

**Energetický a průmyslový holding, a.s.**

**CONSOLIDATED ANNUAL REPORT FOR THE YEAR 2017**

# CONTENT

## FINANCIAL HIGHLIGHTS OF THE YEAR

## INTRODUCTION BY THE CHAIRMAN OF THE BOARD OF DIRECTORS

1. COMBINED REVIEW OF OPERATIONS
  - 1.1 Market development
    - Macroeconomic developments
    - Energy developments
    - Political developments
  - 1.2 Major events
    - Events in the reviewed fiscal year
    - Events that occurred after the reporting date
  - 1.3 Business performance
    - Operational performance
    - Sustainability performance
    - Financial performance
  - 1.4 Other Information
    - Description of the diversity policy applied to the statutory body, supervisory body or other similar body
    - Rights and obligations associated with shares
    - LEI code
    - Branches
    - Research and development activities
    - Acquisition of own shares or own ownership interest
    - Risks and risk management policies
    - Impact of Brexit
    - Outlook for 2018
2. MANAGEMENT STATEMENT
3. REPORT ON RELATIONS
4. CONSOLIDATED FINANCIAL STATEMENTS
  - Independent auditor's report
  - Consolidated statement of comprehensive income
  - Consolidated statement of financial position
  - Consolidated statement of changes in equity
  - Consolidated statement of cash flows
  - Notes
5. STATUTORY FINANCIAL STATEMENTS
  - Independent auditor's report
  - Balance sheet
  - Profit and loss account
  - Statement of changes in equity
  - Cash flow statement
  - Notes

## **FINANCIAL HIGHLIGHTS OF THE YEAR**

## FINANCIAL HIGHLIGHTS OF THE YEAR

		2017	2016	2015
<b>INCOME STATEMENT</b>				
Sales	€ million	6,005	4,931	4,571
Gross profit	€ million	2,713	2,492	2,423
Earnings before interest, taxes, depreciation and amortization (EBITDA) <sup>1</sup>	€ million	1,819	1,520	1,637
Earnings before interest and tax (EBIT)	€ million	1,346	966	1,382
Net financial result	€ million	(248)	(332)	(278)
Profit before tax	€ million	1,205	999	1,108
Profit for the year	€ million	877	800	838
<b>BALANCE SHEET</b>				
Balance sheet total	€ million	12,796	11,975	11,310
Equity total	€ million	2,680	3,094	2,789
Net working capital	€ million	86	19	117
Net financial debt <sup>2</sup>	€ million	5,366	4,474	4,604
<b>CASH FLOW STATEMENT</b>				
Cash flow from operating activities	€ million	1,181	1,524	794
Cash flow from investing activities	€ million	139	(740)	(779)
Cash flow from financing activities	€ million	(1,648)	(370)	(240)
Change in cash and cash equivalents	€ million	(328)	414	(225)
Cash and cash equivalents	€ million	816	1,136	706
Capital expenditures (CAPEX)	€ million	441	543	333
Tax paid	€ million	383	305	265
<b>RATIOS</b>				
EBITDA margin <sup>3</sup>	%	30.3%	30.8%	35.8%
Leverage <sup>4</sup>	x	2.9x	2.9x	2.8x
Cash conversion <sup>5</sup>	%	54.7%	44.2%	63.5%
Adjusted Cash conversion <sup>6</sup>	%	66.4%	57.2%	63.5%
<b>Operating KPIs</b>				
Average number of employees	#	10,237	10,310	10,094
Net installed capacity	MW	11,512	8,477	8,232
Net power production	TWh	23.3	17.4	15.3
Emissions intensity	t CO <sub>2</sub> /GWh	567	651	767

<sup>1</sup> EBITDA has been prepared in accordance with the definition set out in the note 5 to the Consolidated financial statements.

<sup>2</sup> Net financial debt = Loans and borrowings + Issued bills of exchange – Cash and cash equivalents

<sup>3</sup> EBITDA margin = EBITDA / Sales

<sup>4</sup> 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.

<sup>5</sup> Cash-conversion = (EBITDA - CAPEX – Tax paid) / EBITDA

<sup>6</sup> Calculated excluding operating and capital expenditures on Lynemouth biomass conversion project in 2016 and 2017.

**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,

for Energetický a průmyslový holding, a.s. (“EPH”), 2017 was on one side characterized by improved performance in the energy infrastructure segment concentrated within EP Infrastructure (“EPIF”), and on the other side by further acquisitions and organic growth in the area of electricity production complemented by coal mining activities within EP Power Europe (“EPPE”).

In terms of financial results for 2017, EPH achieved consolidated sales of EUR 6,005 million and consolidated EBITDA of EUR 1,819 million. Compared to 2016, both figures show an increase of 22% and 20%, respectively. Taking into account the high EBITDA to cash flow conversion and significant share of long-term contracted and regulated assets, the consolidated net debt ratio of 2.9x EBITDA represents a very conservative value, placing EPH among the least indebted energy groups in Europe.

## 1. EP Infrastructure

For EP Infrastructure, 2017 was a successful year in all aspects and demonstrated the high quality of operating assets, most of which are regulated and long term contracted.

The Gas Transmission segment continued to grow for the third consecutive year while maintaining full technical capacity and availability for its customers. In 2017, the volume of natural gas transported by Eustream amounted to nearly 65 billion cubic metres. Within development projects focusing on enhancement of energy security and creation of new business opportunities, a significant progress was achieved both by launching the process of increasing transportation capacity from the Czech Republic to Slovakia and by obtaining EU financial support for projects to interconnect Poland, Slovakia, as well as for the Easting pipeline.

The past year was also an extremely successful year for the Gas and Power Distribution segment, primarily in terms of gas distribution. The cold winter months at the beginning of the year significantly contributed to record operational results of SPP – distribúcia, where almost 5 billion cubic metres of natural gas were distributed. More than 6.2 TWh of electricity were distributed by SSE-D, marking an increase of nearly 5% over 2016.

Our subsidiaries in the Heat Infra segment supplied more than 22 PJ of heat, which is a year-on-year increase of 2% when adjusted for sale of non-strategic heating assets on the left bank of the Vltava river in 2016. Along with that, we took advantage of favourable conditions on the electricity market and increased our power production by more than 15% to 3.7 TWh.

In Gas Storage segment, we maintained our position as a major player in the Central Europe, providing our customers with a total storage capacity of almost 3.8 billion cubic meters. In 2017, our large storage capacities and reliable provision of related services reconfirmed the importance of EPIF’s underground storage facilities for ensuring safety of natural gas supply in the region.

In 2018, the above mentioned achievements and solid financial results together with other convincing characteristics of the EPIF group were also rewarded by a positive investment ratings from all renowned rating agencies S&P Global Ratings (BBB/Stable), Moody’s Investors Service (Baa3/Stable), and Fitch Ratings (BBB-/Stable).

## 2. EP Power Europe

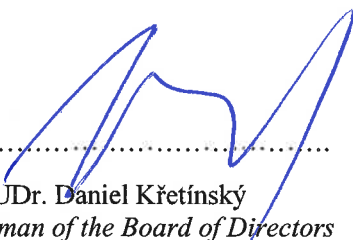
Over the past few years, EPH, mainly through EP Power Europe, has been gradually building its position as one of the most important power producers in the EU with the mission to provide our customers in the countries of our operations with stable and secure power supplies at affordable prices.

In 2017, the companies under exclusive or joint control of EPH produced in aggregate some 100 TWh of power. Our generation fleet is well balanced with nearly a half of the total installed capacity of 24.3 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 EP Power Europe by noteworthy 20%. 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, EPH also completed the acquisition of two biomass power plants from Bioenergie S.P.A. (50%) and Api No'Va Energia S.R.L. (50%) – Biomasse Italia S.P.A. and Biomasse Crotone S.P.A. Through this acquisition, EPH became the leader in the power production from biomass in Italy.

In 2017, EPH 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 in the year to come.



.....

JUDr. Daniel Křetínský  
*Chairman of the Board of Directors*

## **1. COMBINED REVIEW OF OPERATIONS**



# 1. COMBINED REVIEW OF OPERATIONS

## 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 highest increase since 2010. The European Union (“EU”) recorded the top economic growth in the decade as well: year-on-year change of GDP in both the EU and the Eurozone reached 2.5%. The United States on the other hand experienced a GDP annual change of 2.3% and the US Dollar weakened against the EU common currency by approximately 12% in 2017 versus the 2016 level. The economy and investment climate in Europe have improved considerably in 2017: business confidence index reached its multi-year highs, consumer spending surged, and the EU labour market experienced a job-rich recovery. This is proved also by increased rates of GDP growth: German GDP growth amounted for 2.2%, the strongest growth rate in last six years. The economy in Central Europe flourished last year and was significantly stronger than the EU average growth: Poland was the most performant country with 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 more modest with a 1.5% rate. The uncertainties following Brexit led to a 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 the upswing of 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 (an 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 (an 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. Wind conditions were more favourable in 2017 than in 2016 with wind generation increasing by 19.6% to 359 TWh (an 11.7% share in overall power generation), a growth to which the UK and Germany combined contributed by two thirds. The share of solar generation in overall electricity mix also step up 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 and thus offset the big gains from wind yield. In addition, excess renewable generation coupled with low demand in Germany led to 146 hours of negative spot power prices in 2017, an increase from 97 negative hours in 2016.

Cold winter struck in Hungary and the Czech Republic where EPH operates the heat generation and distribution assets. Especially January was substantially cold with temperature anomalies averaging -3.5 °C in the Czech Republic and -5°C in Hungary. In February, weather was milder than usual with temperature anomalies slightly above zero and March was warm all month with anomalies ranging +3.0 °C in the Czech Republic and +3.5 in Hungary. The heating season restarted in autumn and lacked any substantial cold episodes and snowpack. Temperature anomalies were mild in October with +1.5 °C in the Czech Republic and +0.5 °C in Hungary though the end of the month was slightly cooler. November showed the same pattern as the previous month, the first half was warmer (anomalies CZ: +1.0 °C, H: 1.5°C) and the second half was cooler. December started with cool weather but finished warm toward end with anomalies +1.0 °C in the Czech Republic and 2.5°C in Hungary.

Power prices. After calming the worries around the French nuclear uncertainty, 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 increases of variable costs of power plants related to carbon allowances. Despite coal being mostly cheaper 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 surged 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%.

Oil. Oil prices averaged \$54.25 for Brent and \$50.88 for WTI last year - a rise in prices from 2016 by 24% and 18% respectively. The first half of the year was nevertheless tumultuous due to the prices of Brent plummeting by 20% to \$45 per barrel in June 2017. This substantial fall in price was caused mainly by a high level of American shale oil stocks and by the rapid recovery of production in Libya and Nigeria. Brent prices rose again up to \$70 in the second half of the year thanks to the announcement of OPEC members to prolongate the Vienna agreement, which poses production cuts until 2018. Tensions in the Middle East region, uncertainty over future political developments in Saudi Arabia and a stable demand also helped in recovery of Brent prices in the second semester.

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 rocketed in Hungary by a staggering 11.7%, it rose in Czech Republic by only a one per cent. Year 2017 was also marked by the closure of Rough gas storage facility In the United Kingdom, reducing the supply of gas flexibility on the island.

Coal. Coal prices rose in 2017 sharply, giving more space to gas electricity generation in Europe. 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.

Allowances. The ETS allowances prices were low in the first half of the year and oscillated in the range of 4 to 5 € per ton. The upturn in the prices of allowances came mostly 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 join 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<sub>2</sub> 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 jumped 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 confirmed targets for 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 acknowledged later that this target seemed unrealistic, as it would damage electricity supply in the country and increase CO<sub>2</sub> emissions. The Environment Minister only pledged that France would detail at the end of 2018 how many nuclear reactors would be closed in, the initial estimate being closing 17 reactors by 2025. In Germany, nuclear generation fell by approximately 11% and Brokdorf as the first nuclear reactor in history 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.

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 an 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 with the aim to reach the previously set 2030 greenhouse gas emissions target. The carbon allowance market in Europe has been inefficient for years. 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 MSR, 24% of the quantity of allowances allocated to the market between 2019 and 2023 will be withheld and allowances for closed power plants will be subsequently cancelled. The question of the impact of Brexit on ETS is still unclear. It is envisioned, though, that the allowances dedicated to countries, which were previously members of the European Union will be cancelled with this reform

and that the reform will also contain measures preventing potential allocation of these allowances to other member states. This informal announcement boosted the price of carbon allowance from less than 5 € per ton of carbon dioxide to more than 10 € per ton in early 2018.

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% due to economic growth. 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 SPEDICA GROUP COMPANIES holding

On 30 January 2017, the group of entities of Energetický a průmyslový holding, a.s. (“EPH Group” or “Group”) has become a strategic partner of SPEDICA when it has acquired a majority interest (67.33 %) in the SPEDICA GROUP COMPANIES holding which provides services in rail, sea and road transport. Integrating the activities of these two partners will strengthen their position on the transport and logistics market and enable them to offer customers a more comprehensive and wide range of services.

### New investor in EPIF and change in EPH shareholder structure

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

Following the sale of a minority shareholding in EPIF, changes also occurred in the shareholder structure of EPH: as the result of a series of transactions Daniel Křetínský increased his shareholding in EPH to 94%. Remaining 6% has been held by selected members of the senior management of EPH.

### EPIF Facility Agreement

On 21 June 2017, EPIF entered into a Senior Term and revolving Facilities Agreement between, Citibank N.A., London Branch and UniCredit Bank Czech Republic and Slovakia, a.s. as global co-ordinators, among certain financial institutions named therein as mandated lead arrangers and bookrunners, mandated lead arrangers, lead arrangers and arrangers, respectively and UniCredit Bank AG, London Branch as agent and security agent (“EPIF Facility Agreement”).

The EPIF Facility Agreement provides for the following term loan facilities taken together amount of EUR 1,750 million:

- Facility A in an amount of EUR 533 million;
- Facility B1 in an amount of EUR 304 million;
- Facility B2 in an amount of EUR 229 million;
- Facility C in an amount of EUR 534 million; and
- Facility D in an amount of EUR 150 million.

Further, it made available to EPIF a revolving loan facility (Facility E) up to EUR 200 million.

In addition, some of the lenders in EPIF Facility Agreement made available to EPIF Incremental facility (Facility F) of up to EUR 250 million that can be utilized to refinance existing EPE 2018 Indenture. The facility F was undrawn as at 31 December 2017.

As of 31 December 2017, the total principal amount outstanding under the EPIF Facility Agreement was EUR 1,847 million. The maturity date for Facility A is three years after the signing date of the EPIF Facility Agreement, the maturity date for Facilities B1 and B2 is four years after the signing date of the EPIF Facility Agreement and the maturity date for Facility C, D and E is five years after the signing date of the EPIF Facility Agreement and maturity date for Incremental Facility is five years after the effective date.

The interest rate under the EPIF Facility Agreement is calculated as a margin plus the reference rate. The reference rate is EURIBOR and, if EURIBOR is less than zero, that rate is zero.

The amounts drawn under the EPIF Facility Agreement and obtained thereunder were (partly) utilized to repay Term Facilities Agreement from 29 February 2016.



#### Acquisition of Langage and South Humber Bank gas-fired power stations

On 31 August 2017, the EPH 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 EPH Group's strategy to extend its presence in the UK, where EPH already owns Eggborough and Lynemouth power stations.

#### Acquisition of Mehrum Power Plant

On 1 November 2017, the EPH 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.

#### Acquisition of Biomasse Italia and Biomasse Crotone

On 15 December 2017, the EPH 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 EPH 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.

