid (deposited with Elexon) by EPL).

23. Tax receivables

In millions of EUR

	31 December 2017	31 December 2016
Value added tax receivables	84	68
Current income tax receivables	8	8
Other tax receivables	9	3
Total	**101**	**79**

24. Equity

SHARE CAPITAL AND SHARE PREMIUM

The authorised, issued and fully paid share capital as at 31 December 2017 consisted of 73,014 ordinary shares with a par value of CZK 200 thousand each (2016: 10 shares).

The shareholders are entitled to receive dividends and to one vote per 200 thousand CZK share at meetings of the Company's shareholders.

31 DECEMBER 2017

	Number of shares	Ownership %	Voting rights %
Energetický a průmyslový holding, a.s.	73,014	100.00	100.00
Total		**100.00**	**100.00**

31 DECEMBER 2016

	Number of shares	Ownership %	Voting rights %
Energetický a průmyslový holding, a.s.	10	100.00	100.00
Total		**100.00**	**100.00**

The reconciliation of the number of shares outstanding at the beginning and at the end of the year is provided as follows:

	Number of shares 2017
Shares outstanding at the beginning of the year	10
Issued ordinary shares at 23 June 2017	73,004
Shares outstanding at the end of the year	**73,014**

	Number of shares 2016
Shares outstanding at the beginning of the year	10
Shares outstanding at the end of the year	**10**

Reserves recognised in equity comprise the following items:

In millions of EUR

	31 December 2017	31 December 2016
Hedging reserve	126	165
Other capital funds from capital contributions	81	65
Non-distributable reserves	5	-
Translation reserve	(10)	9
Fair value reserve	(34)	(28)
Other capital reserves	(498)	116
Total	**(330)**	**327**

OTHER CAPITAL RESERVES

As stated in section 3 (a) vii – Pricing differences, the Group accounted for pricing differences which arose from the acquisition of subsidiaries from Energetický a průmyslový holding, a.s. As these acquired entities and its subsidiaries and associates were under common control of Energetický a průmyslový holding, a.s. they were therefore excluded from the scope of IFRS 3, which defines recognition of goodwill raised from business combination as the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets, liabilities and contingent liabilities of the acquired subsidiary. Acquirees under common control are treated under the net book value presented in the consolidated financial statements of Energetický a průmyslový holding, a.s. (i.e. including historical goodwill less potential impairment) as at the date these entities were acquired by Energetický a průmyslový holding, a.s. (acquisition date). The difference between the cost of acquisition and carrying values of net assets of the acquire and original goodwill carried forward as at the acquisition date were recorded to consolidated equity as pricing differences. Pricing differences are presented in Other capital reserves in Equity. Note 5 – Acquisitions and disposals of subsidiaries, joint ventures and associates summarises the effects of all common control transactions in both periods.

NON-DISTRIBUTABLE RESERVES

The legal reserve of EUR 5 million was reported as at 31 December 2017 (2016: EUR 0 million).

TRANSLATION RESERVE

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

HEDGING RESERVES

The effective portion of fair value changes in financial derivatives designated as cash flow hedges are recognised in equity (for more details please refer to Note 29 – Financial instruments and Note 33 – Risk management policies and disclosure).

25. Earnings per share

BASIC EARNINGS PER SHARE

Basic earnings per share in EUR per 1 share of CZK 200,000 nominal value equal 2,437.89 (2016: 3,095.30).

The calculation of basic earnings per share as at 31 December 2017 was based on a profit attributable to ordinary shareholders of EUR 178 million (2016: EUR 226 million), and a weighted average number of ordinary shares outstanding of 73,014 (2016: 73,014).

On 23 June 2017 the company issued 73,004 ordinary shares with a par value of CZK 200,000 each. Receivable from the shares issued was offset against consideration payable by EP Power Europe, a.s. for the shares in EP UK, EPC and EPPE Italy, which were acquired under common control (refer to Note 5 – Acquisitions and disposals of subsidiaries, joint ventures and associates). As such, the transaction does not represent increase in available resources and is reflected retrospectively in the calculation of weighted number of shares and earnings per share.

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2017

In millions of shares

	Nominal	Weighted
Issued ordinary shares at the beginning of the year	10	10
Issued ordinary shares on 23 June 2017 (1 share/CZK 200,000) – common control transaction(1)	73,004	73,004
Total	**73,014**	**73,014**

(1) The transaction does not represent increase in available resources, therefore it is reflected retrospectively in the calculation of weighted number of shares and earnings per share.

WEIGHTED AVERAGE NUMBER OF ORDINARY SHARES 2016

In millions of shares

	Nominal	Weighted
Issued ordinary shares at the beginning of the year	10	10
Issued shares on 23 June 2017 (1 share/CZK 200,000) – common control transaction(1)	73,004	73,004
Total	**73,014**	**73,014**

(1) The transaction does not represent increase in available resources, therefore it is reflected retrospectively in the calculation of weighted number of shares and earnings per share.

DILUTIVE EARNINGS PER SHARE

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

26. Non-controlling interest

31 DECEMBER 2017

In millions of EUR

	Ep Produzione Centrale Livorno Ferraris S.P.A.	JTSD – Braunkohleberg-bau GmbH, its subsidiaries and associates	Other individually immaterial subsidiaries	Total
Non-controlling percentage	**25.00%**	**10.00%**		
Business activity	Production of electricity and heat	Coal mining and production of electricity		
Country(1)	Italy	Germany		
Carrying amount of NCI at 31 December 2017	**45**	**5**	**5**	**55**
Profit (loss) attributable to non-controlling interest	**1**	**-**	**(2)**	**(1)**
Dividends declared	**(1)**	**-**	**(1)**	**(2)**
Statement of financial position information(1)				
Total assets	233	795		
of which: non-current	*161*	*592*		
current	*72*	*203*		
Total liabilities	53	707		
of which: non-current	*17*	*469*		
current	*36*	*238*		
Net assets	**180**	**88**		
Statement of comprehensive income information(1)				
Total revenues	245	459		
of which: dividends received	-	-		
Profit after tax	3	1		
Total comprehensive income for the year(1)	**3**	**1**		
Net cash inflows (outflows)(1)	**11**	**(20)**		

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

31 DECEMBER 2016

In millions of EUR

	Ep Produzione Centrale Livorno Ferraris S.P.A.	JTSD – Braunkohleberg-bau GmbH, its subsidiaries and associates	Other individually immaterial subsidiaries	Total
Non-controlling percentage	**25.00%**	**10.00%**		
Business activity	Production of electricity and heat	Coal mining and production of electricity		
Country(1)	Italy	Germany		
Carrying amount of NCI at 31 December 2016	**45**	**5**	**7**	**57**
Profit (loss) attributable to non-controlling interest	**(1)**	**(4)**	**1**	**(4)**
Dividends declared	**(4)**	**-**	**-**	**(4)**
Statement of financial position information(1)				
Total assets	232	828		
of which: non-current	*152*	*622*		
current	*80*	*206*		
Total liabilities	50	742		
of which: non-current	*14*	*530*		
current	*36*	*212*		
Net assets	**182**	**86**	**-**	**-**
Statement of comprehensive income information(1)				
Total revenues	176	460		
of which: dividends received	*-*	*-*		
Profit (loss) after tax	(2)	(45)		
Total comprehensive income for the year(1)	**(2)**	**(45)**	**-**	**-**
Net cash inflows (outflows)(1)	**(24)**	**19**	**-**	**-**

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

27. Loans and borrowings

In millions of EUR

	31 December 2017	31 December 2016
Loans payable to other than credit institutions	681	110
Loans payable to credit institutions	321	326
Total	**1,002**	**436**
Non-current	299	302
Current	703	134
Total	**1,002**	**436**

The weighted average interest rate on loans for 2017 was 1.32% (2016: 2.44%).

OTHER LOANS AND BORROWINGS

TERMS AND DEBT REPAYMENT SCHEDULE

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

In millions of EUR

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/17	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	EUR	fixed	2025	228	54	172	2
Secured bank loan	EUR	variable*	2023	77	8	59	10
Unsecured bank loan	EUR	fixed	2018	11	11	-	-
Unsecured bank loan	EUR	variable*	2018	5	5	-	-
Unsecured loan	GBP	fixed	2018	583	583	-	-
Unsecured loan	EUR	fixed	2024	92	36	-	56
Unsecured loan	CZK	fixed	2018	6	6	-	-
Total interest-bearing liabilities				**1,002**	**703**	**231**	**68**

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

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

In millions of EUR

	Currency	Nominal interest rate	Year of maturity (up to)	Balance at 31/12/16	Due within 1 year	Due in 1–5 years	Due in following years
Secured bank loan	EUR	variable*	2021	321	32	289	-
Unsecured bank loan	EUR	variable*	2025	5	1	2	2
Unsecured loan	GBP	fixed	2017	100	100	-	-
Unsecured loan	EUR	fixed	2024	9	-	7	2
Unsecured loan	CZK	fixed	2017	1	1	-	-
Total interest-bearing liabilities				**436**	**134**	**298**	**4**

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

FAIR VALUE INFORMATION

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

In millions of EUR

	31 December 2017	31 December 2017	31 December 2016	31 December 2016
	Carrying amount	Fair value	Carrying amount	Fair value
Loans payable to other than credit institutions	681	686	110	110
Loans payable to credit institutions	321	322	326	317
Total	**1,002**	**1,008**	**436**	**427**

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

28. Provisions

In millions of EUR

	Employee benefits	Provision for emission rights	Onerous contracts	Provision for lawsuits and litigations	Provision for restoration and decom-missioning(3)	Other	Total
Balance at 1 January 2017	**129**	**54**	**58**	**14**	**619**	**5**	**879**
Provisions made during the year	23	73	2	8	75	7	**188**
Provisions used during the year	(40)	(54)	-	-	(28)	(3)	**(125)**
Provisions reversed during the year	(2)	-	(9)	(2)	(7)	-	**(20)**
Acquisitions through business combinations(1)	6	18	-	-	30	-	**54**
Transfer(2)	-	-	(18)	-	18	-	**-**
Unwinding of discount*	-	-	-	-	11	-	**11**
Effects of movements in foreign exchange rate	-	(1)	-	-	(5)	1	**(5)**
Balance at 31 December 2017	**116**	**90**	**33**	**20**	**713**	**10**	**982**
Non-current	*78*	*-*	*33*	*-*	*667*	*1*	***779***
Current	*38*	*90*	*-*	*20*	*46*	*9*	***203***

* Unwinding of discount is included in interest expense.