#### Other major events

On 6 January 2017, the General Meeting of EPH declared interim dividend of EUR 254 million (CZK 6,868 million) which was fully offset with the provided loans.

On 23 January 2017, EPIF declared and paid an interim dividend of EUR 44 million (CZK 1,180 million). Subsequently, on 20 February 2017, the sole shareholder of EPIF, EPH confirmed the previously paid interim dividends (CZK 6,628 million in 2016 and CZK 1,180 million in 2017; both declared and paid based on 2016 profit) and set them off against the declared dividends of the same amount.

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 February 2017, EPH Financing SK, a.s. initiated a second issue of bonds in the expected total nominal amount of EUR 75 million at nominal of EUR 1,000 per unit, as of the date of signing of this Annual Report, a total of 28,000 units of the second issue have been subscribed. EPH Financing CZ, a.s. has subscribed a total of 3,000,000 units at nominal of CZK 1,000 per unit from the second issue of bonds.

On 30 March 2017, EPH declared interim dividend for shareholders of the Company (disregarding own shares held by the Company) of EUR 71 million (CZK 1,909 million).

On 28 April 2017, NAFTA a.s. signed a share purchase agreement with GDF International S.A. on a purchase of 30% share in POZAGAS a.s., thus, after the completion, increasing the EPH Group's effective combined direct and indirect share to almost 43% (while SPP Infrastructure Group's effective combined direct and indirect share shall be approximately 72%). The completion of transaction took place upon receipt of all necessary regulatory approvals and occurred 12 December 2017.

On 29 June 2017, EPIF declared a dividend of EUR 580 million, of which EUR 550 million has been paid until the day of this Annual Report.

On 30 June 2017, the General Meeting of EPH declared dividends (disregarding own shares held by the Company) of EUR 19 million (equivalent of CZK 500 million) and at the same time confirmed previously declared interim dividends.

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 EPH Group should have a full indemnification on these tax assessments by E.ON, therefore no provisions were recorded.

On 22 November 2017, the General Meeting of EPH declared dividends (disregarding own shares held by the Company) of EUR 96 million (equivalent of CZK 2,439 million) and at the same time confirmed previously declared interim dividends.

On 14 December 2017, PT Holding Investments B.V. ("PTHI") acquired 51% in Pražská teplárenská Holding a.s. ("PTH") that holds 47.42% in Pražská teplárenská. a.s. ("PT") and two other minor companies. The PTHI increased by this transaction its shareholding in PTH from 49% to 100% and effectively the EPH Group increased its shareholding in PT from 50.93% to 67.62%. PTHI paid for the share in PTH EUR 121 million and gained control over cash held by PTH of EUR 13.

#### *Events that occurred after the reporting date*

##### Investment grade ratings of EPIF

EPIF has been assigned investment grade ratings from three major rating agencies. S&P Global Ratings (Preliminary BBB) on 23 February 2018, Moody's (Baa3) on 1 March 2018 and Fitch Ratings (BBB-) on 2 March 2018, all with a stable outlook, have issued these ratings. The ratings were confirmed in relation to issuance of 6 years Eurobonds by EPIF (see below).

##### 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.

##### Issue of 6-year Eurobonds

On 19 April 2018, EPIF successfully placed its debut international offering of EUR 750 million 1.659% fixed rate notes due 2024.

Through this bond issuance, EPIF has been able to benefit from favourable conditions in the international debt capital markets in order to partially refinance its existing bank loans at the EPIF level and extend its debt maturity profile, while reducing the average cost of its borrowings.

##### 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

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

On 5 February 2018, the General Meeting of EPH declared dividends (disregarding own shares held by the Company) of EUR 10 million (equivalent of CZK 247 million) and at the same time confirmed previously declared interim dividends.

On 28 February 2018, EPH (as buyer) and WOOGEL LIMITED (as seller) signed Share Purchase Agreement for the acquisition of the 100% share in the company DCR INVESTMENT a.s. („DCRI“). The completion of the acquisition is expected to occur by the end of May 2018. On 26 April 2018, DCRI sold its 10% share in the company Veolia Energie ČR, a.s. to a third party.

On 2 March 2018, NAFTA a.s. entered with DEA Deutsche Erdoel AG into a share purchase agreement with the owner of German gas storage assets Inzenham, Wolfersberg and Breibrunn located in Bavaria. The total working gas volume of these storages is approximately 1.8 bcm and around three quarters of the total capacity is contracted under long-term contracts with a price revision clause entered into with standard utility companies based in Germany. The EPH Group believes that these assets fit the business strategy of the EPIF Group, supporting NAFTA's clients with innovative products in the EU markets and representing long-term contracted assets, and they are in line with the risk and financial profile of the current activities of the EPIF Group. As of the date of this Annual Report, the completion of the acquisition remains subject to obtaining antimonopoly approval and fulfilment of other customary conditions precedent.

On 19 April 2018, the company EP Infrastructure, a.s., EPH subsidiary, issued bonds with nominal value of EUR 750 million with interest rate of 1.659% and maturity in 2024. Proceeds from the bonds were used to partially settle outstanding bank loan on the company level resulting in optimized maturity profile and lower interest cost.

On 25 April 2017, the EPH Group drawn EUR 250 million of bullet bank financing due in December 2022.

On 1 May 2018, the loan proceeds together with own funds of EUR 348 million were used to repay the due EP Energy bonds of EUR 598 million.

On 2 May 2018, the General Meeting of EPH decided to reduce the share capital of the Company from the current balance totalling of CZK 5,050 million to the amount of CZK 3,535 million. The purpose of reducing the share capital is to cancel own shares by destroying them, healing the state where the Company owns shares that have not been disposed of. The entry of the share capital reduction to the Commercial Register is expected after all legal obligations have been met (about October 2018).

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 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 infrastructure assets

Majority of EPH critical energy infrastructure assets are bundled under umbrella of EPIF. These assets represent key pillar of EPH business with stable financial performance and minimal carbon footprint.

Operational performance of infrastructure assets is driven namely by development of economic activity as well as weather conditions in Central Europe. Additionally, Gas Transmission is influenced by the gas market development in Europe. These factors positively influenced all segments of the infrastructure business.

Gas transmission capacity was 80 bcm with no change from 2016. The capacity was utilisation improved by some 6% with gas transmission volume of 64.2 bcm (60.6 bcm in 2016).

In segment of Gas and Power Distribution, operating performance improved by some 5% in both commodities, where the EPH Group distributed 4.9 bcm of gas (4.7 bcm in 2016) and 6.2 TWh of power (5.9 TWh in 2016).

The Group supplied 25.3 PJ of heat (24.7 PJ in 2016), that represents an increase of 2%. Majority of supply volumes belong to our highly efficient CHP plants in the Czech Republic and Hungary under EPIF Group, with minor supply volumes provided also by our German operations under EP Power Europe Group (“EPPE Group”). Both displayed comparable development in the year under review.

KPI	Unit	2017	2016	2017-2016	%
<b>Performance of EPH infrastructure assets</b>					
Gas Transmission Capacity	bcm	80.0	80.0	-	0%
Gas Transmission	bcm	64.2	60.6	3.6	6%
Gas Storage Capacity	bcm	3.8	3.8	-	0%
Gas Storage Sales*	bcm	4.0	4.1	0.1	3%
Gas Distribution	bcm	4.9	4.7	0.2	5%
Power Distribution	TWh	6.2	5.9	0.3	5%
Heat Supply	PJ	25.3	24.7	0.5	2%

\* Presented Gas Storage Sales figures are higher than Gas Storage Capacity, due to interruptible and other structured products contracted and also given the geological and technical parameters of the Storage facility in the specific periods.

##### Performance of power generation assets

Power generation assets represent younger part of EPH portfolio and majority of these are bundled under EPPE Group. EPH Group consolidates 11.5 GW of net installed power capacity (8.5 GW in 2016). The capacities generated 23.3 TWh of power (17.4 TWh in 2016).

EPIF Group consolidates 1.3 GW of net installed power capacity, with no change from 2016. The highly efficient CHP plants, with minor renewable wind, solar and biogas generation capacities, represent majority of this. EPIF Group generated 3.6 TWh of power (3.1 TWh in 2016). This 17% increase was displayed similarly in the Czech Republic and Hungary thanks to favourable electricity market prices and the cold weather at the beginning of the year as well as favourable development in summer months. Elektrárny Opatovice, a.s. situated in the Czech Republic also produced more power compared to 2016, as 2016 production was lower due to outage for the environmental retrofits.

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 in third consecutive year.

Capacity increase of 690 MW in Germany is represented by acquisition of Mehrum hard coal plant in November. 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	%
<b>Net installed capacity - Electricity – Total</b>					
<b>EPIF Group</b>					
Czech Republic	MW	868	868	–	0%
Slovakia		67	67	–	0%
Hungary		396	396	–	0%
<b>Total – EPIF Group</b>		<b>1,331</b>	<b>1,331</b>	<b>–</b>	<b>0%</b>
<b>EPPE Group</b>					
Germany		1,157	467	690	148%
UK		4,625	2,355	2,270	96%
Italy		4,399	4,324	75	2%
<b>Total – EPPE Group</b>		<b>10,181</b>	<b>7,146</b>	<b>3,035</b>	<b>42%</b>
<b>Total - EPH Group</b>		<b>11,512</b>	<b>8,477</b>	<b>3,035</b>	<b>36%</b>
KPI	Unit	2017	2016	2017-2016	%
<b>Net power production – Total</b>					
<b>EPIF Group</b>					
Czech Republic	TWh	2.3	2.0	0.3	17%
Slovakia		0.0	0.0	(0.0)	-2%
Hungary		1.3	1.1	0.2	18%
<b>Total – EPIF Group</b>		<b>3.6</b>	<b>3.1</b>	<b>0.5</b>	<b>17%</b>
<b>EPPE Group</b>					
Germany		1.0	2.4	(1.4)	-57%
UK		3.7	2.2	1.5	66%
Italy		15.0	9.7	5.3	55%
<b>Total – EPPE Group</b>		<b>19.7</b>	<b>14.3</b>	<b>5.4</b>	<b>38%</b>
<b>Total - EPH Group</b>		<b>23.3</b>	<b>17.4</b>	<b>5.9</b>	<b>34%</b>

Significant power generation assets are owned by equity accounted investees. Companies belonging to this group disposed with 12.8 GW of net installed power capacity (12.9 GW in 2016) and generated 76.7 TWh power (76.6 TWh in 2016). Major share of this is represented by LEAG Group and Slovenské elektrárne Group.

## Sustainability performance

### Emissions and environmental protection activities

EPH Group produced 16.0 million tons of CO<sub>2</sub> emissions (14.3 million tons in 2016) with intensity of 567 ton CO<sub>2</sub> / GWh (651 ton CO<sub>2</sub> / GWh in 2016). GHG Emissions volume and intensity follow power and heat generation volumes as well as generation fuel mix. Emissions intensity is calculated including heat component, as without these the performance of our highly efficient CHP plants would be distorted.

EPIF Group produced 4.7 million tons of CO<sub>2</sub> emissions (4.1 million tons in 2016) with intensity of 564 ton CO<sub>2</sub> / GWh (543 ton CO<sub>2</sub> / GWh in 2016). The increase of 0.6 million tons followed increases in power and heat generation in the Czech Republic and Hungary. The small increase in emissions intensity is attributable to a relatively larger increase in power generation as compared to increase in heat generation. In our CHP plants, heat is generated with much higher efficiency than power therefore higher share of power generated decreases average efficiency of overall energy generation and has negative impact on emissions intensity.

EPPE Group produced 11.3 million tons of CO<sub>2</sub> emissions (10.2 million tons in 2016) with intensity of 568 ton CO<sub>2</sub> / GWh (703 ton CO<sub>2</sub> / 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	%
<b>Direct GHG Emissions (Scope 1)</b>					
<b>EPIF Group</b>					
Czech Republic	million tons CO <sub>2</sub> eq.	3.5	3.1	0.4	14%
Slovakia		0.4	0.3	0.1	4%
Hungary		0.8	0.7	0.1	9%
<b>Total – EPIF Group</b>		<b>4.7</b>	<b>4.1</b>	<b>0.6</b>	<b>12%</b>
<b>EPPE Group</b>					
Germany		1.4	2.8	(1.4)	-50%
UK		2.0	2.1	(0.1)	-3%
Italy		7.9	5.3	2.6	49%
<b>Total – EPPE Group</b>		<b>11.3</b>	<b>10.2</b>	<b>1.1</b>	<b>11%</b>
<b>Total - EPH Group</b>		<b>16.0</b>	<b>14.3</b>	<b>1.7</b>	<b>11%</b>
KPI	Unit	2017	2016	2017-2016	%
Emissions intensity - Including heat component					
<b>EPIF Group</b>					
Czech Republic	ton CO <sub>2</sub> eq./GWh	797	771	26	3%
Slovakia		27	12	15	124%
Hungary		250	244	6	2%
<b>Total – EPIF Group</b>		<b>564</b>	<b>543</b>	<b>21</b>	<b>4%</b>
<b>EPPE Group</b>					
Germany		1,045	1,056	(12)	-1%
UK		551	937	(386)	-41%
Italy		529	551	(22)	-4%
<b>Total – EPPE Group</b>		<b>568</b>	<b>703</b>	<b>(135)</b>	<b>-19%</b>
<b>Total - EPH Group</b>		<b>567</b>	<b>651</b>	<b>(84)</b>	<b>-13%</b>

Note: Calculation of Emissions intensity indicators excludes emissions from non-energy producing operations, namely eustream, a.s., SPP – distribúcia, a.s. and NAFTA a.s. in Slovakia and SPP Storage, s.r.o. in the Czech Republic and in respective summary indicators, in amount of 0.3 and 0.4 mil ton CO<sub>2</sub> in 2016 and 2017 respectively.

In 2017, the EPH Group continued to be very active in terms of environmental protection. The companies within the EPH 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 Czech Republic, Slovakia, Germany, Italy, United Kingdom, Hungary and the European Union regulates the EPH 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, EPH Group is subject to regulations that impose strict limits on emissions of CO<sub>2</sub>, sulphur oxides (SO<sub>x</sub>), nitrogen oxides (NO<sub>x</sub>), carbon monoxide (CO) and solid dust particles emissions (SDP).

Although the EPH 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 EPH Group. This affects not only the activities for which EPH Group seeks to minimise their impact on the environment but also the investment activities.

EPH Group will continue to maintain its compliance with the environmental legislative requirements. In 2017, the Group invested considerable amounts into the restructuring of several plants. For example:

- Plzeňská energetika a.s. has invested into the modernization of technology of the control system on K3 boiler, installation of the new block transformer TG9, increased performance of TG10 boiler or new hot water distribution and connection.
- Elektrárny Opatovice, a.s. has installed two new mufflers to the engine room and boiler expander to reduce the produced noise.
- Pražská teplárenská, a.s. finished the construction of the new modern hot-water source THOL4 and realised several significant hot-water connections in 2017.

In 2017, Stredoslovenská energetika, a.s. successfully completed the recertification audit of the Integrated Management System, introduced in 2013. The audit confirmed the validity of certificates according to the OHSAS 18001: 2007 standard for work health and safety management system. As one of the first companies in Slovakia, Stredoslovenská energetika, a.s. has fulfilled the requirements of the updated ISO 14001: 2015 standard for the environmental management system.

Pursuant to the Slovak Energy Act, eustream, a.s. is annually obliged to elaborate and submit the National Ten-Year Network Development Plan to the Slovak Ministry of Economy and to the Regulatory Office of Network Industries. The last plan was submitted in the fourth quarter of 2017 and covers the period from 2018 to 2027.