(1) The purchase of EP SHB LIMITED, EP LANGAGE LIMITED, Kraftwerk Mehrum GmbH and EPNEI Group.

(2) Transfer by Fiume Santo S.P.A. and Ep Produzione S.P.A. due to the change of the purpose of the provision.

(3) As at 31 December 2017, the balance in amount of EUR 393 million represents mining related provisions recorded by JTSD – Braunkohlebergbau GmbH and Helmstedter Revier GmbH. Remaining balance of EUR 320 million represents other decommissioning provisions.

In millions of EUR

	Employee benefits	Provision for emission rights	Onerous contracts	Provision for lawsuits and litigations	Provision for restoration and decom-missioning(3)	Other	Total
Balance at 1 January 2016	**95**	**79**	**69**	**9**	**576**	**1**	**829**
Provisions made during the year	66	46	1	6	47	4	**170**
Provisions used during the year	(31)	(68)	(1)	-	(10)	(1)	**(111)**
Provisions reversed during the year	(1)	-	(9)	(1)	(6)	-	**(17)**
Acquisitions through business combinations(1)	-	-	-	-	10	1	**11**
Transfer(2)	-	-	(2)	-	2	-	**-**
Unwinding of discount*	1	-	-	-	13	-	**14**
Effects of movements in foreign exchange rate	(1)	(3)	-	-	(13)	-	**(17)**
Balance at 31 December 2016	**129**	**54**	**58**	**14**	**619**	**5**	**879**
Non-current	*82*	*-*	*58*	*-*	*542*	*-*	***682***
Current	*47*	*54*	*-*	*14*	*77*	*5*	***197***

* Unwinding of discount is included in interest expense.
(1) The purchase of LYNEMOUTH POWER LIMITED.
(2) Transfer by Centro Energia Teverola S.R.L. due to the change of the purpose of the provision.
(3) As at 31 December 2016, the balance in amount of EUR 347 million represents mining related provisions recorded by JTSD – Braunkohlebergbau GmbH and Helmstedter Revier GmbH. Remaining balance of EUR 272 million represents other decommissioning provisions.

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 judgement.

EMPLOYEE BENEFITS

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

The provision for employee benefits in the amount of EUR 116 million (2016: EUR 129 million) was recorded by Mitteldeutsche Braunkohlengesellschaft GmbH, Helmstedter Revier GmbH, EGGBOROUGH POWER LIMITED, Ep Produzione Centrale Livorno Ferraris S.P.A., Ep Produzione S.P.A., Fiume Santo S.P.A. and Kraftwerk Mehrum GmbH.

I. MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT GMBH

The provision recorded by Mitteldeutsche Braunkohlengesellschaft GmbH amounts to EUR 21 million (2016: EUR 17 million), of which EUR 4 million (2016: EUR 4 million) represents a defined benefit pension scheme. The remaining balance of EUR 17 million (2016: EUR 13 million) represents other unfunded employee benefits paid for work and life jubilees and anniversaries.

The schedules below summarise information about the defined benefit obligations and plan assets.

In millions of EUR

	2017	2016
Plan A		
Fair value of plan asset	4	4
Present value of obligations	(6)	(6)
Total employee benefit (asset)	**(2)**	**(2)**
Plan B		
Fair value of plan asset	2	2
Present value of obligations	(3)	(3)
Total employee benefit (asset)	**(1)**	**(1)**
Plan C		
Fair value of plan asset	-	-
Present value of obligations	(1)	(1)
Total employee benefit (asset)	**(1)**	**(1)**

MOVEMENT IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

In millions of EUR

	Plan A	Plan B	Plan C	Total
Balance at 1 January 2017	**(6)**	**(3)**	(1)	**(10)**
Benefits paid by plan	-	1	-	**1**
Actuarial gains (losses)	-	(1)	-	**(1)**
Balance at 31 December 2017	**(6)**	**(3)**	**(1)**	**(10)**

In millions of EUR

	Plan A	Plan B	Plan C	Total
Balance at 1 January 2016	**(6)**	**(3)**	(1)	**(10)**
Benefits paid by plan	-	1	-	**1**
Actuarial gains (losses)	-	(1)	-	**(1)**
Balance at 31 December 2016	**(6)**	**(3)**	**(1)**	**(10)**

MOVEMENT IN FAIR VALUE OF PLAN ASSETS

In millions of EUR

	Plan A	Plan B	Plan C	Total
Balance at 1 January 2017	**4**	**2**	**-**	**6**
Benefits paid by plan	-	-	-	-
Contributions to plan assets	-	-	-	-
Balance at 31 December 2017	**4**	**2**	**-**	**6**

In millions of EUR

	Plan A	Plan B	Plan C	Total
Balance at 1 January 2016	**4**	**2**	**-**	**6**
Benefits paid by plan	-	(1)	-	**(1)**
Contributions to plan assets	-	1	-	**1**
Balance at 31 December 2016	**4**	**2**	**-**	**6**

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

AS AT 31 DECEMBER 2017

In %

	Plan A	Plan B	Plan C
Discount rate	0.52	0.66	1.87
Expected return on assets	0.00	0.00	*N/A*
Annual rate of increase in salaries	0.00	0.00	0.00
Post retirement pension increase	0.00	0.00	0.00
Mortality & disability	*(1)*	*(1)*	*(1)*

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

AS AT 31 DECEMBER 2016

In %

	Plan A	Plan B	Plan C
Discount rate	0.30	0.00	1.85
Expected return on assets	0.00	0.00	*N/A*
Annual rate of increase in salaries	0.00	*N/A*	0.00
Post retirement pension increase	0.00	*N/A*	0.00
Mortality & disability	*(1)*	*(1)*	*(1)*

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

II. HELMSTEDTER REVIER GMBH

The provision recorded by Helmstedter Revier GmbH amounts to EUR 59 million (2016: EUR 80 million), of which EUR 22 million (2016: EUR 33 million) represents a defined benefit pension scheme and EUR 28 million (2016: EUR 38 million) represents an early retirement scheme. The schedules below summarise information about the defined benefit obligations.

In millions of EUR

	2017	2016
Plan A		
Fair value of plan asset	30	24
Present value of obligations	(51)	(56)
Total employee benefit	**(21)**	**(32)**
Plan B		
Fair value of plan asset	1	1
Present value of obligations	(2)	(2)
Total employee benefit	**(1)**	**(1)**
Early Retirement		
Present value of obligations	(28)	(38)
Total employee benefit	**(28)**	**(38)**

MOVEMENTS IN THE PRESENT VALUE OF DEFINED BENEFIT OBLIGATIONS

In millions of EUR

	Plan A	Plan B	Early retirement	Total
Balance at 1 January 2017	**(56)**	**(2)**	**(38)**	**(96)**
Benefits paid by plan	1	-	9	**10**
Current service costs	(1)	-	1	**-**
Current interest costs	(1)	-	-	**(1)**
Actuarial gains (losses) recognised in other comprehensive income	6	-	-	**6**
Balance at 31 December 2017	**(51)**	**(2)**	**(28)**	**(81)**

In millions of EUR

	Plan A	Plan B	Early retirement	Total
Balance at 1 January 2016	**(44)**	**(2)**	**(36)**	**(82)**
Benefits paid by plan	-	-	3	**3**
Current service costs	(3)	-	(4)	**(7)**
Current interest costs	(1)	-	(1)	**(2)**
Actuarial gains (losses) recognised in other comprehensive income	(8)	-	-	**(8)**
Balance at 31 December 2016	**(56)**	**(2)**	**(38)**	**(96)**

MOVEMENT IN FAIR VALUE OF PLAN ASSETS

In millions of EUR

	Plan A	Plan B	Total
Balance at 1 January 2017	**24**	**1**	**25**
Contributions to plan assets	6	-	**6**
Expected return on plan assets	-	-	**-**
Actuarial gains (losses) recognised in other comprehensive income	-	-	**-**
Balance at 31 December 2017	**30**	**1**	**31**

In millions of EUR

	Plan A	Plan B	Total
Balance at 1 January 2016	**22**	**1**	**23**
Contributions to plan assets	2	-	**2**
Expected return on plan assets	1	-	**1**
Actuarial gains (losses) recognised in other comprehensive income	(1)	-	**(1)**
Balance at 31 December 2016	**24**	**1**	**25**

EXPENSE RECOGNISED IN PROFIT AND LOSS

In millions of EUR

	2017	2016
Current service costs	-	(7)
Current interest costs	(1)	(2)
Expected return on plan assets	-	1
Total	**(1)**	**(8)**

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

AS AT 31 DECEMBER 2017

In %

	Plan A	Plan B	Early Retirement
Discount rate	1.44	1.44	0.00
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	0.00	0.00	1.50
Post retirement pension increase	1.75	1.75	0.00
Mortality & disability	*(1)*	*(1)*	*(1)*

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

AS AT 31 DECEMBER 2016

In %

	Plan A	Plan B	Early Retirement
Discount rate	1.49	1.49	0.00
Expected return on assets	0.00	0.00	0.00
Annual rate of increase in salaries	1.50	1.50	1.50
Post retirement pension increase	1.75	1.75	0.00
Mortality & disability	*(1)*	*(1)*	*(1)*

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

PROVISION FOR EMISSION RIGHTS

Provision for emission rights is recognised regularly during the year based on the estimated number of tonnes of CO_2 emitted. It is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

PROVISION FOR LAWSUITS

A provision of EUR 20 million was recorded by JTSD – Braunkohlebergbau GmbH (2016: EUR 14 million recorded by JTSD – Braunkohlebergbau GmbH).

For more details refer to Note 36 – Litigations and claims.

As disclosed in Note 36 – Litigations and claims, there are other legal proceedings in which the Group is involved whose results cannot be reliably estimated as at the date of the preparation of these consolidated financial statements, and therefore no provision was recorded as at 31 December 2017 and 31 December 2016.