The majority of the commercial investment into gas storage is represented by investments into safety and ecology and the new technical equipment focuses on increasing operational safety and ecological sustainability of existing facilities (i.e. subsurface safety valves, separating valves, venting system and emergency control systems). A secure and reliable gas storage system requires continuous investments into maintenance.

In 2017 eustream, a.s. completed projects focused on developing the transmission system with total investment costs of more than EUR 11 million.

The year 2017 was a significant year for NAFTA a.s. in terms of exploration and renovation activities. NAFTA conducted several technical workovers on both its own storage wells as well as on those of external partners. NAFTA's quality and professionalism in the area of workovers was also confirmed by ISO certification for these services, which was acquired in 2017.

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.

EPH 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, as well as further assets in the Czech Republic and Slovakia, currently placed within EPIF. The biomass conversion project underway in Lynemouth, together with the acquisition of Italian biomass power plants prove the aim of the EPH 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 companies of the EPH Group have a municipal waste collection system established. Recycling, reuse of material, composting are preferred over landfilling, which greatly contributes to reducing the production of waste and even has economic benefits. For example, United Energy, a.s. is entitled to use the label of Ecological firm for its responsible approach to the environment, used product take-back and waste sorting.

The EPH 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<sub>2</sub> emissions than a typical power plant. As a result, EPH 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 EPH Group business activities.

#### Employment relations and employees

The main strengths of the EPH 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.

EPH employees are interested in overall EPH 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 EPH Group during 2017 was 10,237 (10,310 in 2016), of which 229 were executives (198 in 2016). Male employees covered for 82% of EPH employees, the same share as in 2016. The decrease in employees in current year is attributable to decrease in EPIF Group, balanced by increase in EPPE Group and EPH Other.

The average number of employees in EPIF Group during 2017 was 6,323 (6,561 in 2016), of which 118 were executives (126 in 2016). The decrease in employees is namely attributable to employees leaving to retirement with subsequent vacant positions being staffed by a slower pace.

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.

The increase in EPH Other is attributable increase in transport and logistics employees connected with the SPEDICA acquisition as well as increase in central and support functions of EPH.

KPI	Unit	2017	2016	2017-2016	%
<b>Headcount</b>					
<b>EPIF Group</b>					
Czech Republic	#	1,878	1,912	(34)	-2%
Slovakia		4,235	4,391	(156)	-4%
Hungary		210	257	(47)	-18%
<b>Total – EPIF Group</b>		<b>6,323</b>	<b>6,561</b>	<b>(238)</b>	<b>-4%</b>
<b>EPPE Group</b>					
Czech Republic		65	15	50	333%
Germany		2,435	2,473	(38)	-2%
UK		414	370	44	12%
Italy		503	494	9	2%
<b>Total – EPPE Group</b>		<b>3,416</b>	<b>3,352</b>	<b>64</b>	<b>2%</b>
<b>EPH Other</b>					
Czech Republic		369	298	71	24%
Poland		129	99	30	31%
<b>Total – EPH Other</b>		<b>498</b>	<b>397</b>	<b>100</b>	<b>25%</b>
<b>Total - EPH Group</b>		<b>10,237</b>	<b>10,310</b>	<b>(73)</b>	<b>-1%</b>
KPI	Unit	2017	2016	2017-2016	%
<b>Headcount</b>					
<b>EPIF Group</b>					
Executives	#	118	126	(8)	-6%
Other Employees		6,205	6,435	(230)	-4%
<b>Total – EPIF Group</b>		<b>6,323</b>	<b>6,561</b>	<b>(238)</b>	<b>-4%</b>
<b>EPPE Group</b>					
Executives		81	63	19	30%
Other Employees		3,335	3,289	46	1%
<b>Total – EPPE Group</b>		<b>3,416</b>	<b>3,352</b>	<b>64</b>	<b>2%</b>
<b>EPH Other</b>					
Executives		30	9	20	218%
Other Employees		468	388	80	21%
<b>Total – EPH Other</b>		<b>498</b>	<b>397</b>	<b>100</b>	<b>25%</b>
<b>EPH Group</b>					
Executives		229	198	31	16%
Other Employees		10,008	10,112	(104)	-1%
<b>Total - EPH Group</b>		<b>10,237</b>	<b>10,310</b>	<b>(73)</b>	<b>-1%</b>

### Corruption and breaches

EPH 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, EPH has decided to formalise those into an overall policy applicable across the EPH, including all subsidiaries.

EPH 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*

EPH achieved impressive financial results in the year under the review. This positive development was driven by both our main sub-holdings, EPIF as well as EPPE. 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.

#### Sales

Total sales amounted to EUR 6,005 million (EUR 4,931 million in 2016). The 22% increase in sales is attributable largely to EPPE Group.

Sales of EPIF Group reached EUR 3,048 million (EUR 3,077 million in 2016). The decrease was mainly driven by the decrease in the Heat Infra segment and is attributable to large extent to the disposal of Pražská teplárenská LPZ, revenues of which were still consolidated until mid-2016. Part of Gas Transmission segment revenues were booked via Gas and Power Distribution segment in 2017. Accounting for this effect, sales performance of Gas Transmission was roughly flattish and increase in Gas and Power Distribution segment sales was milder.

Sales of EPPE Group reached EUR 2,765 million (EUR 1,780 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 EPH in-house trading entity EP Commodities, a.s..

Across all financial indicators, EPH Other segment saw positive development impacted by new acquisition as well as increase in service deliveries on the existing companies in transportation and logistics businesses.

External Sales	Unit	2017	2016	2017-2016	%
<b>EPIF Group</b>					
Gas Transmission	million EUR	705	758	-53	-7%
Gas and Power Distribution		1,705	1,649	56	3%
Gas Storage		150	144	6	4%
Heat Infra		479	515	-36	-7%
EPIF Other		9	11	-2	-18%
<b>Total EPIF Group</b>		<b>3,048</b>	<b>3,077</b>	<b>-29</b>	<b>-1%</b>
<b>EPPE Group</b>					
Generation and Mining		2,101	1,478	623	42%
Renewable Energy		69	2	67	33,5x
EPPE Other		595	300	295	98%
<b>Total EPPE Group</b>		<b>2,765</b>	<b>1,780</b>	<b>985</b>	<b>55%</b>
<b>EPH Other</b>		191	74	117	158%
Holding Entities		1	-	1	
<b>Total EPH Group</b>		<b>6,005</b>	<b>4,931</b>	<b>1,074</b>	<b>22%</b>

#### EBITDA

EBITDA of EPH Group reached EUR 1,819 million (EUR 1,520 million in 2016). The 20% increase in EBITDA is attributable to both EPIF Group as well as EPPE Group. 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.

EBITDA of the EPIF Group amounted EUR 1,522 million (EUR 1,386 million in 2016). The 10% increase in EBITDA is largely attributable to positive impact of System operation tariff (SOT) settlement



in the Gas and Power Distribution segment. This settlement relates to legal obligation to connect green energy producers to our power distribution network in Slovakia. Further positive impact was recorded in relation to cold winter at the beginning of the year, which resulted to additional earnings in the Gas and Power Distribution as well as Heat Infra segments.

EBITDA of the EPPE Group amounted EUR 311 million (EUR 138 million in 2016). The steep increase is attributable mainly to great 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 POWER LIMITED should generate important EBITDA contribution with positive impact to EPPE as well as EPH. 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	%
<b>EPIF Group</b>					
Gas Transmission	million EUR	664	676	-12	-2%
Gas and Power Distribution		551	424	127	30%
Gas Storage		144	143	1	1%
Heat Infra		157	138	19	14%
EPIF Other		6	6	-	-
<b>Total EPIF Group</b>		<b>1,522</b>	<b>1,387</b>	<b>135</b>	<b>10%</b>
<b>EPPE Group</b>					
Generation and Mining		347	164	183	112%
Renewable Energy		-34	-25	-9	36%
EPPE Other		-2	-1	-1	100%
<b>Total EPPE Group</b>		<b>311</b>	<b>138</b>	<b>173</b>	<b>125%</b>
<b>EPH Other</b>					
		<b>16</b>	<b>9</b>	<b>7</b>	<b>78%</b>
Holding Entities		-29	-28	-1	4%
Inter-segment eliminations		-1	14	-15	-107%
<b>Total EPH Group</b>		<b>1,819</b>	<b>1,520</b>	<b>299</b>	<b>20%</b>

## CAPEX

CAPEX of EPH Group reached EUR 441 million (EUR 543 million in 2016). Of this amount, EUR 200 million (EUR 187 million in 2016) was represented by the Lynemouth biomass conversion project. The 19% decrease in CAPEX is attributable approximately evenly to both EPIF Group as well as EPPE Group. 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.

CAPEX of EPIF Group reached EUR 145 million (EUR 191 million in 2016). The 24% decrease in CAPEX is attributable mainly to non-recurrence of increased one-off CAPEX spent in 2016 on new drying technologies in the Gas Storage segment as well as environmentally induced improvements on Elektrárny Opatovice, a.s. to comply with IED legislation in the Heat Infra segment. The Gas and Power Distribution segment saw also higher network development CAPEX in 2016.

CAPEX of EPPE Group reached EUR 293 million (EUR 346 million in 2016). 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	%
<b>EPIF Group</b>					
Gas Transmission	million EUR	14	11	3	27%
Gas and Power Distribution		77	95	-18	-19%
Gas Storage		5	18	-13	-72%
Heat Infra		48	67	-19	-28%
EPIF Other		1	-	1	
<b>Total EPIF Group</b>		<b>145</b>	<b>191</b>	<b>-46</b>	<b>-24%</b>
<b>EPPE Group</b>					
Generation and Mining		92	158	-66	-42%
Renewable Energy		200	188	12	6%
EPPE Other		1	-	1	
<b>Total EPPE Group</b>		<b>293</b>	<b>346</b>	<b>-53</b>	<b>-15%</b>
<b>EPH Other</b>		<b>2</b>	<b>6</b>	<b>-4</b>	<b>-67%</b>
Holding Entities		1	-	1	
Inter-segment eliminations		-	-	-	
<b>Total EPH Group</b>		<b>441</b>	<b>543</b>	<b>-102</b>	<b>-19%</b>

#### Net financial debt, Leverage and Cash conversion

Net financial debt stood at EUR 5,366 million at the end of the year under review (EUR 4,474 million in 2016). The presented figures is calculated summing up Loans and borrowings together with Issued bills of exchange (presented as part of Financial instruments and financial liabilities), netted for Cash and cash equivalents.

The key drivers behind 20% 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, together with buying out minority participations on existing EPH Group companies 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 2.9x in 2017, with no change from the previous year, as the discussed 20% increase in Net financial debt was accompanied by a corresponding growth in EBITDA. 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.

Net financial debt and Leverage	Unit	2017	2016	2017-2016	%
Loans and borrowings	million EUR	6,121	5,541	580	10%
Issued bills of exchange		61	69	-8	-12%
Cash and cash equivalents		816	1,136	-320	-28%
<b>Net financial debt</b>		<b>5,366</b>	<b>4,474</b>	<b>892</b>	<b>20%</b>
EBITDA		1,819	1,520	299	20%
<b>Leverage</b>		<b>2.9</b>	<b>2.9</b>	<b>0</b>	<b>0%</b>

Cash conversion was 54.7% (44.2% in 2016). Netting for effect of Lynemouth conversion project, the Adjusted Cash conversion was 66.4% (57.2% in 2016). The high ratio of EBITDA conversion to cash flows further reinforces very good positioning of EPH Group in terms of leverage within the industry peer group.

Cash conversion	Unit	2017	2016	2017-2016	%
EBITDA	million EUR	1,819	1,520	299	20%
CAPEX		-441	-543	102	-19%
Tax paid		-383	-305	-78	26%
<b>Cash conversion</b>	<b>%</b>	<b>54.7%</b>	<b>44.2%</b>	<b>10.5%</b>	
<b>Adjusted Cash conversion<sup>1</sup></b>	<b>%</b>	<b>66.4%</b>	<b>57.2%</b>	<b>9.1%</b>	

<sup>1</sup> Calculated excluding operating and capital expenditures on Lynemouth biomass conversion project.

## 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 Energetický a průmyslový holding, a.s. was registered with LEI (Legal Entity Identifier) code No. 31570010000000090208 by 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 EPH Group has the following organizational units abroad:

- EP ENERGY TRADING, a.s., organizační složka located in Slovakia;
- Slovenské elektrárne, a.s. – organizační složka located in the Czech Republic;
- ÚJV Řež a.s. – organizační složka Slovensko located in Slovakia;
- LokoTrain s.r.o., organizační složka located in Slovakia;
- LokoTrain s.r.o. oddział w Polsce located in Poland; and
- Spedica, s.r.o., organizační složka Slovensko located in Slovakia.

### *Research and development activities*

In 2017, the EPH 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*

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 of the date of this Annual Report, the own shares have not been cancelled.

### *Risks and risk management policies*

The EPH 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 EPH 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 EPH Group.

### *Outlook for 2018*

EPH Group intends to continue to develop its activities in both its key sub-holdings EPIF Group and EPPE Group and expects to achieve positive financial results in the following years.

Profitability in the EPIF Group should remain stable, as majority of its business is regulated or long term contracted. Minor deviations might occur depending on development of weather and market conditions during the following years. Overall, stable development is expected for 2018.

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.

## **2. MANAGEMENT STATEMENT**

## 2. MANAGEMENT STATEMENT

The Board of Directors and the Executive Board have today considered and adopted the Consolidated annual Report of Energetický a průmyslový holding, a.s. (further "the Company") for the year ended 31 December 2017, which is prepared in accordance with the Czech accounting legislation.

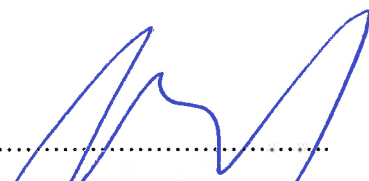
The Statutory Financial Statements of the Company have been prepared in compliance with Act No. 563/1991 Coll., on Accounting, as amended, and relevant regulations and decrees applicable to entrepreneurs, in particular Decree No. 500/2002 Coll., implementing certain provisions of Act No. 563/1991 Coll.,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

The Consolidated Financial Statements of the EPH 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, 31 May 2018



.....

JUDr. Daniel Křetínský  
*Chairman of the Board of Directors*



.....

Mgr. Pavel Horský  
*Member of the Board of Directors*

### **3. REPORT ON RELATIONS**

## **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 **Energetický a průmyslový holding, a.s.** (“the Company”), with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 283 56 250, 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 Energetický a průmyslový holding, a.s., with its registered office at Pařížská 130/26, Josefov, 110 00 Praha 1, ID No.: 283 56 250, recorded in the Commercial Register maintained by the Municipal Court in Prague, section B, insert 21747.

#### **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 39 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 Energetický a průmyslový holding, 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**

Energetický a průmyslový holding, a.s. bought-back 465,528,447 own share certificates, of which 10,601,307 shares with the nominal value of CZK 100, and 454,927,140 shares with the nominal value of CZK 1; they were acquired on 26 January 2017 and on 24 February 2017, respectively.

Investments in EP Infrastructure, a.s., EPPE Italy N.V., JTSD Braunkohlebergbau GmbH were sold in 2017. Furthermore, the share capital in EPIF Investments a.s. and EP Power Europe, a.s. was increased.

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 Energetický a průmyslový holding, a.s. and other related entities**

#### **V.1.1**

##### **In 2017 the following loan agreements were in place:**

On 27 October 2010, a loan agreement, including valid amendments, was signed by and between NIKARA EQUITY LIMITED as the creditor and Przedsiębiorstwo Górnicze "SILESIA" Sp. z o.o. as the debtor. In 2013, Energetický a průmyslový holding, a.s. became the legal successor of NIKARA EQUITY LIMITED.