PROVISION FOR RESTORATION AND DECOMMISSIONING

The provision of EUR 713 million (2016: EUR 619 million) was primarily recorded by JTSD - Braunkohlebergbau GmbH (EUR 288 million; 2016: EUR 257 million), Ep Produzione S.P.A. (EUR 124 million; 2016: EUR 116 million), Helmstedter Revier GmbH (EUR 105 million; 2016: EUR 90 million), Fiume Santo S.P.A. (EUR 91 million; 2016: EUR 72 million), EGGBOROUGH POWER LIMITED (EUR 60 million; 2016: EUR 67 million), Kraftwerk Mehrum GmbH (EUR 17 million, 2016: EUR 0 million) and LYNEMOUTH POWER LIMITED (EUR 8 million; 2016: EUR 9 million).

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

The following expense items are considered:

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

Estimates are reviewed by an external expert / engineering office to ensure that mining provisions have been properly created. These external experts determine the value of all expense items listed above on the basis of usual market prices. In 2017, quantities and values were adjusted based on the latest knowledge. Consequently, the provisions were recalculated for IFRS accounting purposes on the basis of the new settlement values. An annual inflation rate of 0.82% (2016: 1.22%) was used to calculate the provision for adjustments based on the current price basis and a discount rate of 2.00% (2016: 2.32%) in case of JTSD - Braunkohlebergbau GmbH and annual inflation rate of 0.82% (2016: 1.22%) was used to calculate the provision for adjustments based on the current price basis and a discount rate of 0% (2016: 0.32%) in case of Helmstedter Revier GmbH. For determination of the discount rate Helmstedter Revier GmbH applies German bonds that turned to be negative for 2017. As a result the Company decided to apply 0%.

The Group uses stress tests in the form of inflation and discount rate shocks, i.e. simulated immediate decreases / increases in inflation or the discount rate by 1%.

At the reporting date, a change of 1% in the inflation rate would have increased or decreased the provision for restoration recognised by JTSD – Braunkohlebergbau GmbH by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of EUR

	2017 Profit (loss)
Increase of inflation rate by 1%	(92)
Decrease of inflation rate by 1%	68

At the reporting date, a change of 1% in the discount rate would have increased or decreased the provision for restoration recognised by JTSD – Braunkohlebergbau GmbH by the amounts shown in the table below. Due to 0% discount rate announced by Helmstedter Revier GmbH, the company is excluded from the analysis. This analysis assumes that all other variables remain constant.

In millions of EUR

	2017 Profit (loss)
Increase of discount rate by 1%	69
Decrease of discount rate by 1%	(84)

As at 31 December 2017, the provision recognised by Ep Produzione S.P.A. and Fiume Santo S.P.A. in total amount of EUR 215 million consists of the following items:

Asset retirement costs (ARO provision) in amount of EUR 189 million (EUR 113 million for Ep Produzione S.P.A. and EUR 75 million for Fiume Santo S.P.A.) represents a liability related to the eventual retirement of tangible assets. The provision is calculated as a present value of estimated future expenditures related to the fixed assets retirement.

Provision for health and safety risk in amount of EUR 7 million recorded by Ep Produzione S.P.A. that represents potential liabilities to personnel arising from exposure to asbestos fibers.

Provision for restoration of land totalling EUR 19 million in region of Tavazzano, Ostiglia and Fiume Santo where the power plants are situated.

Estimated costs are adjusted by expected future inflation (1.16 % for 2017) and discounted using a discount rate that reflects the current market assessment of the time value of money – risk free rate of 0.82%.

The Group uses stress tests in the form of inflation and discount rate shocks, i.e. simulated immediate decreases / increases in inflation or the discount rate by 1 %.

At the reporting date, a change of 1 % in the inflation rate would have increased or decreased the provision for restoration recognised by Ep Produzione S.P.A. and Fiume Santo S.P.A. by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of EUR

	2017 Profit (loss)
Increase of inflation rate by 1 %	(51)
Decrease of inflation rate by 1 %	37

At the reporting date, a change of 1 % in the discount rate would have increased or decreased the provision for restoration recognised by Ep Produzione S.P.A. and Fiume Santo S.P.A. by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

In millions of EUR

	2017 Profit (loss)
Increase of discount rate by 1 %	38
Decrease of discount rate by 1 %	(46)

As at 31 December 2017, EGGBOROUGH POWER LIMITED recognised a provision for restoration and decommissioning in amount of EUR 60 million (2016: EUR 67 million) representing the present value of costs incurring in fulfilling the company's obligation to decommission and demolish Eggborough Power Station following cessation of operations in 2018. The company has an obligation to ensure that there are no issues with its ash-disposal site 60 years after the company is liquidated.

Estimated costs are adjusted by expected future inflation (2.11 % for 2017) and discounted using a discount rate that reflects the current market assessment of the time value of money – risk free rate of 0.90%.

As at 31 December 2017, Kraftwerk Mehrum GmbH recognised provision for Asset retirement obligation (“ARO provision”) in the amount of EUR 17 million. The ARO provision is calculated as a present value of estimated future expenditures related to the fixed assets retirement. Management uses an estimation prepared by engineers.

LYNEMOUTH POWER LIMITED estimated the provision for decontamination and restoration and long-term asset retirement using the existing technology and current prices adjusted for expected future inflation and discounted using a discount rate that reflects the current market assessment of the time value of money – risk free rate.

Provisions for restoration and decommissioning recognised by EGGBOROUGH POWER LIMITED, Kraftwerk Mehrum GmbH and LYNEMOUTH POWER LIMITED have not been included in stress testing as the change in provisions due to a change in parameters would have insignificant impact on the Group’s financial statements.

29. Financial instruments

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL ASSETS

In millions of EUR

	31 December 2017	31 December 2016
Assets carried at amortised cost		
Loans to other than credit institutions	203	162
Shares available for sale held at cost	10	-
Total	**213**	**162**
Assets carried at fair value		
Hedging: *of which*	26	19
Commodity derivatives fair value hedge	*18*	*19*
Other derivatives fair value hedge	*8*	-
Risk management purpose: *of which*	24	6
Commodity derivatives reported as trading	*24*	*6*
Total	**50**	**25**
Non-current	54	43
Current	209	144
Total	**263**	**187**

FINANCIAL INSTRUMENTS AND OTHER FINANCIAL LIABILITIES

In millions of EUR

	31 December 2017	31 December 2016
Liabilities carried at fair value		
Hedging: *of which*	47	-
Currency forwards cash flow hedge	*47*	-
Risk management purpose: *of which*	26	13
Commodity derivatives reported as trading	*26*	*13*
Total	**73**	**13**
Non-current	3	-
Current	70	13
Total	**73**	**13**

The weighted average interest rate on loans to other than credit institutions for 2017 was 4.03% (2016: 4.83%).

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

In millions of EUR

	31 December 2017 Nominal amount buy	31 December 2017 Nominal amount sell	31 December 2017 Positive fair value	31 December 2017 Negative fair value
Hedging: *of which*	192	191	26	(47)
Commodity derivatives fair value hedge	*83*	*83*	*18*	-
Other derivatives fair value hedge	*66*	*65*	*8*	-
Currency forwards cash flow hedge	*43*	*43*	-	*(47)*
Risk management purpose: *of which*	1,552	1,567	24	(26)
Commodity derivatives reported as trading	*1,552*	*1,567*	*24*	*(26)*
Total	**1,744**	**1,758**	**50**	**(73)**

In millions of EUR

	31 December 2016 Nominal amount buy	31 December 2016 Nominal amount sell	31 December 2016 Positive fair value	31 December 2016 Negative fair value
Hedging: *of which*	87	(67)	19	-
Commodity derivatives fair value hedge	*87*	*(67)*	*19*	-
Risk management purpose: *of which*	210	(218)	6	(13)
Commodity derivatives reported as trading	*210*	*(218)*	*6*	*(13)*
Total	**297**	**(285)**	**25**	**(13)**

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 one year and where the contractual condition of derivatives does not meet the “own use exemption” as noted in IAS 39.5.

Sensitivity analysis relating to the fair values of financial instruments is included in the Note 33 – Risk management policies and disclosures.

FAIR VALUE HIERARCHY FOR FINANCIAL INSTRUMENTS CARRIED AT FAIR VALUE

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

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

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

In millions of EUR

	2017			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:				
Hedging: *of which*	-	26	-	**26**
Commodity derivatives fair value hedge	-	*18*	-	***18***
Other derivatives fair value hedge	-	*8*	-	***8***
Risk management purpose: *of which*	-	24	-	**24**
Commodity derivatives reported as trading	-	*24*	-	**24**
Total	**-**	**50**	**-**	**50**
Financial liabilities carried at fair value:				
Hedging: *of which*	-	47	-	**47**
Currency forwards cash flow hedge	-	*47*	-	***47***
Risk management purpose: of which	-	26	-	**26**
Commodity derivatives reported as trading	-	*26*	-	***26***
Total	**-**	**73**	**-**	**73**

In millions of EUR

	2016			
	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value:				
Hedging: *of which*	-	19	-	**19**
Commodity derivatives fair value hedge	-	*19*	-	***19***
Risk management purpose: *of which*	-	6	-	**6**
Commodity derivatives reported as trading	-	*6*	-	***6***
Total	**-**	**25**	**-**	**25**
Financial liabilities carried at fair value:				
Risk management purpose: *of which*	-	13	-	**13**
Commodity derivatives reported as trading	-	*13*	-	***13***
Total	**-**	**13**	**-**	**13**

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

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

In millions of EUR

	Carrying value 31 December 2017	Fair value 31 December 2017
Financial assets		
Loans to other than credit institutions	203	230
Shares available for sale held at cost, net	10	(1)-
Total	**213**	**230**

In millions of EUR

	Carrying value 31 December 2016	Fair value 31 December 2016
Financial assets		
Loans to other than credit institutions	162	257
Total	**162**	**257**

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

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

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

TRANSACTIONS WITH EMISSION RIGHTS

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

FORWARD OPERATIONS

As at 31 December 2017, the EPPE Group is contractually obliged to purchase 1,168,000 pieces (2016: 1,973,000 pieces) of emission rights at an average price 5.784 EUR/piece (2016: 5.27 EUR/piece).

30. Trade payables and other liabilities

In millions of EUR

	31 December 2017	31 December 2016
Trade payables	380	273
Accrued expenses	149	101
Liabilities from acquisition of subsidiaries – common control transaction (1)	133	-
Payroll liabilities	37	42
Other tax liabilities	28	30
Estimated payables	13	13
Advance payments received	7	-
Uninvoiced supplies	5	4
Liabilities to partners and associations	2	-
Other liabilities	53	84
Total	**807**	**547**
Non-current	86	92
Current	721	455
Total	**807**	**547**

(1) The balance is fully represented by the liability for the acquisition of 90% interest in JTSD – Braunkohlebergbau GmbH.