On 25 September 2012, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the debtor and SEDILAS ENTERPRISES LIMITED as the creditor.

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

On 1 July 2013, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and MILEES LIMITED as the debtor.

On 1 July 2013, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and MACKAREL ENTERPRISES LIMITED as the debtor. On 4 December 2014, a debt was assumed based on a contract on debt assignment by EP Investment S.à.r.l.

On 1 July 2013, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and BIQUES LIMITED as the debtor.

On 11 December 2013, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and Mining Services and Engineering Sp. z o.o. as the debtor.

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

On 25 September 2014, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Investment Advisors, s.r.o. as the debtor.

On 6 January 2015, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and BIQUES LIMITED as the debtor.

On 6 January 2015, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and MILEES LIMITED as the debtor.

On 4 March 2015, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Investment S.à.r.l. as the debtor.

On 20 May 2015, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Produzione S.p.A. as the debtor.

On 21 May 2015, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and MILEES LIMITED as the debtor.

On 21 May 2015, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Investment S.à.r.l. as the debtor.

On 29 May 2015, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Investment Advisors, s.r.o. as the debtor.

On 1 July 2015, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPH Financing SK, a. s. as the creditor.

On 27 July 2015, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPPE Italy N.V. (formerly Czech Gas Holding N.V.) as the creditor.

On 24 August 2015, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Commodities, a.s. as the debtor.

On 31 August 2015, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and WOOGEL LIMITED as the debtor.

On 30 September 2015, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPH Financing CZ, a.s. as the creditor.

On 1 December 2015, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Coal Trading, a.s. as the debtor.

On 1 December 2015, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Coal Trading, 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 13 April 2016, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and LEAG Holding, a.s. (formerly CARBURO NOSTRA a.s.) as the debtor.

On 12 May 2016, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EP Commodities, a.s. as the creditor.

On 24 June 2016, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EP Produzione S.p.A. as the creditor.

On 27 July 2016, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Slovakia B.V. as the debtor.

On 1 August 2016, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and Lausitz Energie Verwaltungs GmbH (formerly Lusatia Energie Verwaltungs GmbH) as the debtor.

On 30 August 2016, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Logistics International, a.s. as the debtor.

On 9 November 2016, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and MILEES LIMITED as the debtor.

On 9 November 2016, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Investment S.à.r.l. as the debtor.

On 16 November 2016, a loan agreement, including valid amendments, was signed by and between Energetický a průmyslový holding, a.s. as the creditor and Eggborough Power Ltd as the debtor.

On 9 December 2016, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPH Financing CZ, a.s. as the creditor.

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 11 January 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and Lynemouth Power Limited as the creditor.

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 26 January 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Logistics International, a.s. as the debtor.

On 31 January 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and SLUGGERIA 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 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 28 February 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the debtor and EPH Financing SK, a. s. as the creditor.

On 1 June 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Coal Trading, 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 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 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 13 November 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Coal Trading, 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 28 November 2017, a loan agreement was signed by and between Energetický a průmyslový holding, a.s. as the creditor and EP Properties, a.s. 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 set-off of receivables and payables were concluded:**

On 2 January 2017, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EPPE Italy N.V. (formerly Czech Gas Holding N.V.).

On 6 January 2017, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Investment S.à.r.l.

On 6 January 2017, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and BIQUES LIMITED.

On 6 January 2017, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and MILEES LIMITED.

On 23 January 2017, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Slovakia B.V.

On 24 March 2017, an agreement on the set-off of receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Commodities, a.s.

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 Energetický a průmyslový holding, a.s. and PRZEDSIĘBIORSTWO GÓRNICZE SILESIA Sp. z o.o

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 28 August 2017, an agreement on the set-off receivables was signed by and between Energetický a průmyslový holding, a.s. and PRZEDSIĘBIORSTWO GÓRNICZE SILESIA Sp. z o.o

On 6 October 2017, an agreement on the set-off receivables was signed by and between Energetický a průmyslový holding, a.s. and EPPE Italy N.V. (formerly Czech Gas Holding N.V.).

On 22 November 2017, an agreement on the set-off receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Investment S.à.r.l.

On 22 November 2017, an agreement on the set-off receivables was signed by and between Energetický a průmyslový holding, a.s. and EP Investment II S.à.r.l.

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

On 20 December 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.

### **V.1.3**

#### **In 2017 the following agreements on the assignment of receivables were concluded:**

On 6 January 2017, an agreement on the assignment of receivable was signed by and between Energetický a průmyslový holding, a.s. as the assignee and EP Investment S.à.r.l. as the assignor, against a third party.

On 6 January 2017, an agreement on assignment of receivable was signed by and between Energetický a průmyslový holding, a.s. as the assignee and BIQUES LIMITED as the assignor, against a third party.

On 6 January 2017, an agreement on assignment of receivable was signed by and between Energetický a průmyslový holding, a.s. as the assignee and MILEES LIMITED as the assignor, against a third party.

On 22 November 2017, an agreement on assignment of receivable was signed by and between Energetický a průmyslový holding, a.s. as the assignee and EP Investment II S.à.r.l. as the assignor, against MILEES LIMITED.

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.

#### **V.1.4**

**The following guarantee issuance agreements and guarantee fee agreements were valid between Energetický a průmyslový holding, a.s. and the related entities in 2017:**

EP Commodities, a.s.	Lynemouth Power Limited
Eggborough Power Ltd	Mining Services and Engineering Sp. Z. o. o.
EPPE Italy N.V. (formerly Czech Gas Holding N.V.)	EP Cargo Deutschland GmbH
EP Coal Trading, a.s.	EP Coal Trading Polska S.A
JTSD - Braunkohlenbergbau GmbH	EP Cargo Invest a.s.
EP Germany GmbH	EP UK Investments Ltd
Lausitz Energie Kraftwerke AG	EP UK Power Development Ltd
Przedsiębiorstwo Górnicze 'SILESIA' Sp. z o.o.	EP Power Europe, a.s.

#### **V.1.5**

**Other contracts valid in 2017:**

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

On 1 February 2016 a framework agreement ISDA 2002 Master Agreement and a supplement Schedule to the 2002 Master Agreement was signed by and between Energetický a průmyslový holding, a.s. and Lynemouth Power Limited.

On 24 January 2017, a Shareholder resolution on the provision of an additional contribution was signed by Energetický a průmyslový holding, a.s. for the benefit EP Slovakia B.V.

On 13 March 2017, a Shareholder resolution on the provision of an additional contribution was signed by Energetický a průmyslový holding, a.s. for the benefit EP Slovakia B.V.

On 30 June 2017, the General Meeting of PRZEDSIĘBIORSTWO GÓRNICZE SILESIA Sp. z o.o. decided to increase the company's share capital.

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 9 November 2017, a Shareholder resolution on the provision of an additional contribution was signed by Energetický a průmyslový holding, a.s. for the benefit EP Slovakia B.V.



On 15 December 2017, a Shareholder resolution on an increase in the share capital was signed by Energetický a průmyslový holding, a.s. for the benefit EP Slovakia B.V.

All the above contracts were concluded at arm's length. No harm incurred to Energetický a průmyslový holding, a.s. based on these contracts.

#### **V.1.6**

##### **In 2017 the following operating agreements were in place:**

An agreement on the provision of support and support and advisory on acquisition projects was signed by and between EP Investment Advisors, s.r.o. as the provider and Energetický a průmyslový holding, a.s. as the party interested on 10 December 2014.

A technical assistance agreement concluded between EP Investment Advisors, s.r.o. as the provider and Energetický a průmyslový holding, a.s. as the interested party on 2 January 2015 including amendments.

Financial debt guarantee of EPH Financing SK, a.s. issued by Energetický a průmyslový holding, a.s. on 8 June 2015.

Financial debt guarantee of EPH Financing CZ, a.s. issued by Energetický a průmyslový holding, a.s. on 18 September 2015.

A mediation agreement was signed by and between EP Investment Advisors, s.r.o. and Energetický a průmyslový holding, a.s. on 4 January 2016.

An agreement of the contract assignment was signed on 13 April 2016 by and between EP Investment Advisors, s.r.o. as the provider, EPPE Germany, a.s. (formerly: PLACER CIERTA a.s.) as the assignee and Energetický a průmyslový holding, a.s. as the assignor.

An agreement on assignment of receivable and loan agreement concluded between EP Logistics International, a.s. as the assignee and Energetický a průmyslový holding, a.s. as the assignor on 4 April 2016.

Financial debt guarantee of EPH Financing CZ, a.s. issued by Energetický a průmyslový holding, a.s. on 6 December 2016.

An agreement on assignment of receivable concluded between EP Energy Trading, a.s. as the assignor and Energetický a průmyslový holding, a.s. as the assignee on 2 January 2017.

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

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



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

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

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 providing professional assistance concluded between LEAG Holding, a.s. as the interested party and Energetický a průmyslový holding, a.s. as the provider on 2 January 2017.

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

Share purchase agreement (SPA) of EPPE Italy N.V. concluded between EP Power Europe, a.s. as the buyer and Energetický a průmyslový holding, a.s. as the seller on 9 February 2017.

Financial debt guarantee of EPH Financing SK, a.s. issued by Energetický a průmyslový holding, a.s. on 10 February 2017.

Share purchase agreement (SPA) of EP Infrastructure, a.s. concluded between EPIF Investments, a.s. as the buyer and Energetický a průmyslový holding, a.s. as the seller on 22 February 2017.

An agreement on the set-off of receivables concluded between EPIF Investments, a.s. and Energetický a průmyslový holding, a.s. on 8 March 2017.

Share Subscription Agreement concluded between EPIF Investments, a.s. as the issuer and Energetický a průmyslový holding, a.s. as the subscriber on 8 March 2017.

Sublease Agreement concluded between EP Investment Advisors, s.r.o. as the tenant and Energetický a průmyslový holding, a.s. as the subtenant on 15 June 2017.

Sublease Agreement concluded between EP Investment Advisors, s.r.o. as the tenant and Energetický a průmyslový holding, a.s. as the subtenant on 15 June 2017.

Share Subscription Agreement concluded between EP Power Europe, a.s. as the issuer and Energetický a průmyslový holding, a.s. as the subscriber on 14 July 2017.

Assignment Agreement on 13 September 2017 concluded between EP Investment Advisors, s.r.o. as the provider, EP Mehrum GmbH as the assignee and Energetický a průmyslový holding, a.s. as the assignor.

Agreement on Transfer of Shares (SPA) of ZERTILIO a.s. concluded between EP Industries, a.s. as the buyer and Energetický a průmyslový holding, a.s. as the seller on 20 October 2017.

Assignment Agreement on 30 November 2017 concluded between EP Investment Advisors, s.r.o. as the provider, EP New Energy Italia S.R.L. as the assignee and Energetický a průmyslový holding, a.s. as the assignor.

Agreement on Transfer of Ownership Interest (Share Purchase Agreement) in JTSD Braunkohlebergbau GmbH concluded between EPPE Germany, a.s. as the buyer and Energetický a průmyslový holding, a.s. as the seller on 15 December 2017.

## **V.2.**

### **Other juridical acts made between Energetický a průmyslový holding, a.s. and other related parties**

Except for the above, no other agreements were concluded by and between Energetický a průmyslový holding, a.s. and the related entities, and no supplies or considerations were provided between Energetický a průmyslový holding, a.s. and the related entities.

Energetický a průmyslový holding, 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 Energetický a průmyslový holding, a.s. vis-à-vis related entities**

The receivables and payables of Energetický a průmyslový holding, a.s. from/to related entities as at 31 December 2017 are disclosed in the notes to the financial statements, which form part of the annual report.

## **VI.**

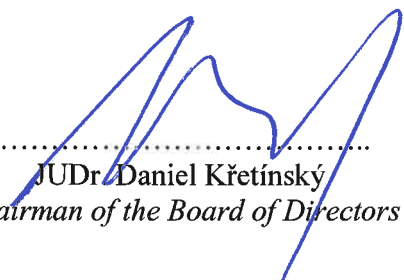
We hereby confirm that we have included in this Report on relations between related entities of Energetický a průmyslový holding, a.s., prepared pursuant to Section 82 (1) of the Corporations Act (Act No. 90/2012 Coll., as amended), for the accounting period from 1 January 2017 to 31 December 2017, all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

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

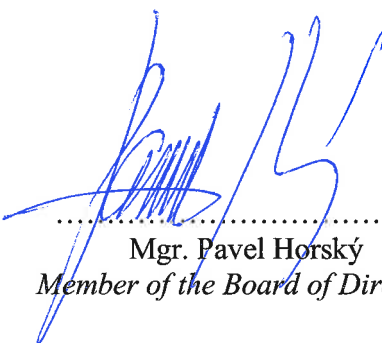
In addition, the board of directors of Energetický a průmyslový holding, a.s. declares that Energetický a průmyslový holding, a.s. incurred no damage as a result of the actions of the controlling entity or of any entity controlled by the same entity. All transactions between the controlled entity and the controlling entity/entities controlled by the same controlling entity

were concluded at arm's length. The contractual and other relations with related parties resulted in no loss or financial advantage or disadvantage to Energetický a průmyslový holding, a.s.

In Prague, on 29 March 2018



.....  
JUDr. Daniel Křetínský  
*Chairman of the Board of Directors*



.....  
Mgr. Pavel Horský  
*Member of the Board of Directors*

## **4. CONSOLIDATED FINANCIAL STATEMENTS**



**KPMG Česká republika Audit, s.r.o.**

Pobřežní 1a  
186 00 Praha 8  
Czech Republic  
+420 222 123 111  
www.kpmg.cz

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

**Independent Auditor's Report to the Shareholders of  
Energetický a průmyslový holding, a.s.**

***Opinion***

We have audited the accompanying consolidated financial statements of Energetický a průmyslový holding, 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***

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

Prague  
31 May 2018

*KPMG Česká republika Audit*

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

A handwritten signature in blue ink, appearing to read 'Karel Charvát', with a stylized flourish at the end.