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

As at 31 December 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.

The Group's exposure to currency and liquidity risk related to trade payables and other liabilities is disclosed in Note 33 – Risk management policies and disclosures.

31. Financial commitments and contingencies

OFF BALANCE SHEET LIABILITIES

In millions of EUR

	31 December 2017	31 December 2016
Guarantees given	36	34
Granted pledges – securities	30	29
Other granted pledges	20	38
Total	**86**	**101**

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

GUARANTEES GIVEN

Guarantees given include guarantees in the amount of EUR 36 million (2016: EUR 34 million) used as collateral for external financing.

OTHER GRANTED PLEDGES

In millions of EUR

	31 December 2017	31 December 2016
Cash and cash equivalents	20	38
Total	**20**	**38**

OFF BALANCE SHEET ASSETS

In millions of EUR

	31 December 2017	31 December 2016
Other received guarantees and warranties	239	247
Total	**239**	**247**

OTHER RECEIVED GUARANTEES AND WARRANTIES

Other received guarantees and warranties consist of guarantees received to secure payments for gas supply in amount of EUR 239 million (2016: EUR 247 million) recognised by EP Commodities, a.s.

32. Operating leases

During the year ended 31 December 2017, EUR 12 million (2016: EUR 13 million) was recognised as an expense in profit or loss in respect of operating leases.

During the year ended 31 December 2017, EUR 1 million (2016: EUR 1 million) was recognised as income in profit or loss in respect of operating leases.

33. Risk management policies and disclosures

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

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

A CREDIT RISK

I. EXPOSURE TO CREDIT RISK

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

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

ADDITIONAL ASPECTS MITIGATING CREDIT RISK

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

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

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

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

CREDIT RISK BY TYPE OF COUNTERPARTY

AS AT 31 DECEMBER 2017

In millions of EUR

	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Individuals	Other	Total
Assets							
Cash and cash equivalents	7	-	-	181	-	-	**188**
Restricted cash	7	-	-	23	-	-	**30**
Trade receivables and other assets	510	1	1	1	16	22	**551**
Financial instruments and other financial assets	91	-	158	12	2	-	**263**
Total	**615**	**1**	**159**	**217**	**18**	**22**	**1,032**

AS AT 31 DECEMBER 2016

In millions of EUR

	Corporate (non-financial institutions)	State, government	Financial institutions	Banks	Individuals	Other	Total
Assets							
Cash and cash equivalents	-	-	-	308	-	-	**308**
Restricted cash	-	-	-	29	-	-	**29**
Trade receivables and other assets	241	-	2	-	-	9	**252**
Financial instruments and other financial assets	69	-	118	-	-	-	**187**
Total	**310**	**-**	**120**	**337**	**-**	**9**	**776**

Risk management policies and disclosures

CREDIT RISK BY LOCATION OF DEBTOR

AS AT 31 DECEMBER 2017

In millions of EUR

	Czech Republic	Italy	Germany	United Kingdom	Other	Total
Assets						
Cash and cash equivalents	28	88	41	30	1	**188**
Restricted cash	-	-	-	30	-	**30**
Trade receivables and other assets	15	233	128	119	56	**551**
Financial instruments and other financial assets	176	6	45	33	3	**263**
Total	**219**	**327**	**214**	**212**	**60**	**1,032**

AS AT 31 DECEMBER 2016

In millions of EUR

	Czech Republic	Italy	Germany	United Kingdom	Other	Total
Assets						
Cash and cash equivalents	14	86	55	152	1	**308**
Restricted cash	-	-	-	29	-	**29**
Trade receivables and other assets	17	98	63	58	16	**252**
Financial instruments and other financial assets	118	6	44	19	-	**187**
Total	**149**	**190**	**162**	**258**	**17**	**776**

As at 31 December 2017, location Other comprises mainly debtors located in Luxembourg, Hungary and Belgium (2016: Switzerland, Slovakia and Luxembourg).

II. IMPAIRMENT LOSSES

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

CREDIT RISK – IMPAIRMENT OF FINANCIAL ASSETS

AS AT 31 DECEMBER 2017

In millions of EUR

	Loans to other than credit institutions	Other short-term deposits (intended for investing activities)	Trade receivables and other assets	Total
Before maturity (net)	203	-	551	**754**
After maturity (net)	-	-	-	**-**
Total	**203**	**-**	**551**	**754**
A – Assets for which a provision has been created				
– Gross	-	-	3	**3**
– specific loss allowance	-	-	(2)	**(2)**
– collective loss allowance	-	-	(1)	**(1)**
Net	**-**	**-**	**-**	**-**
B – Assets for which a provision has not been created (overdue but not impaired)				
– after maturity <30 days	-	-	-	**-**
– after maturity 31–180 days	-	-	-	**-**
– after maturity 181–365 days	-	-	-	**-**
– after maturity >365 days	-	-	-	**-**
Net	**-**	**-**	**-**	**-**

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

In millions of EUR

	Loans to other than credit institutions	Other own term deposits (intended for investing activities)	Trade receivables and other assets	Total
Balance at 1 January 2017	-	-	**-**	**-**
Impairment losses recognised during the year	-	-	(3)	**(3)**
Balance at 31 December 2017	**-**	**-**	**(3)**	**(3)**

AS AT 31 DECEMBER 2016

In millions of EUR

	Loans to other than credit institutions	Other short-term deposits (intended for investing activities)	Trade receivables and other assets	Total
Before maturity (net)	162	-	252	**414**
After maturity (net)	-	-	-	**-**
Total	**162**	**-**	**252**	**414**
A – Assets for which a provision has been created				
– Gross	-	-	-	**-**
– specific loss allowance	-	-	-	**-**
– collective loss allowance	-	-	-	**-**
Net	**-**	**-**	**-**	**-**
B – Assets for which a provision has not been created (overdue but not impaired)				
– after maturity <30 days	-	-	-	**-**
– after maturity 31–180 days	-	-	-	**-**
– after maturity 181–365 days	-	-	-	**-**
– after maturity >365 days	-	-	-	**-**
Net	**-**	**-**	**-**	**-**

Impairment losses on trade receivables and other assets at 31 December 2017 relate to several customers that have indicated that they do not expect to be able to pay their outstanding balances, mainly due to economic circumstances. The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on extensive analyses of the underlying ratings of the customers.

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

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

B LIQUIDITY RISK

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

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

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

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

MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

AS AT 31 DECEMBER 2017

In millions of EUR

	Carrying amount	Contractual cash flows[1]	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
Assets							
Cash and cash equivalents	**188**	188	188	-	-	-	-
Restricted cash	**30**	30	7	-	-	23	-
Trade receivables and other assets	[2]**527**	527	294	165	61	-	7
Financial instruments and other financial assets	**263**	277	20	183	13	51	10
out of which Derivatives – inflow	***50***	*1,444*	*96*	*1,254*	*28*	*66*	-
outflow		*(1,441)*	*(96)*	*(1,252)*	*(28)*	*(65)*	-
Total	**1,008**	**1,022**	**509**	**348**	**74**	**74**	**17**
Liabilities							
Loans and borrowings	**1,002**	1,014	-	707	295	12	-
Trade payables and other liabilities	[3]**800**	800	391	300	52	34	23
Financial instruments and financial liabilities	**73**	73	22	1	8	42	-
out of which Derivatives – inflow		*300*	*245*	*9*	*8*	*38*	-
outflow	***(73)***	*(317)*	*(259)*	*(9)*	*(10)*	*(39)*	-
Total	**1,875**	**1,887**	**413**	**1,008**	**355**	**88**	**23**
Net liquidity risk position	**(876)**	**(865)**	**96**	**(660)**	**(281)**	**(14)**	**(6)**

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.
(2) Prepaid expenses and advances provided in total amount of EUR 24 million are excluded from the carrying amount as these items will cause no future cash inflow.
(3) Advances received in amount of EUR 7 million are excluded from the carrying amount as these items will cause no future cash outflow.

AS AT 31 DECEMBER 2016

In millions of EUR

	Carrying amount	Contractual cash flows(1)	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
Assets							
Cash and cash equivalents	308	308	308	-	-	-	-
Restricted cash	29	29	-	-	-	29	-
Trade receivables and other assets	246(2)	246	156	63	22	-	5
Financial instruments and other financial assets	187	187	19	125	-	43	-
out of which Derivatives – inflow	*25*	*94*	*88*	*6*	-	-	-
outflow	-	*(67)*	*(67)*	-	-	-	-
Total	**770**	**770**	**483**	**188**	**22**	**72**	**5**
Liabilities							
Loans and borrowings	436	457	100	38	313	4	2
Trade payables and other liabilities	547	547	295	142	60	31	19
Financial instruments and financial liabilities	13	15	2	13	-	-	-
out of which Derivatives – inflow	*14*	*203*	*13*	*188*	*2*	-	-
outflow	-	*(218)*	*(14)*	*(201)*	*(3)*	-	-
Total	**996**	**1,019**	**397**	**193**	**373**	**35**	**21**
Net liquidity risk position	**(226)**	**(249)**	**86**	**(5)**	**(351)**	**37**	**(16)**

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.
(2) Prepaid expenses and advances provided in total amount of EUR 6 million are excluded from the carrying amount as these items will cause no future cash inflow.

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

C INTEREST RATE RISK

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

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

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

Financial information relating to interest bearing and non-interest bearing assets and liabilities and their contractual maturity or re-pricing dates as at 31 December 2017 is as follows:

In millions of EUR

	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
Assets					
Cash and cash equivalents	188	-	-	-	**188**
Restricted cash	30	-	-	-	**30**
Trade receivables and other assets	-	-	-	551	**551**
Financial instruments and other financial assets	179	-	43	41	**263**
out of which Derivatives – inflow	-	-	-	*1,444*	***1,444***
outflow	-	-	-	*(1,441)*	***(1,441)***
Total	**397**	**-**	**43**	**592**	**1,032**
Liabilities					
Loans and borrowings	725	275	2	-	**1,002**
Trade payables and other liabilities	144	-	-	663	**807**
Financial instruments and financial liabilities	-	-	-	73	**73**
out of which Derivatives – inflow	-	-	-	*300*	***(300)***
outflow	-	-	-	*(317)*	***(317)***
Total	**869**	**275**	**2**	**736**	**1,882**
Net interest rate risk position	**(472)**	**(275)**	**41**	**(144)**	**(850)**

Notional amounts of financial instruments are included in Note 29 – Financial instruments.

Interest rate risk exposure as at 31 December 2016 is as follows:

In millions of EUR

	Up to 1 year	1 year to 5 years	Over 5 years	Undefined maturity (or non-interest bearing)	Total
Assets					
Cash and cash equivalents	308	-	-	-	**308**
Restricted cash	-	-	-	29	**29**
Trade receivables and other assets	44	-	-	208	**252**
Financial instruments and other financial assets	138	-	43	6	**187**
out of which Derivatives – inflow	-	-	-	*94*	***94***
outflow	-	-	-	*(67)*	***(67)***
Total	**490**	**-**	**43**	**243**	**776**
Liabilities					
Loans and borrowings	134	291	11	-	**436**
Trade payables and other liabilities	60	-	-	487	**547**
Financial instruments and financial liabilities	-	-	-	13	**13**
out of which Derivatives – inflow	-	-	-	*203*	***203***
outflow	-	-	-	*(218)*	***(218)***
Total	**194**	**291**	**11**	**500**	**996**
Net interest rate risk position	**296**	**(291)**	**32**	**(257)**	**(220)**

Notional amounts of financial instruments are included in Note 29 – Financial instruments.

SENSITIVITY ANALYSIS

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

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

Risk management policies and disclosures

In millions of EUR

	2017 Profit (loss)	2016 Profit (loss)
Decrease in interest rates by 100 bp	-	(1)
Increase in interest rates by 100 bp	-	1

The analysis stated above does not cover the impact of change in interest rate to fair value derivatives.

D FOREIGN EXCHANGE RISK

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

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

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

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

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

As of 31 December 2017, the exposure to foreign exchange risk translated to millions of EUR was as follows:

In millions of EUR

	CZK	EUR	GBP	Total
Assets				
Cash and cash equivalents	1	157	30	**188**
Restricted cash	-	-	30	**30**
Trade receivables and other assets	32	392	127	**551**
Financial instruments and other financial assets	3	227	33	**263**
	36	**776**	**220**	**1,032**
Off-balance sheet assets				
Receivables from derivative operations	1,251	56	437	**1,744**
	1,251	**56**	**437**	**1,744**
Liabilities				
Loans and borrowings	6	413	583	**1,002**
Trade payables and other liabilities	4	587	216	**807**
Financial instruments and financial liabilities	-	5	68	**73**
	10	**1,005**	**867**	**1,882**
Off-balance sheet liabilities				
Payables related to derivative operations	1,250	56	452	**1,758**
	1,250	**56**	**452**	**1,758**
Net FX risk position	**26**	**(229)**	**(647)**	**(850)**

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 29 – Financial instruments for more details).

Risk management policies and disclosures

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

In millions of EUR

	CZK	EUR	GBP	Total
Assets				
Cash and cash equivalents	1	155	152	**308**
Restricted cash	-	-	29	**29**
Trade receivables and other assets	3	194	55	**252**
Financial instruments and other financial assets	-	168	19	**187**
	4	**517**	**255**	**776**
Off-balance sheet assets				
Receivables from derivative operations	-	210	87	**297**
	-	**210**	**87**	**297**
Liabilities				
Loans and borrowings	1	335	100	**436**
Trade payables and other liabilities	61	372	114	**547**
Financial instruments and financial liabilities	-	13	-	**13**
	62	**720**	**214**	**996**
Off-balance sheet liabilities				
Payables related to derivative operations	-	218	67	**285**
	-	**218**	**67**	**285**
Net FX risk position	**(58)**	**(203)**	**41**	**(220)**

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 29 – Financial instruments for more details).

The following significant exchange rates applied during the period:

CZK

	31 December 2017	31 December 2017	31 December 2016	31 December 2016
	Average rate	Reporting date spot rate	Average rate	Reporting date spot rate
EUR 1	26.330	25.540	27.033	27.020
GBP 1	30.058	28.786	33.121	31.586

SENSITIVITY ANALYSIS

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

Effect in millions of EUR

	2017 Profit (loss)	2016 Profit (loss)
EUR (5% strengthening)	13	3
GBP (5% strengthening)	29	5

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

E COMMODITY RISK

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

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

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

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

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

F CAPITAL MANAGEMENT

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

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

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

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

In millions of EUR

	31 December 2017	31 December 2016
Total liabilities	2,919	1,956
Less: cash and cash equivalents	188	308
Net debt	**2,731**	**1,648**
Total equity attributable to equity holders of the Company	904	833
Less: amounts accumulated in equity relating to cash flow hedges	126	165
Adjusted capital	**778**	**668**
Debt to adjusted capital	**3.51**	**2.47**

G HEDGE ACCOUNTING

The negative revaluation from effective portion of changes in fair value of cash flow hedge reserve of EUR 39 million as at 31 December 2017 (2016: positive revaluation of EUR 165 million) represents primarily derivative agreements to hedge on a foreign exchange rate concluded by LYNEMOUTH POWER LIMITED.

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

CASH FLOW HEDGES – HEDGE OF FOREIGN CURRENCY RISK WITH FINANCIAL DERIVATIVES

LYNEMOUTH POWER LIMITED applies hedge accounting for hedging instruments designed to hedge the foreign currency risk cash-flows from biomass purchases denominated in foreign currencies (USD and CAD). The hedging instruments are foreign currency forwards concluded with third parties. The hedged items are proportions of expected cash outflows in USD and CAD that are expected to occur and impact profit or loss in periods of 2018 to 2026. As a result of the hedge relationship, on the Group consolidated level, the Group reported foreign currency cash flow hedge reserve of EUR 126 million (2016: EUR 165 million) as of 31 December 2017.

34. Related parties

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

A BALANCES WITH RELATED PARTIES

The summary of outstanding balances with related parties as at 31 December 2017 and 31 December 2016 was as follows:

In millions of EUR

	Accounts receivable and other financial assets	Accounts payable and other financial liabilities	Accounts receivable and other financial assets	Accounts payable and other financial liabilities
	2017	2017	2016	2016
Ultimate shareholder[1]	158	824	120	167
Companies controlled by ultimate shareholders	30	12	10	16
Associates and joint ventures	45	1	11	-
Key management personnel of the entity or its parent	-	5	-	5
Other related parties	-	-	1	-
Total	**233**	**842**	**142**	**188**

(1) Energetický a průmyslový holding, a.s. represents the ultimate shareholder.

B TRANSACTIONS WITH RELATED PARTIES

The summary of transactions with related parties during the year ended 31 December 2017 and 31 December 2016 was as follows:

In millions of EUR

	Revenues	Expenses	Revenues	Expenses
	2017	2017	2016	2016
Ultimate shareholder[1]	9	(11)	3	(7)
Companies controlled by ultimate shareholders	92	(115)	126	(119)
Associates and joint ventures	5	-	3	-
Key management personnel of the entity or its parent	-	-	-	-
Other related parties	-	-	-	-
Total	**106**	**(126)**	**132**	**(126)**

(1) Energetický a průmyslový holding, a.s. represents the ultimate shareholder.

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

TRANSACTIONS WITH THE KEY MANAGEMENT PERSONNEL

For the financial years ended 31 December 2017 and 2016 the EPPE Group's key management personnel is represented by members of the Board of Directors of the following major entities: EP Power Europe, a.s., EGGBOROUGH POWER LIMITED, LYNEMOUTH POWER LIMITED, EP Commodities, a.s., Ep Produzione S.P.A. Group, JTSD – Braunkohlebergbau GmbH Group and EP Germany GmbH Group.

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

In millions of EUR

	2017	2016
Nr. of personnel	14	10
Compensation, fees and rewards	4	5
Compulsory social security contributions	1	1
Total	**5**	**6**

Other remuneration of Group management (management of all components within the Group) is included in Note 8 – Personnel expenses.