Karel Charvát  
Partner  
Registration number 2032



**Energetický a průmyslový holding, a.s.**

**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

## Content

Consolidated statement of comprehensive income .....	3
Consolidated statement of financial position .....	4
Consolidated statement of changes in equity .....	5
Consolidated statement of cash flows .....	7
Notes to the consolidated financial statements .....	9
1. Background .....	9
2. Basis of preparation .....	11
3. Significant Accounting Policies .....	17
4. Determination of fair values .....	34
5. Operating segments .....	36
6. Acquisitions and disposals of subsidiaries, joint ventures and associates .....	48
7. Sales .....	57
8. Cost of sales .....	57
9. Personnel expenses .....	58
10. Emission rights .....	58
11. Taxes and charges .....	58
12. Other operating income .....	59
13. Other operating expenses .....	59
14. Finance income and expense, profit (loss) from financial instruments .....	60
15. Income tax expenses .....	61
16. Property, plant and equipment .....	63
17. Intangible assets (including goodwill) .....	66
18. Investment property .....	69
19. Equity accounted investees .....	70
20. Deferred tax assets and liabilities .....	74
21. Inventories .....	78
22. Trade receivables and other assets .....	78
23. Cash and cash equivalents .....	78
24. Restricted cash .....	79
25. Tax receivables .....	79
26. Assets and liabilities held for sale and discontinued operations .....	79
27. Equity .....	80
28. Earnings per share .....	82
29. Non-controlling interest .....	83
30. Loans and borrowings .....	85
31. Provisions .....	90
32. Deferred income .....	100
33. Financial instruments .....	101
34. Trade payables and other liabilities .....	105
35. Financial commitments and contingencies .....	106
36. Operating leases .....	107
37. Risk management policies and disclosures .....	108
38. Related parties .....	124
39. Group entities .....	127
40. Litigations and claims .....	132
41. Subsequent events .....	133
Appendix 1 – Business combinations .....	136
Appendix 2 – Acquisition of associates and joint ventures .....	143
Appendix 3 – Disposals of investments .....	144

## Consolidated statement of comprehensive income

For the year ended 31 December 2017

In millions of EUR ("MEUR")

	Note	2017	2016
Sales: Energy	7	5,674	4,743
<i>of which: Electricity</i>		3,043	2,440
Gas		1,989	1,675
Heat		345	358
Coal		294	268
Other energy products		3	2
Sales: Other	7	357	193
Gain (loss) from commodity derivatives for trading with electricity and gas, net	7	(26)	(5)
<b>Total sales</b>		<b>6,005</b>	<b>4,931</b>
Cost of sales: Energy	8	(3,039)	(2,321)
Cost of sales: Other	8	(253)	(118)
<b>Total cost of sales</b>		<b>(3,292)</b>	<b>(2,439)</b>
<b>Subtotal</b>		<b>2,713</b>	<b>2,492</b>
Personnel expenses	9	(482)	(503)
Depreciation and amortisation	16, 17	(527)	(554)
Repairs and maintenance		(55)	(62)
Emission rights, net	10	(104)	(60)
Negative goodwill	6	54	-
Taxes and charges	11	(67)	(60)
Other operating income	12	109	69
Other operating expenses	13	(295)	(356)
<b>Profit (loss) from operations</b>		<b>1,346</b>	<b>966</b>
Finance income	14	36	41
Finance expense	14	(234)	(310)
Profit (loss) from financial instruments	14	(50)	(63)
<b>Net finance income (expense)</b>		<b>(248)</b>	<b>(332)</b>
Share of profit (loss) of equity accounted investees, net of tax	19	107	312
Gain (loss) on disposal of subsidiaries, joint-ventures and associates	6	-	53
<b>Profit (loss) before income tax</b>		<b>1,205</b>	<b>999</b>
Income tax expenses	15	(328)	(199)
<b>Profit (loss) for the year</b>		<b>877</b>	<b>800</b>
<b>Items that are or may be reclassified subsequently to profit or loss:</b>			
Foreign currency translation differences from foreign operations	15	(139)	(1)
Foreign currency translation differences from presentation currency	15	126	(3)
Effective portion of changes in fair value of cash-flow hedges, net of tax	15	3	116
Fair value reserve included in other comprehensive income, net of tax	15	(9)	(26)
<b>Other comprehensive income for the year, net of tax</b>		<b>(19)</b>	<b>86</b>
<b>Total comprehensive income for the year</b>		<b>858</b>	<b>886</b>
<b>Profit (loss) attributable to:</b>			
Owners of the Company		441	431
Non-controlling interest		436	369
<b>Profit (loss) for the year</b>		<b>877</b>	<b>800</b>
<b>Total comprehensive income attributable to:</b>			
Owners of the Company		416	542
Non-controlling interest		442	344
<b>Total comprehensive income for the year</b>		<b>858</b>	<b>886</b>
<b>Total basic and diluted earnings per share in EUR</b>	28	<b>0.12</b>	<b>0.09</b>

The notes presented on pages 9 to 144 form an integral part of these consolidated financial statements.

## Consolidated statement of financial position

As at 31 December 2017

In millions of EUR ("MEUR")

	Note	2017	2016
<b>Assets</b>			
Property, plant and equipment	16	8,430	7,947
Intangible assets	17	218	292
Goodwill	17	151	106
Investment property	18	3	3
Equity accounted investees	19	707	712
Restricted cash	24	23	29
Financial instruments and other financial assets	33	111	129
Trade receivables and other assets	22	161	42
Deferred tax assets	20	69	56
<b>Total non-current assets</b>		<b>9,873</b>	<b>9,316</b>
Inventories	21	247	163
Extracted minerals and mineral products		172	175
Trade receivables and other assets	22	942	618
Financial instruments and other financial assets	33	563	433
Prepayments and other deferrals		38	21
Tax receivables	25	132	107
Restricted cash	24	8	1
Cash and cash equivalents	23	816	1,136
Assets/disposal groups held for sale	26	5	5
<b>Total current assets</b>		<b>2,923</b>	<b>2,659</b>
<b>Total assets</b>		<b>12,796</b>	<b>11,975</b>
<b>Equity</b>			
Share capital	27	152	208
Share premium	27	64	64
Reserve for own shares	27	(1,444)	-
Other reserves	27	(38)	(30)
Retained earnings		2,431	1,145
<b>Total equity attributable to equity holders</b>		<b>1,165</b>	<b>1,387</b>
Non-controlling interest	29	1,515	1,707
<b>Total equity</b>		<b>2,680</b>	<b>3,094</b>
<b>Liabilities</b>			
Loans and borrowings	30	5,060	5,441
Financial instruments and financial liabilities	33	31	65
Provisions	31	918	817
Deferred income	32	195	99
Deferred tax liabilities	20	1,033	1,044
Trade payables and other liabilities	34	125	120
<b>Total non-current liabilities</b>		<b>7,362</b>	<b>7,586</b>
Trade payables and other liabilities	34	1,230	812
Loans and borrowings	30	1,061	100
Financial instruments and financial liabilities	33	151	74
Provisions	31	255	232
Deferred income	32	19	23
Current income tax liability		37	53
Liabilities from disposal groups held for sale	26	1	1
<b>Total current liabilities</b>		<b>2,754</b>	<b>1,295</b>
<b>Total liabilities</b>		<b>10,116</b>	<b>8,881</b>
<b>Total equity and liabilities</b>		<b>12,796</b>	<b>11,975</b>

The notes presented on pages 9 to 144 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")

	Share capital	Share premium	Reserve for own shares	Other capital funds from capital contributions	Attributable to owners of the Company Non-distributable reserves	Translation reserve	Fair value reserve	Other capital reserves	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total Equity
<b>Balance as at 1 January 2017 (A)</b>	<b>208</b>	<b>64</b>	<b>-</b>	<b>23</b>	<b>2</b>	<b>(83)</b>	<b>(30)</b>	<b>(54)</b>	<b>112</b>	<b>1,145</b>	<b>1,387</b>	<b>1,707</b>	<b>3,094</b>
<i>Total comprehensive income for the year:</i>													
Profit or loss (B)	-	-	-	-	-	-	-	-	-	441	441	436	877
<i>Other comprehensive income:</i>													
Foreign currency translation differences for foreign operations	-	-	-	-	-	(60)	-	-	-	-	(60)	(79)	(139)
Foreign currency translation differences from presentation currency	-	-	-	-	-	55	-	-	-	-	55	71	126
Revaluation reserve included in other comprehensive income, net of tax	-	-	-	-	-	-	(9)	-	-	-	(9)	-	(9)
Effective portion of changes in fair value of cash-flow hedges, net of tax	-	-	-	-	-	-	-	-	(11)	-	(11)	14	3
<b>Total other comprehensive income (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5)</b>	<b>(9)</b>	<b>-</b>	<b>(11)</b>	<b>-</b>	<b>(25)</b>	<b>6</b>	<b>(19)</b>
<b>Total comprehensive income for the year (D) = (B + C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5)</b>	<b>(9)</b>	<b>-</b>	<b>(11)</b>	<b>441</b>	<b>416</b>	<b>442</b>	<b>858</b>
<i>Contributions by and distributions to owners:</i>													
Own shares acquired	(56)	-	(1,444)	-	-	-	-	-	-	-	(1,500)	-	(1,500)
Dividends to equity holders	-	-	-	-	-	-	-	-	-	(434)	(434)	(623)	(1,057)
Transfer to non-distributable reserves – creation of legal fund	-	-	-	-	6	-	-	-	-	(6)	-	-	-
<b>Total contributions by and distributions to owners (E)</b>	<b>(56)</b>	<b>-</b>	<b>(1,444)</b>	<b>-</b>	<b>6</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(440)</b>	<b>(1,934)</b>	<b>(623)</b>	<b>(2,557)</b>
<i>Changes in ownership interests in subsidiaries:</i>													
Effect of changes in shareholding on non-controlling interests	-	-	-	-	-	(6)	1	-	16	1,285	1,296	(11)	1,285
<b>Total changes in ownership interests in subsidiaries (F)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(6)</b>	<b>1</b>	<b>-</b>	<b>16</b>	<b>1,285</b>	<b>1,296</b>	<b>(11)</b>	<b>1,285</b>
<b>Total transactions with owners (G) = (E + F)</b>	<b>(56)</b>	<b>-</b>	<b>(1,444)</b>	<b>-</b>	<b>6</b>	<b>(6)</b>	<b>1</b>	<b>-</b>	<b>16</b>	<b>845</b>	<b>(638)</b>	<b>(634)</b>	<b>(1,272)</b>
<b>Balance as at 31 December 2017 (H) = (A + D + G)</b>	<b>152</b>	<b>64</b>	<b>(1,444)</b>	<b>23</b>	<b>8</b>	<b>(94)</b>	<b>(38)</b>	<b>(54)</b>	<b>117</b>	<b>2,431</b>	<b>1,165</b>	<b>1,515</b>	<b>2,680</b>

The notes presented on pages 9 to 144 form an integral part of these consolidated financial statements.

**For the year ended 31 December 2016**

*In millions of EUR ("MEUR")*

	Share capital	Share premium	Reserve for own shares	Other capital funds from capital contributions	Attributable to owners of the Company Non-distributable reserves	Translation reserve	Fair value reserve	Other capital reserves	Hedging reserve	Retained earnings	Total	Non-controlling interest	Total Equity
<b>Balance as at 1 January 2016 (A)</b>	<b>208</b>	<b>64</b>	<b>(932)</b>	<b>23</b>	<b>6</b>	<b>(78)</b>	<b>(4)</b>	<b>(54)</b>	<b>(30)</b>	<b>1,642</b>	<b>845</b>	<b>1,944</b>	<b>2,789</b>
<i>Total comprehensive income for the year:</i>													
Profit or loss (B)	-	-	-	-	-	-	-	-	-	431	431	369	800
<i>Other comprehensive income:</i>													
Foreign currency translation differences for foreign operations	-	-	-	-	-	(6)	-	-	-	-	(6)	5	(1)
Foreign currency translation differences from presentation currency	-	-	-	-	-	1	-	-	-	-	1	(4)	(3)
Revaluation reserve included in other comprehensive income, net of tax	-	-	-	-	-	-	(26)	-	-	-	(26)	-	(26)
Effective portion of changes in fair value of cash-flow hedges, net of tax	-	-	-	-	-	-	-	-	142	-	142	(26)	116
<b>Total other comprehensive income (C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5)</b>	<b>(26)</b>	<b>-</b>	<b>142</b>	<b>-</b>	<b>111</b>	<b>(25)</b>	<b>86</b>
<b>Total comprehensive income for the year (D) = (B + C)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(5)</b>	<b>(26)</b>	<b>-</b>	<b>142</b>	<b>431</b>	<b>542</b>	<b>344</b>	<b>886</b>
<i>Contributions by and distributions to owners:</i>													
Transfer from Reserve for own shares – release of Reserve for own shares	-	-	932	-	-	-	-	-	-	(932)	-	-	-
Dividends to equity holders	-	-	-	-	-	-	-	-	-	-	-	(572)	(572)
Transfer from non-distributable reserves – release of legal fund	-	-	-	-	(4)	-	-	-	-	4	-	-	-
<b>Total contributions by and distributions to owners (E)</b>	<b>-</b>	<b>-</b>	<b>932</b>	<b>-</b>	<b>(4)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(928)</b>	<b>-</b>	<b>(572)</b>	<b>(572)</b>
<i>Changes in ownership interests in subsidiaries:</i>													
Effect of disposals	-	-	-	-	-	-	-	-	-	-	-	(9)	(9)
<b>Total changes in ownership interests in subsidiaries (F)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(9)</b>	<b>(9)</b>
<b>Total transactions with owners (G) = (E + F)</b>	<b>-</b>	<b>-</b>	<b>932</b>	<b>-</b>	<b>(4)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(928)</b>	<b>-</b>	<b>(581)</b>	<b>(581)</b>
<b>Balance as at 31 December 2016 (H) = (A + D + G)</b>	<b>208</b>	<b>64</b>	<b>-</b>	<b>23</b>	<b>2</b>	<b>(83)</b>	<b>(30)</b>	<b>(54)</b>	<b>112</b>	<b>1,145</b>	<b>1,387</b>	<b>1,707</b>	<b>3,094</b>

The notes presented on pages 9 to 144 form an integral part of these consolidated financial statements.

# Consolidated statement of cash flows

For the year ended 31 December 2017

In millions of EUR ("MEUR")

	Note	2017	2016
<b>OPERATING ACTIVITIES</b>			
Profit (loss) for the year		877	800
Adjustments for:			
Income taxes	15	328	199
Depreciation and amortisation	16, 17	527	554
Dividend income	14	(10)	(6)
Impairment losses on property, plant and equipment, intangible assets and financial assets	13, 14	1	41
Impairment losses of investments in associates and joint ventures	14	-	13
Impairment losses of other financial assets	14	17	60
Non-cash (gain) loss from commodity derivatives for trading with electricity and gas, net		21	4
(Gain) loss on disposal of property, plant and equipment, investment property and intangible assets	12	(18)	(3)
Gain on disposal of inventories	12	-	-
Emission rights	10	104	60
(Gain) loss on disposal of subsidiaries, special purpose entities, joint-ventures, associates and non-controlling interests	6	-	(53)
Share of (profit) loss of equity accounted investees	19	(107)	(312)
(Gain) loss on financial instruments	14	33	(10)
Net interest expense	14	186	235
Change in allowance for impairment to trade receivables and other assets, write-offs		5	8
Revenue from released deferred earn-out		-	(6)
Change in provisions		28	61
Negative goodwill	6	(54)	-
Other finance fees		(9)	17
Unrealised foreign exchange (gains) losses, net		32	(1)
<b>Operating profit before changes in working capital</b>		<b>1,961</b>	<b>1,661</b>
Change in trade receivables and other assets		(368)	29
Change in inventories (including proceeds from sale)		(18)	2
Change in extracted minerals and mineral products		3	9
Change in assets held for sale and related liabilities		-	(9)
Change in trade payables and other liabilities		179	66
Change in restricted cash		(2)	258
<b>Cash generated from (used in) operations</b>		<b>1,755</b>	<b>2,016</b>
Interest paid		(191)	(187)
Income taxes paid		(383)	(305)
<b>Cash flows generated from (used in) operating activities</b>		<b>1,181</b>	<b>1,524</b>

## Consolidated statement of cash flows (continued)

For the year ended 31 December 2017

In millions of EUR ("MEUR")

	Note	2017	2016
<b>INVESTING ACTIVITIES</b>			
Dividends received from associates and joint-ventures		-	1
Dividends received, other		10	5
Purchase of financial instruments		-	(30)
Change in financial instruments not at fair value		(26)	13
Loans provided to the owners		(428)	(50)
Loans provided to the other entities		(96)	(176)
Repayment of loans provided to other entities		-	21
Proceeds from sale of financial instruments - derivatives		(60)	206
Acquisition of property, plant and equipment, investment property and intangible assets	16, 17, 18	(441)	(543)
Purchase of emission rights	17	(23)	(104)
Proceeds from sale of emission rights		12	7
Proceeds from sale of property, plant and equipment, investment property and other intangible assets		39	23
Acquisition of associates and joint-ventures	6	-	(150)
Acquisition of subsidiaries, net of cash acquired	6	(135)	(39)
Net cash inflow from disposal of subsidiaries, joint-ventures and associates	6	-	69
(Increase) decrease in participation in existing subsidiaries, joint-ventures and associates		1,285	-
Interest received		2	7
<b>Cash flows from (used in) investing activities</b>		<b>139</b>	<b>(740)</b>
<b>FINANCING ACTIVITIES</b>			
Acquisition of own shares		(1,500)	-
Proceeds from loans received		588	2,105
Repayment of borrowings		(479)	(1,556)
Proceeds from bonds issued, net of transaction fees		143	115
Repayments of bonds issued		-	(378)
Finance fees paid from repayment of borrowings		(9)	(58)
Other financing cash flows		(4)	(12)
Dividends paid		(387)	(586)
<b>Cash flows from (used in) financing activities</b>		<b>(1,648)</b>	<b>(370)</b>
<i>Net increase (decrease) in cash and cash equivalents</i>		<i>(328)</i>	<i>414</i>
<b>Cash and cash equivalents at beginning of the year</b>		<b>1,136</b>	<b>706</b>
Effect of exchange rate fluctuations on cash held		8	16
<b>Cash and cash equivalents at end of the year</b>		<b>816</b>	<b>1,136</b>

The notes presented on pages 9 to 144 form an integral part of these consolidated financial statements.



## Notes to the consolidated financial statements

### 1. Background

Energetický a průmyslový holding, a.s. (the “Parent Company” or “the Company” or “EPH”) is a joint-stock company, with its registered office at Pařížská 130/26, 110 00 Praha 1, Czech Republic. The Company was founded on 7 August 2009 and entered in the Commercial Register on 10 August 2009.

The main activities of the Company are corporate investments in the energy and mining sectors. Besides power generation and mining activities the Group also operates in logistics and as a trading house.

On 24 February 2017 EPH completed the previously concluded agreement with a consortium of global institutional investors led by Macquarie Infrastructure and Real Assets (“MIRA”) on the sale of a 31% stake in EP Infrastructure, a.s., an energy infrastructure subholding focused on gas transmission, gas and power distribution, heat and power generation and gas storage (“EPIF”). The remaining 69% of EPIF remains with EPH, which will also retain management control over EPIF.

Following the sale of a minority shareholding in EPIF changes also occurred in the shareholder structure of EPH where at the end of the transaction Daniel Křetínský (94%) and selected members of the existing management of EPH (6%), became sole owners of EPH.

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 “EPH Group”) and the Group’s interests in associates and joint ventures. The Group entities are listed in Note 39 – Group entities.

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

<i>In millions of EUR</i>	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 <sup>(1)</sup>	-	30.00	-
<b>Total</b>	<b>152</b>	<b>100.00</b>	<b>100.00</b>

(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 the Company as at 31 December 2016 were as follows:

<i>In millions of EUR</i>	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
<b>Total</b>	<b>208</b>	<b>100.00</b>	<b>100.00</b>

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 (Member of the Board of Directors)
- Mgr. Pavel Horský (Member of the Board of Directors)
- Ing. Jan Špringl (Member of the Board of Directors)

### Transaction overview related to the shareholder structure of EPH Group

#### Changes in 2016

On 22 January 2016 own shares (acquired by EPH in 2014) were cancelled and the difference between the nominal value and purchase price in excess over the nominal value of EUR 932 million originally presented as a reserve for own shares was released to equity.

As at 28 April 2016 the voting rights of the shareholders of Energetický a průmyslový holding, a.s. changed and the structure of their resulting voting rights was as follows:

- BIQUES LIMITED 25.66%
- EP Investment S.à.r.l. 37.17%
- MILEES LIMITED 37.17%

#### **Changes in 2017**

On 26 January EP Investment S.à.r.l. acquired 2.1% shares in EPH from MILEES LIMITED. At the same time, EPH purchased 2.17% of own shares from each EP Investment S.à.r.l. and MILEES LIMITED. Subsequently on 27 January EP Investment II S.à.r.l. (new shareholder to EPH, controlled by Daniel Křetínský) acquired all shares in EPH from MILEES LIMITED. As a result of these transactions share capital decreased by EUR 8 million and the voting rights changed as follows:

- EP Investment S.à.r.l. 38.78%
- BIQUES LIMITED 26.83%
- EP Investment II S.à.r.l. 34.39%

On 24 February EPH purchased remaining 25.66% of own shares from BIQUES LIMITED. Share capital decreased by EUR 48 million to final amount of EUR 152 million and the difference between the nominal value and purchase price in excess over the nominal value of EUR 1 444 million was presented as a reserve for own shares. The structure of voting rights changed as follows:

- EP Investment S.à.r.l. 53%
- EP Investment II S.à.r.l. 47%

As at 31 December 2017, own shares were reported within EPH's equity as the shares were not yet cancelled.

In 2017 the Company carried out several acquisitions and sold several subsidiaries. The transactions are described in Note 6 – Acquisition and disposals of subsidiaries, joint ventures and associates.

## **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 31 May 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, EPH 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 6 and 17 – Accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill,
- Note 7 – Revenues,
- Note 31 – Measurement of defined benefit obligations, recognition and measurement of provisions,
- Notes 30, 33 and 37 – Valuation of loans and borrowings and financial instruments,
- Note 40 – Litigations.

#### ***Measurement of fair values***

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

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

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

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

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

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

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

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

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

## **ii. Judgements**

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

- Notes 6 and 17 – Accounting for business combinations, recognition of goodwill/negative goodwill, impairment testing of goodwill,
- Note 16 – Assessment that IFRIC 12 is not applicable to the gas pipeline, transportation and distribution networks,
- Note 31 – Measurement of defined benefit obligations, recognition and measurement of provisions,
- Note 33 – Own use exemption application for forward contracts on power and CO2 emission allowances,
- Note 33 and 37 – Hedge accounting application.

## **(e) Recently issued accounting standards**

### ***i. Newly adopted Standards, Amendments to standards and Interpretations effective for the year ended 31 December 2017 that have been applied in preparing the Group's financial statements***

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

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

The amendments require new disclosures that help users to evaluate changes in liabilities arising from financing activities, including changes from cash flows and non-cash changes (such as the effect of foreign exchange gains or losses, changes arising from 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 have no impact on the Group's financial statements because the Group has already measured future taxable profit in a manner consistent with the Amendments.

*ii. Standards not yet effective*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

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.

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

Certain comparative amounts in the consolidated statement of financial position have been regrouped or reclassified, where necessary, on a basis consistent with the current period.

#### (a) Basis of consolidation

##### *i. Subsidiaries*

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

##### *ii. Equity accounted investees*

Associates are enterprises in which the Group has significant influence, but not control, over financial and operating policies. Investments in associates are accounted for under the equity method and are initially recognised at cost (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 establishment of the Group and acquisition of certain new subsidiaries in the subsequent period. Such subsidiaries were acquired under common control of J&T Finance Group (which held controlling interest in the Group at the time of acquisition of the subsidiaries), and therefore excluded from the scope of IFRS 3, which defines recognition of goodwill raised from a 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 J&T Finance Group, a.s. (i.e. including historical goodwill less potential impairment). The difference between the cost of acquisition and carrying values of net assets of the acquiree and original goodwill carried forward as at the acquisition date were recorded to consolidated equity as pricing differences presented within other capital reserves.

**viii. *Reversal of accumulated amortisation, depreciation and bad debt allowances in common control acquisitions***

Accumulated amortisation and depreciation of intangible and tangible assets acquired as part of a common control transaction were reversed against the gross carrying amount of the underlying intangible and tangible assets, i.e. the intangible and tangible assets were recognised at their net book values as at the acquisition date.

Similarly, in acquisitions involving common control transactions, any bad debt allowances were reversed against gross amounts of purchased receivables as at the acquisition date.

**ix. *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 37 – 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. At disposal relevant part of translation reserve is recycled to financial income or expense in the statement of comprehensive income.

### **(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.

***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), investment properties (refer to accounting policy (k) – Investment property) and deferred tax assets (refer to accounting policy (o) – Income taxes) are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets that have an indefinite useful life or that are not yet available for use, the recoverable amount is estimated at least each year at the same time.

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

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



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

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

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

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

## ***ii. Financial assets (including trade and other receivables)***

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

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

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

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

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

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

**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 (n) – Finance income and costs). The cost also includes costs of dismantling and removing the items and restoring the site on which they are located.

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

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

**ii. Leased assets**

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

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

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

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

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

**iii. Free-of-charge received property**

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

**iv. Subsequent costs**

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



## **v. Depreciation**

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

The estimated useful lives are as follows:

• Power plant buildings and structures	50 – 100 years
• Buildings and structures	20 – 80 years
• Gas pipelines	30 – 70 years
• Machinery, electric generators, gas producers, turbines and boilers	7 – 50 years
• Mines and mine property	15 – 30 years
• Distribution network	10 – 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 issued by a government are initially recognised at fair values. Where an active market exists fair value should be based on the market price in accordance with IFRS 13. The fair value for allocated emission rights is determined as the price at the date of allocation. Emission rights that are purchased are initially recognised at cost.

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

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

#### *Impairment of emission rights*

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

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

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

#### *Recognition of grants*

A grant is initially recognised as deferred income and recognised in profit on a systematic basis over the compliance period, which is the relevant calendar year, regardless of whether the allowance received continues to be held by the entity. The pattern for the systematic recognition of the deferred income in profit is assessed based on estimated pollutants emitted in the current month, taking into account the estimated coverage of the estimated total annually emitted pollutants by allocated emission 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<sub>2</sub> emitted.

It is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. 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) Investment property**

Investment property is property held by the Group either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in production or supply of goods or services or for administrative purposes.

Investment property is measured at fair value, as determined by an independent registered valuer. Fair value is assessed based on current prices in an active market for similar properties in the same location and condition, or where not available, by applying generally applicable valuation methodologies. Any gain or loss arising from a change in fair value is recognised in profit or loss.

When the use of a property changes such that it is reclassified as property, plant and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Rental income from investment property is accounted for as described in the accounting policy (m) – Revenue.

**(l) Provisions**

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

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

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

**i. Employee benefits**

**Long-term employee benefits**

Liability relating to long-term employee benefits and service awards excluding pension plans is defined as an amount of the future payments, to which employees will be entitled in return for their service in the current and prior periods. Future liability which is calculated using the projected unit credit method is

discounted to its present value. The discount rate used is based on yields of high quality corporate bonds as at the end of the reporting period, which maturity approximately corresponds with the maturity of the future obligation. The revaluation of the net liability from defined benefit plans (including actuarial gains and losses) shall be recognised in full immediately in other comprehensive income.

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

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

#### *Pension plans*

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

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

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

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

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

#### **Short-term employee benefits**

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

#### **ii. Warranties**

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

#### **iii. Provision for lawsuits and litigations**

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

#### **iv. Provision for emission rights**

A provision for emission rights is recognised regularly during the year based on the estimated number of tonnes of CO<sub>2</sub> 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.

**(m) Revenue**

**i. Revenues from own products and goods sold and services rendered**

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

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

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

Revenues from connection fees to transmission network are accounted for as deferred income which is released in to the revenue for an economic life of connection.

Revenues from capacity reservation fee are recognized at the time the capacity in transmission network is assigned to shipper.

Revenues from gas in kind received from shippers are recognized at the moment the gas is received by the Group at its fair value.

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. Revenues from free-of-charge property***

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

### ***iv. Rental income***

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

## **(n) Finance income and costs**

### ***i. Finance income***

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

### ***ii. Finance costs***

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

### ***iii. Borrowing costs***

Borrowing costs that arise in connection with the acquisition, construction or production of a qualifying asset, from the time of acquisition or from the beginning of construction or production until entry into service, are capitalised and subsequently amortised alongside the related asset. In the case of a specific



financing arrangement, the respective borrowing costs for that arrangement are used. For non-specific financing arrangements, borrowing costs to be capitalised are determined based on a weighted average of the borrowing costs.

**(o) Income taxes**

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

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

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

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

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

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

**(p) Dividends**

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

**(q) Non-current assets held for sale and disposal groups**

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

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

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

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

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

**(r) Segment reporting**

Due to the fact that the Group issued debentures (Senior Secured Notes) which were listed on the Stock Exchange, the Company reports segmental information in accordance with IFRS 8.

Segment results that are reported to the Group's board of directors (the chief operating decision maker) include items directly attributable to the segment as well as those that can be allocated on a reasonable basis. The support is provided by four executive committees: a strategic committee, an investment committee, a risk management committee and a compliance committee.

#### **4. Determination of fair values**

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

##### **(a) Property, plant and equipment**

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

##### **(b) Intangible assets**

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

##### **(c) Investment property**

The fair value of investment property is determined by an independent registered valuer. The fair value is assessed based on current prices in an active market for similar properties in the same location and condition, or where not available, by applying generally applicable valuation methodologies that consider the aggregate of the estimated cash flows expected to be received from renting out the property. A yield that reflects the specific risks inherent in the net cash flows is then applied to the net annual cash flows to arrive at the property valuation (discounting).

Valuations reflect, when appropriate, the type of tenants actually in occupation or responsible for meeting lease commitments or likely to be in occupation after letting vacant accommodation, the allocation of maintenance and insurance responsibilities between the Group and the lessee, and the remaining economic life of the property. When rent reviews or lease renewals are pending with anticipated reversionary increases, it is assumed that all notices, and when appropriate counter-notices, have been served validly and within the appropriate time.

##### **(d) Inventories**

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

##### **(e) Non-derivative financial assets**

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

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

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

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

**(f) Non-derivative financial liabilities**

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

**(g) Derivatives**

The fair value of forward electricity 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. Operating segments

EPH is a leading Central European energy group that owns and operates assets in the Czech Republic, the Slovak Republic, Germany, Italy, the UK, Poland and Hungary. EPH is a vertically integrated energy company covering the complete value chain in the energy sector, including more than 50 companies operating in coal extraction, electricity and heat production from conventional and renewable sources, electricity and heat distribution, electricity and gas trade and their supply to final customers and, last but not least, EPH is an important regional player in various segments of the gas industry, including gas transmission, gas distribution and gas storage.

Following an internal reorganisation initiated at the end of 2015, EPH Group is centered around two main sub-holdings – EP Infrastructure (or “EPIF Group”) and EP Power Europe (or “EPPE Group”) – that are steered separately. Each group operates in reportable segments under IFRS 8 Operating Segments, which have been identified primarily on the basis of internal reports used by the Group’s “Chief operating decision maker” (Board of Directors) to allocate resources to the segments and assess their performance. Major indicators used by the Board of Directors to measure these segments’ performance is operating profit before depreciation, amortization and negative goodwill (or “EBITDA”) and capital expenditures.

### EP Infrastructure Group

The EPIF Group is a leading European energy infrastructure utility focused on gas transmission, gas and power distribution, heat and power generation and gas storage. With principal operations in the Slovak Republic and the Czech Republic, EP Infrastructure is a unique entity with a large and diverse infrastructure asset base.

The EPIF Group operates critical energy infrastructure through various subsidiaries in five reportable segments under IFRS 8: Gas transmission, Gas and power distribution, Gas storage, Heat Infra and Other.