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

35. Group entities

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

		31 December 2017		31 December 2016		2017	2016
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
EP Power Europe, a.s. *	Czech Republic	-	-	-	-	-	-
EPPE Germany, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
Lausitz Energie Kraftwerke AG	Germany	10	Direct	10	Direct	Equity	Equity
Lausitz Energie Bergbau AG	Germany	10	Direct	10	Direct	Equity	Equity
LEAG Holding, a.s. *	Czech Republic	50	Direct	50	Direct	Equity	Equity
Lausitz Energie Verwaltungs GmbH	Germany	100	Direct	100	Direct	Equity	Equity
Lausitz Energie Kraftwerke AG	Germany	80	Direct	80	Direct	Equity	Equity
Kraftwerk Schwarze Pumpe GmbH	Germany	100	Direct	100	Direct	Equity	Equity
Lausitz Energie Bergbau AG	Germany	80	Direct	80	Direct	Equity	Equity
GMB GmbH	Germany	100	Direct	100	Direct	Equity	Equity
Transport– und Speditionsgesellschaft Schwarze Pumpe mbH	Germany	100	Direct	100	Direct	Equity	Equity
EP Mehrum GmbH	Germany	100	Direct	-	-	Full	-
Kraftwerk Mehrum GmbH	Germany	100	Direct	-	-	Full	-
JTSD – Braunkohlebergbau GmbH	Germany	90	Direct	100	Direct	Full	Full
Mitteldeutsche Braunkohlengesellschaft mbH	Germany	100	Direct	100	Direct	Full	Full
MIBRAG Consulting International GmbH (former Montan Bildungs- und Entwicklungsgesellschaft mbH)	Germany	100	Direct	100	Direct	Full	Full
GALA-MIBRAG-Service GmbH	Germany	100	Direct	100	Direct	Full	Full
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50	Direct	50	Direct	Equity	Equity
Fernwärme GmbH Hohenmölsen – Webau	Germany	48.96	Direct	48.96	Direct	Equity	Equity
Ingenieurbüro für Grundwasser GmbH	Germany	25	Direct	25	Direct	Equity	Equity
Bohr & Brunnenbau GmbH	Germany	100	Direct	100	Direct	Full	Full
Helmstedter Revier GmbH (Buschhaus)	Germany	100	Direct	100	Direct	Full	Full
Norddeutsche Gesellschaft zur Ablagerung von Mineralstoffen mbH (NORGAM mbH)	Germany	51	Direct	51	Direct	Full	Full
Terrakomp GmbH	Germany	100	Direct	100	Direct	Full	Full
MIBRAG Neue Energie GmbH	Germany	100	Direct	100	Direct	Full	Full
EP Germany GmbH *	Germany	100	Direct	100	Direct	Full	Full
Saale Energie GmbH	Germany	100	Direct	100	Direct	Full	Full
Kraftwerk Schkopau GbR	Germany	41.90	Direct	41.90	Direct	Equity	Equity
Kraftwerk Schkopau Betriebsgesellschaft mbH	Germany	44.40	Direct	44.40	Direct	Equity	Equity
EP United Kingdom, s.r.o.[(1)]	Czech Republic	-	-	100	Direct	-	Full
EP UK INVESTMENTS LTD	United Kingdom	100	Direct	100	Direct	Full	Full
Eggborough Holdco 2 S.à r.l.[(2)]	Luxembourg	-	-	100	Direct	-	Full
EGGBOROUGH POWER LIMITED	United Kingdom	100	Direct	100	Direct	Full	Full
LYNEMOUTH POWER LIMITED	United Kingdom	100	Direct	100	Direct	Full	Full
EP UK Power Development Ltd[(3)]	United Kingdom	100	Direct	-	-	Full	-
EP SHB LIMITED	United Kingdom	100	Direct	-	-	Full	-
EP LANGAGE LIMITED	United Kingdom	100	Direct	-	-	Full	-
RVA GROUP LIMITED	United Kingdom	100	Direct	-	-	At cost	-
RVA CONSULTING ENGINEERS LIMITED	United Kingdom	100	Direct	-	-	At cost	-
RVA ENGINEERING SOLUTIONS LIMITED	United Kingdom	100	Direct	-	-	At cost	-
ENERGY SCANNER LIMITED *[(3)]	United Kingdom	100	Direct	100	Direct	Full	Full
EP INVEST LIMITED	United Kingdom	100	Direct	100	Direct	Full	Full
EP Commodities, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EPPE Italy N.V. (former Czech Gas Holding N.V.) *	Netherlands	100	Direct	100	Direct	Full	Full
Ep Produzione S.P.A.	Italy	100	Direct	100	Direct	Full	Full
Fiume Santo S.P.A.	Italy	100	Direct	100	Direct	Full	Full
EP Produzione Centrale Livorno Ferraris S.P.A.	Italy	75	Direct	75	Direct	Full	Full
Centro Energia Ferrara S.R.L.	Italy	58.35	Direct	58.35	Direct	Full	Full
Centro Energia Teverola S.R.L.	Italy	58.35	Direct	58.35	Direct	Full	Full
Ergosud S.P.A.	Italy	50	Direct	50	Direct	Equity	Equity
NADURENE a.s. *	Italy	100	Direct	-	-	Full	-
EP New Energy Italia S.R.L.	Italy	100	Direct	-	-	Full	-
Biomasse Crotone S.P.A.	Italy	100	Direct	-	-	Full	-
Biomasse Italia S.P.A.	Italy	100	Direct	-	-	Full	-
Fores Italia S.R.L.	Italy	50	Direct	-	-	At cost	-
MÁTRA ENERGY HOLDING Zrt.*	Hungary	50	Direct	-	-	Equity	-

* Holding entity

(1) EP United Kingdom, s.r.o. merged with EP Power Europe, a.s. as at 1 May 2017. EP Power Europe, a.s. is the successor company.

(2) On 3 July 2017, the process of liquidation of Eggborough Holdco 2 S.à r.l. was terminated.

(3) This company is exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts, by virtue of section 479A.

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

36. Litigations and claims

MITTELDEUTSCHE BRAUNKOHLENGESELLSCHAFT MBH

MIBRAG is involved in an ongoing dispute filed by 50Hertz Transmission GmbH ("50Hertz") in Germany since 2011. 50Hertz operates an upstream transmission grid and seeks retroactive payment from MIBRAG for costs under the burden-sharing mechanism related to the promotion of renewable energies (the so-called EEG surcharge) between August 2004 and December 2008 under the German Renewable Energies Act (Erneuerbare Energien Gesetz).

The 50Hertz's request for detailed data on the basis of which the calculation of the relevant electricity quantities could be calculated was granted by the highest court in 2015. MIBRAG is of the opinion that, for a substantial portion of the acceptance of supply obligation which 50Hertz is seeking to enforce, evidence can be presented that the claims are barred by the statute of limitations.

Based on MIBRAG's analysis, a provision of EUR 19.5 million in total is recorded in the financial statements (EUR 5.9 million addition in 2017). Provision covers both the economic risk for MIBRAG with respect to this legal dispute as well as the costs of the proceedings, on the basis of the information available at the time of preparation of financial statements.

37. Subsequent events

A MAJOR ACQUISITIONS

ACQUISITION OF MÁTRAI EROMU ZRT. FROM RWE POWER AND ENBW

On 21 March 2018, EPH Group together with Status Power Invest Kft., has acquired 72.6% stake in the Hungarian electricity producer Mátrai Eromu Zrt. ("Mátra") held by RWE Power and EnBW. Buyer's joint venture had a 50-50 ownership split. On 3 May 2018, the Group sold 25.41% stake in Mátrai.

B THE CONVERSION OF LYNEMOUTH POWER PLANT TO COMBUSTION OF BIOMASS

The Lynemouth power plant is converting to combustion of biomass, which is expected to produce approximately 2.3 TWh of electricity at low carbon emissions. The expected time of completion is second half of the year 2018. Once completed, this will become one of the biggest biomass plant globally.

C OTHER SUBSEQUENT EVENTS

The Company EGGBOROUGH POWER LIMITED was not successful in obtaining T-1 capacity contract. Without capacity contract contribution further operations of Eggborough power plant are no longer economic and it is not anticipated that market conditions would move in favour of coal. Regrettably and as a consequence EPH decided to cease company's operations and launch process of power plant decommissioning during 2018.

Except for the matters described above and elsewhere in the Notes, the Company's management is not aware of any other material subsequent events that could have an effect on the consolidated financial statements as at 31 December 2017.

APPENDICES*:

Appendix 1 – Business combinations

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

Date:	Signature of the authorised representative	
15 June 2018	Mgr. Marerk Spurný Vice-Chairman of the board of directors	Mgr. Pavel Horský Vice-Chairman of the board of directors

Appendix 1 – Business combinations

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

EFFECT OF ACQUISITIONS

I. 31 DECEMBER 2017

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

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2017 Total
Property, plant, equipment, land, buildings	376	(3)	373
Trade receivables and other assets	17	-	17
Inventories	14	-	14
Cash and cash equivalents	1	-	1
Provisions	(16)	(1)	(17)
Deferred tax liabilities	(11)	1	(10)
Loans and borrowings	(255)	(1)	(256)
Trade payables and other liabilities	(30)	-	(30)
Net identifiable assets and liabilities	**96**	**(4)**	**92**
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(6)
Cost of acquisition			**86**
Consideration paid, satisfied in cash (A)			86
Consideration, other			-
Total consideration transferred			**86**
Less: Cash acquired (B)			1
Net cash inflow (outflow) (C) = (B – A)			**(85)**

(1) Represents values at 100% share.

In millions of EUR

	2017 Total
Revenue of the acquirees recognised since the acquisition date	168
Profit (loss) of the acquirees recognised since the acquisition date	4

In millions of EUR

	2017 Total
Revenue of the acquirees recognised in the year ended 31 December 2017*	244
Profit (loss) of the acquirees recognised in the year ended 31 December 2017*	(23)

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

As at the date of publication of the consolidated financial statements, the purchase price allocation process for EP SHB LIMITED and EP LANGAGE LIMITED has not been completed. It is therefore possible that adjustments will be made in the allocation of the purchase price to the individual assets and liabilities and recognition of negative goodwill.

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

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2017 Total
Property, plant, equipment, land, buildings	19	1	20
Intangible assets	11	-	11
Trade receivables and other assets	11	-	11
Inventories	37	-	37
Cash and cash equivalents	3	-	3
Deferred tax assets	-	5	5
Provisions	(14)	(18)	(32)
Trade payables and other liabilities	(6)	-	(6)
Net identifiable assets and liabilities	**61**	**(12)**	**49**
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(48)
Cost of acquisition			**1**
Consideration paid, satisfied in cash (A)			1
Total consideration transferred			**1**
Less: Cash acquired (B)			3
Net cash inflow (outflow) (C) = (B – A)			**2**

(1) Represents values at 100% share.

In millions of EUR

	2017 Total
Revenue of the acquirees recognised since the acquisition date	44
Profit (loss) of the acquirees recognised since the acquisition date	20

In millions of EUR

	2017 Total
Revenue of the acquirees recognised in the year ended 31 December 2017*	128
Profit (loss) of the acquirees recognised in the year ended 31 December 2017*	10

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

As at the date of publication of the consolidated financial statements, the purchase price allocation process for Kraftwerk Mehrum GmbH has not been completed. It is therefore possible that adjustments will be made in the allocation of the purchase price to the individual assets and liabilities and recognition of negative goodwill.

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of EP New Energy Italia S.R.L. and its subsidiaries Biomasse Crotone S.P.A, Biomasse Italia S.P.A. are provided in the following table.

In millions of EUR

	Carrying amount(1)	Fair value adjustment	2017 Total
Property, plant, equipment, land, buildings	82	(1)	81
Trade receivables and other assets	70	-	70
Financial instruments – assets	1	-	1
Inventories	17	-	17
Cash and cash equivalents	19	-	19
Deferred tax asset	1	-	1
Provisions	(5)	-	(5)
Loans and borrowings	(78)	-	(78)
Financial instruments – liabilities	(3)	-	(3)
Trade payables and other liabilities	(18)	-	(18)
Net identifiable assets and liabilities	**86**	**(1)**	**85**
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			36
Negative goodwill on acquisition of new subsidiaries			-
Cost of acquisition			**121**
Consideration paid, satisfied in cash (A)			100
Purchase price liability			21
Total consideration transferred			**121**
Less: Cash acquired (B)			19
Net cash inflow (outflow) (C) = (B – A)			**(81)**

(1) Represents values at 100% share.