### ***Gas Transmission***

The EPIF Group transports the natural gas (with the conditions ship or pay) through the Slovak Republic primarily based on a long term contract concluded with a gas supplier located in Russia. The contract entitles this gas supplier to use the gas pipelines in accordance with a transport capacity needed for the transportation of natural gas to the customers in central and Western Europe. The EPIF Group assessed the contractual conditions in the ship-or-pay arrangement and concluded that the arrangement does not include a derivative as the contract do not give flexibility to the EPIF Group that has always to provide its capacity to the customer. Revenue is recognised based on the contract (fixed element) and based on actual transmitted volume which drives the amount of gas-in-kind received from the shippers (see below).

eustream, a.s. provides access to the transmission network and transport services under this long term contract. The most significant user (shipper) of this network is the gas supplier located in Russia, other clients are typically significant European gas companies transporting natural gas from Russia and Asia sites to Europe.

The largest part of the transmission capacity is used based on the long-term contracts. Furthermore eustream, a.s. also concludes short term transportation contracts within the entry-exit system.

Transportation charges shall be reimbursed by the appropriate shipper directly to eustream, a.s. Since 2005 charges are fully regulated by Energy Regulatory Authority (“RONI”). The regulatory framework provides a stable and sustainable environment for the transmission business. The price regulation is based on benchmarking mechanism (price cap without a revenue ceiling), tariff is set on a basis of other EU operators, which create a range in which RONI sets a tariff. Once a contract is concluded it is fixed for a lifetime of the contract.

According to the regulated trade and price conditions the shipper provides part of charges in kind of natural gas used for operating purposes to cover the consumption of gas in the transmission network operation. In accordance with the regulated trade and price conditions the shipper is entitled to pay this part of charges also in cash.

Because of the contractual nature of the shipping arrangement with the Russian gas supplier, management carefully assessed the contractual conditions with the view of whether the contract includes any significant lease arrangement as per IFRIC 4, which could lead to a derecognition of the transmission pipelines. As

there is no indication that the Russian gas supplier is in control of the asset and there are several other shippers using the asset, management concluded that no material indications of such leasing relationship were noted and that the transmission pipeline should be recognised in eustream's fixed assets.

### ***Gas and Power Distribution***

The Gas and power distribution segment consists of Power distribution division, Gas distribution division and Supply division. The Power distribution division distributes electricity in the central Slovakia region while Gas distribution division is responsible for distribution of natural gas covering almost the complete gas distribution network in Slovakia. The Supply division primarily supplies power and natural gas to end-consumers in the Czech Republic and Slovakia. This segment is mainly represented by Stredoslovenská energetika, a.s., SPP – distribúcia, a.s., Stredoslovenská distribučná, a.s. (further "SSD") and EP ENERGY TRADING, a.s.

The subsidiary companies SPP - distribúcia and SSD, which provide distribution of natural gas and power, are required by law to provide non-discriminatory access to the distribution network. Prices are subject to the review and approval of RONI. Both entities operate under similar regulatory frameworks whereby allowed revenues are based on the Regulated Asset Base ("RAB") multiplied by the allowed regulatory WACC plus eligible operating expenditures and allowed depreciation in line with regulatory frameworks in other European countries. All key tariff parameters are set for a given regulatory period of five years (current regulatory period is 2017 – 2021).

Sales of natural gas to medium and large customers are subject to contracts for the delivery of gas concluded usually for one or more years. The prices agreed in the contracts usually include a capacity and commodity components.

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

### ***Gas Storage***

The Gas storage segment is represented by NAFTA a.s., SPP Storage, s.r.o. and POZAGAS a.s. which store natural gas under long-term contracts in underground storage facilities located in the Czech Republic and Slovakia.

The EPIF Group stores natural gas in two locations in the Czech Republic and Slovakia. The storage capacities are utilised for injection, withdrawal and storage of natural gas according to seasonal needs to ensure the standards of security of supply based on the valid legislation and to utilise short-term market volatility of gas prices. Charges for storage are agreed upon the period of contracts. Fee for storage depends primarily on the booked capacity per year and annual price indexes, furthermore products with higher deliverability and flexibility are priced with premium.

### ***Heat Infra***

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

### ***EPIF Other***

The Other segment owns and operates three solar power plants and holds a minority interest in an additional solar power plant and a majority interest in one wind farm in the Czech Republic. The EPIF Group also runs two solar power plants in Slovakia, and a biogas facility in Slovakia.

### **EP Power Europe Group**

The EPPE Group is unique energy utility which specializes on power generation, lignite mining, renewables and trading. It operates mainly in Italy, Germany, the UK, the Czech Republic and Slovakia.

The EPPE Group operates in three reportable segments under IFRS 8: Generation and Mining, Renewable energy and Other.

### ***Generation and Mining***

The Generation part of the segment is mainly represented by investments in assets that generate electricity in condensation mode and are also located in markets where there is an active capacity market or it is expected that such market shall be soon implemented. This segment is primarily composed of Ep Produzione S.P.A. and its subsidiaries, Ergosud S.P.A., EGGBOROUGH POWER LIMITED and recent acquisitions of EPH LANGAGE LIMITED, EP SHB LIMITED or Kraftwerk Mehrum GmbH.

The Mining part of the segment, represented by Mitteldeutsche Braunkohlengesellschaft GmbH, produces brown coal, which it supplies to power plants under long-term supply agreements. The two biggest customers – the Lippendorf and Schkopau-power plants – are highly efficient, state-of-the-art power plants operating in base load and are well positioned in the German power merit order.

Other entities included in the segment are: Lausitz Energie Kraftwerke AG, Kraftwerk Schwarze Pumpe GmbH, Lausitz Energie Bergbau AG, GMB GmbH and Transport- und Speditiongesellschaft Schwarze Pumpe mbH, which are consolidated by equity method or Helmstedter Revier GmbH.

### ***Renewable Energy***

The Renewable energy segment is mainly represented by recent acquisition of the biomass power plants Biomasse Crotone S.P.A. and Biomasse Italia S.P.A. The acquired companies operate in the energy valorization 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.

Other entity included in the segment is MIBRAG Neue Energie GmbH or LYNEMOUTH POWER LIMITED in which there is an exciting plan to convert the power station from coal burn generation to biomass.

### ***EPPE Other***

The EPPE Other segment is mainly represented by EP Commodities, a.s., which specializes in trading (wholesale) of gas, electricity and emission allowances CO<sub>2</sub> (potentially also financially in coal and oil).

### **The rest of EPH Group**

### ***EPH Other***

The segment EPH Other consists of companies which are not managed within the EPIF or EPPE Group.

Main entities within this segment are: EP Cargo Deutschland GmbH, EP CARGO POLSKA, S.A., EP Coal Trading Polska s.a., and a recent acquisition of SPEDICA Group which arranging complex logistical solutions for the segment's customers or Przedsiębiorstwo Górnicze SILESIA Sp. z o.o., MINING SERVICES AND ENGINEERING Sp. z o.o., and Slovenské elektrárne, a.s. and its subsidiaries.

### ***Holding entities***

The Holding entities segment mainly represents Energetický a průmyslový holding, a.s., EP Infrastructure, a.s., EP Energy, a.s., Slovak Gas Holding B.V., EPH Gas Holding B.V., Seattle Holding B.V., SPP Infrastructure, a.s., Czech Gas Holding Investment B.V., EP Power Europe, a.s., EPPE Italy N.V., EPPE Germany a.s., LEAG Holding, a.s., and Slovak Power Holding B.V.



The segment profit therefore primarily represents dividends received from its subsidiaries, finance expense and results from acquisition accounting or disposals of subsidiaries and associates.

## Profit or loss

### For the year ended 31 December 2017

<i>In millions of EUR</i>	EPIF Group					EPPE Group			EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
	Gas Transmission	Gas and Power Distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other					
Sales: Energy	755	1,771	185	556	5	1,973	43	1,303	153	6,744	-	(1,070)	5,674
<i>external revenues</i>	705	1,704	150	462	5	1,973	43	615	17	5,674	-	-	5,674
<i>inter-segment revenues</i>	50	67	35	94	-	-	-	688	136	1,070	-	(1,070)	-
Sales: Other	-	7	-	17	5	128	26	-	185	368	1	(12)	357
<i>external revenues</i>	-	7	-	17	4	128	26	-	174	356	1	-	357
<i>inter-segment revenues</i>	-	-	-	-	1	-	-	-	11	12	-	(12)	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net	-	(6)	-	-	-	-	-	(5)	-	(11)	-	(15)	(26)
<b>Total sales</b>	<b>755</b>	<b>1,772</b>	<b>185</b>	<b>573</b>	<b>10</b>	<b>2,101</b>	<b>69</b>	<b>1,298</b>	<b>338</b>	<b>7,101</b>	<b>1</b>	<b>(1,097)</b>	<b>6,005</b>
Cost of sales: Energy	(47)	(1,105)	(18)	(326)	-	(1,156)	(44)	(1,287)	(5)	(3,988)	-	949	(3,039)
<i>external cost of sales</i>	(43)	(867)	(17)	(293)	-	(538)	(44)	(1,232)	(5)	(3,039)	-	-	(3,039)
<i>inter-segment cost of sales</i>	(4)	(238)	(1)	(33)	-	(618)	-	(55)	-	(949)	-	949	-
Cost of sales: Other	-	(1)	-	(17)	(3)	(31)	(39)	-	(302)	(393)	1	139	(253)
<i>external cost of sales</i>	-	(1)	-	(17)	(3)	(28)	(39)	-	(166)	(254)	1	-	(253)
<i>inter-segment cost of sales</i>	-	-	-	-	-	(3)	-	-	(136)	(139)	-	139	-
Personnel expenses	(29)	(94)	(22)	(58)	(1)	(245)	(9)	(1)	(16)	(475)	(7)	-	(482)
Depreciation and amortisation	(88)	(163)	(19)	(72)	(3)	(178)	(1)	-	(3)	(527)	-	-	(527)
Repairs and maintenance	(1)	(4)	-	(2)	-	(47)	-	-	(1)	(55)	-	-	(55)
Emission rights, net	-	-	-	(20)	-	(84)	-	-	-	(104)	-	-	(104)
Negative goodwill	-	-	-	-	-	54	-	-	-	54	-	-	54
Taxes and charges	(1)	(1)	(3)	(3)	-	(59)	-	-	-	(67)	-	-	(67)
Other operating income	2	18	4	23	2	96	1	41	12	199	1	(91)	109
Other operating expenses	(15)	(34)	(2)	(13)	(2)	(228)	(12)	(53)	(10)	(369)	(25)	99	(295)
<b>Operating profit</b>	<b>576</b>	<b>388</b>	<b>125</b>	<b>85</b>	<b>3</b>	<b>223</b>	<b>(35)</b>	<b>(2)</b>	<b>13</b>	<b>1,376</b>	<b>(29)</b>	<b>(1)</b>	<b>1,346</b>

Notes to the consolidated financial statements of Energetický a průmyslový holding, a.s. as at and for the year ended 31 December 2017

<i>In millions of EUR</i>	EPIF Group					EPPE Group			EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other					
Finance income	3	1	4	2	-	14	1	1	14	40	*1,058	*(1,062)	36
<i>external finance revenues</i>	2	1	-	1	-	9	1	-	-	14	22	-	36
<i>inter-segment finance revenues</i>	1	-	4	1	-	5	-	1	14	26	*1,036	*(1,062)	-
Finance expense	(44)	(19)	(7)	(8)	(2)	(24)	(4)	(2)	(15)	(125)	(208)	99	(234)
Profit (loss) from financial instruments	-	(2)	(2)	1	-	(55)	10	14	(63)	(97)	34	13	(50)
Share of profit (loss) of equity accounted investees, net of tax	-	(1)	(3)	-	-	89	-	-	26	111	-	(4)	107
Gain (loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Profit (loss) before income tax</b>	<b>535</b>	<b>367</b>	<b>117</b>	<b>80</b>	<b>1</b>	<b>247</b>	<b>(28)</b>	<b>11</b>	<b>(25)</b>	<b>1,305</b>	<b>*855</b>	<b>*(955)</b>	<b>1,205</b>
Income tax expenses	(147)	(96)	(30)	(13)	-	(44)	7	(2)	(3)	(328)	-	-	(328)
<b>Profit (loss) for the year</b>	<b>388</b>	<b>271</b>	<b>87</b>	<b>67</b>	<b>1</b>	<b>203</b>	<b>(21)</b>	<b>9</b>	<b>(28)</b>	<b>977</b>	<b>*855</b>	<b>*(955)</b>	<b>877</b>

\* EUR 954 million is attributable to intra-group dividends primarily recognised by Czech Gas Holding Investment B.V., SPP Infrastructure, a.s. and EP Energy, a.s.

**Other financial information:**

EBITDA <sup>(1)</sup>	664	551	144	157	6	347	(34)	(2)	16	1,849	(29)	(1)	1,819
-----------------------	-----	-----	-----	-----	---	-----	------	-----	----	-------	------	-----	-------

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

**For the year ended 31 December 2016**

<i>In millions of EUR</i>	EPIF Group					EPPE Group			EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other					
Sales: Energy	760	1,691	192	577	5	1,452	1	678	72	5,428	-	(685)	4,743
<i>external revenues</i>	758	1,642	144	499	5	1,396	1	291	7	4,743	-	-	4,743
<i>inter-segment revenues</i>	2	49	48	78	-	56	-	387	65	685	-	(685)	-
Sales: Other	-	6	-	16	8	82	1	15	88	216	-	(23)	193
<i>external revenues</i>	-	6	-	16	6	82	1	15	67	193	-	-	193
<i>inter-segment revenues</i>	-	-	-	-	2	-	-	-	21	23	-	(23)	-
Gain (loss) from commodity derivatives for trading with electricity and gas, net	-	1	-	-	-	-	-	(6)	-	(5)	-	-	(5)
<b>Total sales</b>	<b>760</b>	<b>1,698</b>	<b>192</b>	<b>593</b>	<b>13</b>	<b>1,534</b>	<b>2</b>	<b>687</b>	<b>160</b>	<b>5,639</b>	<b>-</b>	<b>(708)</b>	<b>4,931</b>
Cost of sales: Energy	(39)	(1,158)	(20)	(339)	-	(703)	-	(674)	(3)	(2,936)	-	615	(2,321)
<i>external cost of sales</i>	(34)	(932)	(20)	(313)	-	(380)	-	(639)	(3)	(2,321)	-	-	(2,321)
<i>inter-segment cost of sales</i>	(5)	(226)	-	(26)	-	(323)	-	(35)	-	(615)	-	615	-
Cost of sales: Other	-	(2)	1	(17)	(5)	(53)	6	(10)	(109)	(189)	-	71	(118)
<i>external cost of sales</i>	-	(2)	1	(17)	(5)	(47)	6	(10)	(44)	(118)	-	-	(118)
<i>inter-segment cost of sales</i>	-	-	-	-	-	(6)	-	-	(65)	(71)	-	71	-
Personnel expenses	(32)	(89)	(22)	(57)	(1)	(277)	(9)	(1)	(12)	(500)	(3)	-	(503)
Depreciation and amortisation	(90)	(167)	(26)	(98)	(3)	(167)	(1)	-	(2)	(554)	-	-	(554)
Repairs and maintenance	(1)	(3)	-	(3)	-	(54)	-	-	(1)	(62)	-	-	(62)
Emission rights, net	1	-	-	(15)	-	(46)	-	-	-	(60)	-	-	(60)
Taxes and charges	(1)	(1)	(3)	(2)	-	(53)	-	-	-	(60)	-	-	(60)
Other operating income	6	20	-	11	-	31	-	-	5	73	1	(5)	69
Other operating expenses	(18)	(41)	(5)	(33)	(1)	(215)	(24)	(3)	(31)	(371)	(26)	41	(356)
<b>Operating profit</b>	<b>586</b>	<b>257</b>	<b>117</b>	<b>40</b>	<b>3</b>	<b>(3)</b>	<b>(26)</b>	<b>(1)</b>	<b>7</b>	<b>980</b>	<b>(28)</b>	<b>14</b>	<b>966</b>

Notes to the consolidated financial statements of Energetický a průmyslový holding, a.s. as at and for the year ended 31 December 2017

<i>In millions of EUR</i>	EPIF Group					EPPE Group			EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
	Gas Transmission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other					
Finance income	6	-	4	7	-	7	1	1	9	35	*889	*(883)	41
<i>external finance revenues</i>	6	-	-	6	-	4	1	-	1	18	23	-	41
<i>inter-segment finance revenues</i>	-	-	4	1	-	3	-	1	8	17	*866	*(883)	-
Finance expense	(45)	(19)	(8)	(16)	(2)	(43)	(2)	(1)	(9)	(145)	(261)	96	(310)
Profit (loss) from financial instruments	-	(2)	(1)	(3)	-	28	-	-	(13)	9	(68)	(4)	(63)
Share of profit (loss) of equity accounted investees, net of tax	-	-	3	-	-	281	-	-	37	321	3	(12)	312
Gain (loss) on disposal of subsidiaries, special purpose entities, joint ventures and associates	-	-	(4)	57	-	-	-	-	-	53	-	-	53
<b>Profit (loss) before income tax</b>	<b>547</b>	<b>236</b>	<b>111</b>	<b>85</b>	<b>1</b>	<b>270</b>	<b>(27)</b>	<b>(1)</b>	<b>31</b>	<b>1,253</b>	<b>*535</b>	<b>*(789)</b>	<b>999</b>
Income tax expenses	(120)	(35)	(27)	(6)	(1)	(15)	6	-	(1)	(199)	-	-	(199)
<b>Profit (loss) for the year</b>	<b>427</b>	<b>201</b>	<b>84</b>	<b>79</b>	<b>-</b>	<b>255</b>	<b>(21)</b>	<b>(1)</b>	<b>30</b>	<b>1,054</b>	<b>*535</b>	<b>*(789)</b>	<b>800</b>

\* EUR 786 million is attributable to intra-group dividends primarily recognised by Czech Gas Holding Investment B.V., SPP Infrastructure, a.s. and EP Energy, a.s.