In millions of EUR

	2017 Total
Revenue of the acquirees recognised since the acquisition date	-
Profit (loss) of the acquirees recognised since the acquisition date	-

In millions of EUR

	2017 Total
Revenue of the acquirees recognised in the year ended 31 December 2017*	163
Profit (loss) of the acquirees recognised in the year ended 31 December 2017*	27

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

EP Power Europe

5 Statutory Financial Statements

EP Power Europe

Statutory Financial Statements
and Notes to the Statutory Financial Statements

Balance Sheet

EP Power Europe, a.s.
Corporate ID 278 58 685

Pařížská 130/26
Josefov
110 00 Praha 1

FULL VERSION

As of 31 December 2017
(in CZK thousand)

		31.12.2017			1.5.2017
		Gross	Adjustment	Net	Net
	TOTAL ASSETS	**38 668 768**	**34**	**38 668 734**	**19 353 864**
B.	**Fixed assets**	**21 366 234**	**34**	**21 366 200**	**17 382 172**
B.I.	***Intangible fixed assets***	**1 129**	**33**	**1 096**	**1 124**
B.I.2.	*Valuable rights*	**1 129**	**33**	**1 096**	**1 124**
B.I.2.2.	Other valuable rights	1 129	33	1 096	1 124
B.II.	***Tangible fixed assets***	**46**	**1**	**45**	
B.II.2.	Tangible movable assets and sets of tangible movable assets	46	1	45	
B.III.	***Non-current financial assets***	**21 365 059**		**21 365 059**	**17 381 048**
B.III.1.	Equity investments – controlled or controlling entity	21 301 209		21 301 209	17 381 048
B.III.3.	Equity investments in associates	63 850		63 850	
C.	**Current assets**	**17 303 499**		**17 303 499**	**1 971 692**
C.I.	***Inventories***	**40 853**		**40 853**	
C.I.2.	Work in progress and semifinished goods	40 853		40 853	
C.II.	***Receivables***	**17 242 484**		**17 242 484**	**1 964 989**
C.II.1.	Long-term receivables	**7 095 498**		**7 095 498**	**1 964 625**
C.II.1.2.	Receivables – controlled or controlling entity	7 095 498		7 095 498	1 964 625
C.II.2.	***Short-term receivables***	**10 146 986**		**10 146 986**	**364**
C.II.2.1.	Trade receivables	33 832		33 832	
C.II.2.2.	Receivables – controlled or controlling entity	10 112 836		10 112 836	209
C.II.2.4.	*Receivables – other*	**318**		**318**	**155**
C.II.2.4.3.	State – tax receivables	2		2	1
C.II.2.4.4.	Short-term prepayments made	281		281	154
C.II.2.4.6.	Sundry receivables	35		35	
C.IV.	***Cash***	**20 162**		**20 162**	**6 703**
C.IV.1.	Cash on hand	11		11	
C.IV.2.	Cash at bank	20 151		20 151	6 703
D.	**Other assets**	**-965**		**-965**	
D.1.	Deferred expenses	261		261	
D.3.	Accrued income	-1 226		-1 226	

		31.12.2017	1.5.2017
	TOTAL LIABILITIES & EQUITY	**38 668 734**	**19 353 864**
A.	**Equity**	**17 204 267**	**3 004 535**
A.I.	***Share capital***	**14 602 800**	**2 000**
A.I.1.	Share capital	14 602 800	2 000
A.II.	***Share premium and capital funds***	**2 719 069**	**3 048 814**
A.II.2.	*Capital funds*	**2 719 069**	**3 048 814**
A.II.2.1.	Other capital funds	3 098 942	3 098 942
A.II.2.2.	Gains or losses from the revaluation of assets and liabilities (+/-)	-379 873	-50 128
A.IV.	***Retained earnings (+/-)***	**-9 965**	**-46 279**
A.IV.2.	Accumulated losses brought forward (-)	-9 965	-46 279
A.V.	***Profit or loss for the current period (+/-)***	**-107 637**	
B.+C.	**Liabilities**	**21 463 693**	**16 349 329**
B.	**Reserves**	**5 584**	
B.2.	Income tax reserve	3 800	
B.4.	Other reserves	1 784	
C.	**Payables**	**21 458 109**	**16 349 329**
C.I.	***Long-term payables***	**6 770 043**	**1 702 060**
C.I.6.	Payables – controlled or controlling entity	6 770 043	1 702 060
C.II.	***Short-term payables***	**14 688 066**	**14 647 269**
C.II.4.	Trade payables	49 186	1 745
C.II.6.	Payables – controlled or controlling entity	14 622 292	14 618 372
C.II.8.	*Other payables*	**16 588**	**27 152**
C.II.8.1.	Payables to partners	182	
C.II.8.3.	Payables to employees	4 316	14 476
C.II.8.4.	Social security and health insurance payables	1 122	6 542
C.II.8.5.	State – tax payables and subsidies	6 939	6 132
C.II.8.6.	Estimated payables	4 029	2
D.	**Other liabilities**	**774**	
D.1.	Accrued expenses	774	

Profit and Loss Account

EP Power Europe, a.s.
Corporate ID 278 58 685

STRUCTURED BY THE NATURE OF EXPENSE METHOD

Pařížská 130/26
Josefov
110 00 Praha 1

(unaudited)
8 months period ended
31.12.2017
(in CZK thousand)

		8 months period ended 31.12.2017
I.	Sales of products and services	28 745
A.	Purchased consumables and services	107 553
A.2.	Consumed material and energy	483
A.3.	Services	107 070
B.	Change in internally produced inventory (+/-)	-40 853
D.	Staff costs	78 722
D.1.	Payroll costs	65 488
D.2.	Social security and health insurance costs and other charges	13 234
D.2.1.	Social security and health insurance costs	13 211
D.2.2.	Other charges	23
E.	Adjustments to values in operating activities	34
E.1.	Adjustments to values of intangible and tangible fixed assets	34
E.1.1.	Adjustments to values of intangible and tangible fixed assets – permanent	34
III.	Other operating income	32
III.3.	Sundry operating income	32
F.	Other operating expenses	2 678
F.3.	Taxes and charges	12
F.4.	Reserves relating to operating activities and complex deferred expenses	1 784
F.5.	Sundry operating expenses	882
*	**Operating profit or loss (+/-)**	**-119 357**
VI.	Interest income and similar income	90 744
VI.1.	Interest income and similar income – controlled or controlling entity	90 744
J.	Interest expenses and similar expenses	83 620
J.1.	Interest expenses and similar expenses – controlled or controlling entity	83 620
VII.	Other financial income	855 347
K.	Other financial expenses	846 951
*	**Financial profit or loss (+/-)**	**15 520**
**	**Profit or loss before tax (+/-)**	**-103 837**
L.	Income tax	3 800
L.1.	Due income tax	3 800
**	**Profit or loss net of tax (+/-)**	**-107 637**
***	**Profit or loss for the current period (+/-)**	**-107 637**
*	Net turnover for the current period	974 868

Statement of Changes in Equity

EP Power Europe, a.s.
Corporate ID 278 58 685

Pařížská 130/26
Josefov
110 00 Praha 1

(unaudited)
Year ended
31.12.2017
(in CZK thousand)

	Share capital	Gains or losses from the revaluation of assets and liabilities (+/-)	Capital funds	Accumulated losses brought forward	Profit or loss for the current period	Total equity
Balance at 1 May 2017	**2 000**	**-50 128**	**3 098 942**	**-46 279**		**3 004 535**
Increase in share capital	14 600 800					
Effect of the merge @ 11.12.2017 (dissolution EP United Kingdom, s.r.o.)				36 314		36 314
Gains or losses from the revaluation of assets and liabilities		-329 745				-329 745
Profit or loss for the current period					-107 637	-107 637
Balance at 31 December 2017	**14 602 800**	**-379 873**	**3 098 942**	**-9 965**	**-107 637**	**17 204 267**

Notes to the Financial Statements

for the period from 1 May 2017 to 31 December 2017

COMPANY NAME:	EP Power Europe, a.s.
REGISTERED OFFICE:	Pařížská 130/26, Josefov, 110 00 Praha 1
LEGAL FORM:	Joint Stock Company
CORPORATE ID:	278 58 685

1. General Information

A INCORPORATION AND DESCRIPTION OF THE BUSINESS

EP Power Europe, a.s. (hereinafter the "Company", "EPPE") was incorporated as a joint stock company by being recorded in the Commercial Register maintained by the Regional Court in Ostrava on 16 September 2008. On 25 May 2016, the file number was transferred to the Municipal Court in Prague.

EPPE is a unique energy utility specialising in the generation of electric power, brown coal mining, renewable resources and trading.

The following table shows legal entities with an equity interest and the amount of their equity interest:

Shareholder	Share of registered capital (in %)
Energetický a průmyslový holding, a.s.	100%
Total	**100%**

B BOARD OF DIRECTORS AND SUPERVISORY BOARD AS AT THE BALANCE SHEET DATE

	Office	Name
Board of Directors	Chairman	JUDr. Daniel Křetínský
	Vice-chairman	Mgr. Marek Spurný
	Vice-chairman	Mgr. Ing. Tomáš David
	Vice-chairman	Mgr. Pavel Horský
	Vice-chairman	Ing. Jan Špringl
	Member	Ing. Jiří Feist
	Member	Ing. Tomáš Novotný
	Member	Leif Timmermann
	Member	Brendan Massam
Supervisory Board	Member	Ing. Ivan Jakabovič
	Member	Mgr. Martin Fedor
	Member	Mgr. Miloš Badida

C MERGER BY ACQUISITION

The project of merger by acquisition between EP Power Europe, a.s., the successor company, and EP United Kingdom, s.r.o., the dissolving company, was recorded on 11 December 2017. The decisive date of the merger was 1 May 2017.

2. Accounting Policies

The Company's accounts are maintained and the financial statements have been prepared in accordance with Accounting Act No. 563/1991 Coll., as amended; the Regulation No. 500/2002 Coll., which provides implementation guidance on certain provisions of the Accounting Act for reporting entities that are businesses maintaining double-entry accounting records, as amended; and Czech Accounting Standards for Businesses, as amended.

The accounting records are maintained in compliance with general accounting principles, specifically the historical cost valuation basis with (unless stated otherwise), the accrual (matching) principle, the prudence principle and the going concern assumption.

The Company's financial statements have been prepared as at the balance sheet date of 31 December 2017 for the financial year from 1 May 2017 to 31 December 2017 ("2017" or "the Accounting Period").

The financial information in these financial statements is presented in thousands of Czech crowns (TCZK), unless stated otherwise.

A NON-CURRENT FINANCIAL ASSETS

Non-current financial assets consist of equity investments in subsidiaries and associates, securities and equity investments available for sale with maturity over one year held to maturity.

Upon acquisition securities and equity investments are carried at cost. The cost of securities and equity investments includes the direct costs of acquisition, such as fees and commissions paid to brokers, advisors and stock exchanges.

At the date of acquisition of the securities and equity investments, the Company categorises these non-current financial assets based on their underlying characteristics as equity investments – controlled entity and equity investments in associates or available-for-sale securities and ownership interests.

Financial assets maturing in or intended to be held for more than one year are reported as non-current; financial assets maturing in or intended to be held for less than one year are reported as current.

Investments in enterprises in which the Company has the power to govern the financial and operating policies so as to obtain benefits from their operations are treated as Equity investment – controlled entity (subsidiary). Investments in enterprises in which the Company is in a position to exercise significant influence over the financial and operating policies so as to obtain benefits from their operations are treated as Equity investments in associates. Ownership interests that do not fall within any of the above categories are classified as Other non-current investments.

VALUATION OF FINANCIAL ASSETS AS AT THE BALANCE SHEET DATE

As at the balance sheet date, equity investments are measured at cost and in case of a temporary impairment of a relevant investment, a provision is recorded.

If securities are held in foreign currencies, they are translated as at the balance sheet date using the current rates of exchange announced by the Czech National Bank against gains or losses from the revaluation of assets and liabilities in equity.

B RECEIVABLES

Upon origination, receivables are stated at their nominal value as subsequently reduced by appropriate provisions for doubtful and unrecoverable amounts. Receivables acquired for a consideration or through an investment are stated at cost less provisions for doubtful and unrecoverable amounts.

C PAYABLES

Payables are stated at their nominal value.

D LOANS RECEIVED

Short-term and long-term loans are initially recorded at their nominal value upon receipt. Upon the preparation of the financial statements the loan balances are increased by unpaid interest charged by banks or other parties. The portion of long-term loans maturing within one year from the balance sheet date is classified as short-term loan.

E FOREIGN CURRENCY TRANSLATION

The Company applies the Czech National Bank official rate effective on the date of acquisition of an asset or the occurrence of a liability to foreign currency transactions.

Realised foreign exchange gains and losses are recognised in the income statement. As at the balance sheet date, foreign currency assets and liabilities are translated at the prevailing Czech National Bank official rates and all foreign exchange differences arising from gains or losses from assets and liabilities were recorded in financial revenues or financial expenses.

F RECOGNITION OF EXPENSES AND REVENUES

Revenues and expenses are recognised on an accrual basis, i.e. in the period to which they relate in terms of substance and timing. In compliance with the principle of prudence, provisions and adjustments are created to cover all risks, losses and impairment known as at the balance sheet date and are debited to expenses.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

G USE OF ESTIMATES

The presentation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Management of the Company has made these estimates and assumptions on the basis of all the relevant information available to it. Nevertheless, pursuant to the nature of estimates, the actual results and outcomes in the future may differ from these estimates.

H CONSOLIDATION

The Company prepares its consolidated financial statements in accordance with the International Financial Reporting Standards adopted by the EU. The Czech translation of the consolidated financial statements, along with the consolidated annual report, will be published in the Commercial Register.

The consolidated financial statements of the widest group of entities are prepared by Energetický a průmyslový holding, a.s., which its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic. Its consolidated financial statements will be published in compliance with Section 21a of the Accounting Act and will be stored at the registered office of Energetický a průmyslový holding, a.s.

I CHANGE IN ACCOUNTING POLICIES COMPARED TO THE PREVIOUS ACCOUNTING PERIOD

The Company made no changes to its accounting policies in the accounting period, for which the financial statements have been prepared.

3. Comparability of information

As described in note 1, the Company was part of a merger by acquisition with the decisive date of 1 May 2017. This merger was recorded by the Commercial Register. Comparative information is not presented in the income statement. The prior period information in the financial statements represents the Company's opening balance sheet as at 1 May 2017.

4. Additional information

A NON-CURRENT FINANCIAL ASSETS

EQUITY INVESTMENTS – CONTROLLED ENTITY

(in TCZK)

Corporate name	Share of registered capital (in %)	Acquisition cost as at 31/12/2017	Acquisition cost as at 1/5/2017
Equity investments – controlled entity			
EPPE Germany, a.s.	100%	3 724 000	247 000
EP Commodities, a.s.	100%	734 694	734 694
EP UK Investments Ltd	100%	3 083 272	3 412 742
NADURENE a.s.	100%	772 632	-
Energy Scanner Limited	100%	-	-
EPPE Italy N.V. (formerly Czech Gas Holding N.V.)	100%	12 986 612	12 986 612
Equity investments in joint ventures			
MÁTRA ENERGY HOLDING Zártkörűen Működő Részvénytársaság	50%	63 850	-
Total		**21 365 059**	**17 381 048**

Notes to the Financial Statements
for the period from 1 May 2017 to 31 December 2017
(non-consolidated, unaudited)

Registered offices of the companies as at 31 December 2017:

EPPE Germany, a.s.	Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
EP Commodities, a.s.	Klimentská 1216/46, Nové Město, 110 00 Praha 1, Czech Republic
EP UK Investments Ltd	Berger House, 36-38, Berkeley Square, London, Great Britain
NADURENE a.s.	Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
Energy Scanner Limited	Berger House, 36-38, Berkeley Square, London, Great Britain
EPPE Italy N.V.	Schiphol Boulevard 477, Tower C-4, 1118 BK Schiphol, Netherlands
MÁTRA ENERGY HOLDING Zártkörűen Működő Részvénytársaság	Budafoki út 52, 1117 Budapest, Hungary

IN 2017, THE FOLLOWING CHANGES WERE MADE IN NON-CURRENT FINANCIAL ASSETS:

As a result of the merger (described in note 1.), EPPE became a direct owner of EP UK Investments Ltd.

EPPE acquired a 100% share in NADURENE a.s. for the purchase price of TCZK 1 632. This share was increased by a contribution into the other capital funds of TCZK 771 000 in November 2017.

On 20 December 2017, a contribution of TCZK 3 477 000 was made into the other capital funds of EPPE Germany, a.s., a subsidiary.

ACQUISITION OF MÁTRAI EROMU ZRT. (“MÁTRA”)

On 14 December 2017, a consortium of EP Power Europe, a.s. and Status Power Invest Kft. (“SPI”) announced the signing of a contract on the sale of a 72.6% share in Mátrai Eromu Zrt. (Mátra), a Hungarian power plant. The transaction is subject to the approval of the relevant competition authorities and the Hungarian energy authority (see note 5.).

B LONG-TERM RECEIVABLES

31 DECEMBER 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)
Lynemouth Power Limited	5 339 803	70 055
EP New Energy Italia S.R.L.	1 685 640	-
Total	**7 025 443**	**70 055**

1 MAY 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 1/5/2017 (in TCZK)
Lynemouth Power Limited	1 698 245	3 859
EP UK Investments Ltd	237 434	25 087
Total	**1 935 679**	**28 946**

C SHORT-TERM RECEIVABLES

31 DECEMBER 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)
EP New Energy Italia S.R.L.	178 780	3 218
EP UK Investments Ltd	9 897 964	32 874
Total	**10 076 744**	**36 092**

D EQUITY

As at 31 December 2017, EP Power Europe, a.s. had the total of 73 014 ordinary certificated registered shares at TCZK 200 per share; the Company's registered capital thus amounted to TCZK 14 602 800.

Reconciliation of the number of shares issued at the beginning and end of the period:

	Number of shares issued
Nominal value of shares (in whole Czech crowns)	**200 000**
Shares issued as at 1 May 2017	**10**
Shares newly issued as at 23 June 2017 (ordinary shares)	73 004
Shares issued as at 31 December 2017	**73 014**

On 23 June 2017, the sole shareholder of EP Power Europe, a.s. decided to increase the Company's share capital by TCZK 14 600 800 as a monetary contribution. The increase in the share capital was performed by subscribing 73 004 new ordinary registered shares at CZK 200 000 per share (certificated shares). No special rights are attached to the newly subscribed shares; they carry the same rights as the shares that were already issued. The current shares, their type, form, sort and number remains unchanged. The issue price of subscribed shares was paid up partially by set-off and partially in cash.

The increase in the share capital was recorded in the Commercial Register on 22 August 2017.

The increase in other capital funds was caused by the merger project (see note 1.), when the Company received a contribution into the other capital funds of TCZK 1 338 942.

No own shares were acquired during the 2017 reporting period.

E LONG-TERM PAYABLES

31 DECEMBER 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)
Energetický a průmyslový holding, a.s.	6 770 043	-
Total	**6 770 043**	**-**

1 MAY 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)
Energetický a průmyslový holding, a.s.	1 698 245	3 815
Total	**1 698 245**	**3 815**

F SHORT-TERM PAYABLES

31 DECEMBER 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)
Energetický a průmyslový holding, a.s.	10 475 529	73 513
EP Commodities, a.s.	621 722	8 007
Total	**11 097 251**	**81 520**

Payables – controlled or controlling entity also include a payable of TCZK 37 665 to EPPE Germany, a.s. relating to an unpaid contribution into the other capital funds.

EPPE assumed a payable of TCZK 3 404 226 relating to the purchase price of JTSD between EPH and EPPE Germany, a.s.

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

Social security and health insurance liabilities are not overdue.

G EMPLOYEES, MANAGEMENT AND STATUTORY BODIES

The average number of the Company's employees during the reporting period was 21.

The members of the Company's Board of Directors, Supervisory Board and executives did not receive as a result of performing their duties in 2017 any advantages (advances, earnest money, loans etc.).

H SIGNIFICANT OFF-BALANCE SHEET TRANSACTIONS

The Company received a commitment to receive a loan from its parent company of TCZK 4 827 334.

5. Subsequent events

On 3 January 2018, the Company established EP Yuzivska B.V., a subsidiary; which was recorded in the Commercial Register on 4 January 2018.

On 3 May 2018, the Company sold a 35% share in MÁTRA ENERGY HOLDING Zrt.

No other events occurred subsequent to the balance sheet date that would have a material impact on the financial statements as at 31 December 2017.

Prepared on: 15 June 2018

Mgr. Pavel Horský

Vice-chairman of the Board of Directors

Mgr. Marek Spurný

Vice-chairman of the Board of Directors

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