**Other financial information:**

EBITDA <sup>(1)</sup>	676	424	143	138	6	164	(25)	(1)	9	1,534	(28)	14	1,520
-----------------------	-----	-----	-----	-----	---	-----	------	-----	---	-------	------	----	-------

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

## EBITDA reconciliation to the closest IFRS measure

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

### For the year ended 31 December 2017

*In millions of EUR*

	Gas Trans- mission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other	EPH Other	Total segments	Holding Entities	Inter- segment eliminations	Consolidated Financial Information
<b>Profit from operations</b>	<b>576</b>	<b>388</b>	<b>125</b>	<b>85</b>	<b>3</b>	<b>223</b>	<b>(35)</b>	<b>(2)</b>	<b>13</b>	<b>1,376</b>	<b>(29)</b>	<b>(1)</b>	<b>1,346</b>
Depreciation and amortisation	88	163	19	72	3	178	1	-	3	527	-	-	527
Negative goodwill	-	-	-	-	-	(54)	-	-	-	(54)	-	-	(54)
<b>EBITDA</b>	<b>664</b>	<b>551</b>	<b>144</b>	<b>157</b>	<b>6</b>	<b>347</b>	<b>(34)</b>	<b>(2)</b>	<b>16</b>	<b>1,849</b>	<b>(29)</b>	<b>(1)</b>	<b>1,819</b>

### For the year ended 31 December 2016

*In millions of EUR*

	Gas Trans- mission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other	EPH Other	Total segments	Holding Entities	Inter- segment eliminations	Consolidated Financial Information
<b>Profit from operations</b>	<b>586</b>	<b>257</b>	<b>117</b>	<b>40</b>	<b>3</b>	<b>(3)</b>	<b>(26)</b>	<b>(1)</b>	<b>7</b>	<b>980</b>	<b>(28)</b>	<b>14</b>	<b>966</b>
Depreciation and amortisation	90	167	26	98	3	167	1	-	2	554	-	-	554
Negative goodwill	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>EBITDA</b>	<b>676</b>	<b>424</b>	<b>143</b>	<b>138</b>	<b>6</b>	<b>164</b>	<b>(25)</b>	<b>(1)</b>	<b>9</b>	<b>1,534</b>	<b>(28)</b>	<b>14</b>	<b>1,520</b>

## Non-current assets and liabilities

### For the year ended 31 December 2017

*In millions of EUR*

	Gas Trans- mission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other	EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	2,719	4,028	836	1,089	38	3,144	741	238	710	13,543	3,456	(4,158)	12,841
Reportable segment liabilities	(1,888)	(1,524)	(485)	(676)	(41)	(2,220)	(513)	(222)	(437)	(8,006)	(6,268)	4,158	10,116
Additions to tangible and intangible assets	15	78	6	73	1	96	200	1	2	472	1	-	473
Additions to tangible and intangible assets (excl. emission rights)	14	77	5	48	1	92	200	1	2	440	1	-	441
Equity accounted investees	-	1	-	-	-	512	-	-	239	752	-	-	752

### For the year ended 31 December 2016

*In millions of EUR*

	Gas Trans- mission	Gas and Power distribution	Gas Storage	Heat Infra	EPIF Other	Generation and Mining	Renewable Energy	EPPE Other	EPH Other	Total segments	Holding Entities	Inter-segment eliminations	Consolidated Financial Information
Reportable segment assets	2,907	3,992	787	1,083	43	2,480	384	123	484	12,283	3,028	(3,336)	11,975
Reportable segment liabilities	(1,860)	(1,535)	(463)	(560)	(48)	(1,751)	(202)	(116)	(259)	(6,794)	(5,417)	3,330	(8,881)
Additions to tangible and intangible assets	12	95	18	85	-	253	188	-	6	657	-	-	657
Additions to tangible and intangible assets (excl. emission rights)	11	95	18	67	-	158	188	-	6	543	-	-	543
Equity accounted investees	-	2	28	14	-	438	-	-	202	684	28	-	712



## Information about geographical areas

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

### For the year ended 31 December 2017

*In millions of EUR*

	<b>Czech Republic</b>	<b>Slovakia</b>	<b>Germany</b>	<b>Italy</b>	<b>United Kingdom</b>	<b>Hungary</b>	<b>Other</b>	<b>Total segments</b>
Property, plant and equipment	789	5,772	596	435	791	39	8	8,430
Intangible assets	147	90	47	40	42	3	-	369
Investment property	3	-	-	-	-	-	-	3
<b>Total</b>	<b>939</b>	<b>5,862</b>	<b>643</b>	<b>475</b>	<b>833</b>	<b>42</b>	<b>8</b>	<b>8,802</b>

*In millions of EUR*

	<b>Czech Republic</b>	<b>Slovakia</b>	<b>Germany</b>	<b>Italy</b>	<b>United Kingdom</b>	<b>Hungary</b>	<b>Other</b>	<b>Total segments</b>
Sales: Electricity	315	868	174	1,259	367	23	37	3,043
Sales: Gas	255	1,050	169	-	174	-	341	1,989
Sales: Heat	274	-	2	-	-	68	1	345
Sales: Coal	13	11	267	-	-	-	3	294
Sales: Other energy products	2	-	-	-	1	-	-	3
Sales: Other	109	8	132	1	-	1	106	357
Gain (loss) from commodity derivatives for trading with electricity and gas, net	(26)	-	-	-	-	-	-	(26)
<b>Total</b>	<b>942</b>	<b>1,937</b>	<b>744</b>	<b>1,260</b>	<b>542</b>	<b>92</b>	<b>488</b>	<b>6,005</b>

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

**For the year ended 31 December 2016**

*In millions of EUR*

	<b>Czech Republic</b>	<b>Slovakia</b>	<b>Germany</b>	<b>Italy</b>	<b>United Kingdom</b>	<b>Hungary</b>	<b>Other</b>	<b>Total segments</b>
Property, plant and equipment	771	5,898	628	382	216	44	8	7,947
Intangible assets	135	114	69	28	48	4	-	398
Investment property	3	-	-	-	-	-	-	3
<b>Total</b>	<b>909</b>	<b>6,012</b>	<b>697</b>	<b>410</b>	<b>264</b>	<b>48</b>	<b>8</b>	<b>8,348</b>

*In millions of EUR*

	<b>Czech Republic</b>	<b>Slovakia</b>	<b>Germany</b>	<b>Italy</b>	<b>United Kingdom</b>	<b>Hungary</b>	<b>Other</b>	<b>Total segments</b>
Sales: Electricity	309	817	149	851	189	61	64	2,440
Sales: Gas	197	1,190	46	3	145	-	94	1,675
Sales: Heat	282	-	2	-	-	73	1	358
Sales: Coal	22	2	242	-	-	-	2	268
Sales: Other energy products	1	-	-	-	1	-	-	2
Sales: Other	44	11	85	12	2	-	39	193
Gain (loss) from commodity derivatives for trading with electricity and gas, net	(5)	-	-	-	-	-	-	(5)
<b>Total</b>	<b>850</b>	<b>2,020</b>	<b>524</b>	<b>866</b>	<b>337</b>	<b>134</b>	<b>200</b>	<b>4,931</b>

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

## 6. Acquisitions and disposals of subsidiaries, joint ventures and associates

### (a) Acquisitions and step acquisitions

#### i. 31 December 2017

*In millions of EUR*

	Date of acquisition	Purchase price	Cash paid	Other consideration	Purchase price liability	Equity interest acquired %	Equity interest after acquisition %
<b>New subsidiaries</b>							
SPEDICA GROUP COMPANIES, s.r.o. and its subsidiaries (Spedica Group)	30/01/2017	-	-	-	-	(1)-	(1)-
EP SHB LIMITED and EP LANGAGE LIMITED	31/08/2017	86	(86)	-	-	100	100
Kraftwerk Mehrum GmbH	1/11/2017	1	(1)	-	-	100	100
POZAGAS a.s.	12/12/2017	73	(22)	(2)(51)	-	30	(3)100
EP New Energy Italia S.R.L., and its subsidiaries (EPNEI Group)	15/12/2017	121	(100)	-	(4)(21)	100	100
<b>Total</b>		<b>281</b>	<b>(209)</b>	<b>(51)</b>	<b>(21)</b>	<b>-</b>	<b>-</b>

(1) Equity interest within the Group varies, for details refer to Note 39 – Group entities.

(2) Fair value of interest already held as at the date of step acquisition.

(3) Effective ownership of EPH Group is 42.77%.

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

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

#### Spedica Group

On 30 January 2017, the EPH Group completed the transaction for purchase of 67.33% share in SPEDICA GROUP COMPANIES, s.r.o. and became a majority shareholder of the company. Spedica Group comprises several companies providing services in rail, sea and road transport. Integrating the activities of these two partners will strengthen their position on the transport and logistics market and enable them to offer customers a more comprehensive and wide range of services.

#### EP LANGAGE LIMITED and EP SHB LIMITED

On 31 August 2017, the EPH Group through EP UK INVESTMENTS LTD, a subsidiary of EP Power Europe a.s., 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 power stations with a combined capacity of 2.3 GW. The acquisition is part of EPH's strategy to extend its presence in the UK, where EPH already owns Eggborough and Lynemouth power stations.

#### Kraftwerk Mehrum GmbH

On 1 November 2017, the EPH Group through its subsidiary EP Power Europe, a.s. 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, the EPH Group through its subsidiary EP Power Europe, a.s. 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.

### Step acquisition

On 12 December 2017 NAFTA a.s. acquired a 30% share in POZAGAS a.s. for EUR 22 million. This transaction resulted in change of the Group's ownership interest in POZAGAS a.s. to 42.77% and EPH Group obtained control of this entity (indirect control through subsidiary company NAFTA a.s. holding 65% interest in POZAGAS a.s. and SPP Infrastructure, a.s. holding 35% interest in POZAGAS a.s.).

### Acquisition of non-controlling interest

On 2 June 2017 Pražská teplárenská, a.s. acquired a 5% share in PT Transit, a.s. (previously Energotrans SERVIS a.s.) This transaction resulted in a total change of ownership interest of Pražská teplárenská, a.s. in PT Transit, a.s. from 95% to 100% share and derecognition of non-controlling interest in amount of EUR 3 million.

On 14 December 2017 PT Holding Investments B.V. ("PTHI") acquired 51% in Pražská teplárenská Holding a.s. ("PTH") that holds 47.42% in Pražská teplárenská a.s. ("PT") and two other minor companies (see note 39 – Group entities). The PTHI increased by this transaction its shareholding in PTH from 49% to 100% and effectively the Group increased its shareholding in PT from 50.93% to 67.62%. PTHI paid for the share in PTH EUR 121 million and gained control over cash held by PTH of EUR 13 million (net cash paid EUR 108 million) and derecognized non-controlling interest of EUR 47 million.

### 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 %
<b>New subsidiaries</b>						
LYNEMOUTH POWER LIMITED	05/01/2016	53	(53)	-	100	100
ABS PROPERTY LIMITED	31/05/2016	2	-	<sup>(1)</sup> (2)	100	100
<b>Total</b>		<b>55</b>	<b>(53)</b>	<b>(2)</b>	<b>-</b>	<b>-</b>

(1) As at 31 December 2016 the purchase price liability was not settled yet.

In millions of EUR

	Date of acquisition	Equity interest acquired %	Equity interest after acquisition %
<b>New associates and joint ventures</b>			
SPH Group <sup>(1)</sup>	28/07/2016	<sup>(3)</sup> 33	<sup>(3)</sup> 33
LEAG Group <sup>(2)</sup>	01/10/2016	50	50
<b>Total</b>		<b>-</b>	<b>-</b>

(1) Comprising Slovak Power Holding B.V., Slovenské elektrárne a.s., Centrum pre vedu a výskum, s.r.o.; Ochrana a bezpečnosť SE, a.s.; SE Predaj, s.r.o.; Slovenské elektrárne Česká republika, s.r.o.; SE Služby inžinierskych stavieb, s.r.o.; REAKTORTEST, s.r.o.; Chladiace veže Bohunice, spol. s r.o. and ÚJV Řež, a.s.

(2) 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.

(3) Represents equity interest acquired in Slovenské elektrárne, a.s. and SE Predaj, s.r.o. For other individually immaterial acquired associates, equity interest varies, for details refer to Note 39 – Group entities.

### SPH Group

On 18 December 2015, EP Slovakia B.V. ("EP Slovakia"), EPH's subsidiary, signed an agreement with Enel Produzione SpA ("Enel Produzione"), a subsidiary of Enel SpA, on the sale of Enel Produzione's share in Slovenské elektrárne, a.s. ("Slovenské elektrárne"). Under the sale, the entire 66% share in Slovenské elektrárne held by Enel Produzione was transferred to Slovak Power Holding B.V. ("SPH"). EP Slovakia may then acquire up to 100% of the registered capital of SPH. The transfer of SPH to EP Slovakia is to be carried out in two stages:

1. In the first stage, Enel Produzione sold a 50% share in the registered capital of SPH to EP Slovakia for EUR 375 million, of which EUR 150 million was paid upon the closing of the first stage, and the remaining EUR 225 million will be paid by EPH upon the closing of the second stage. The final cost may be different as it will be adjusted using a mechanism described below. This transaction (i. e. the acquisition of the first 33% share) was completed on 31 July 2016.

2. The second stage involves a put or call option which may be used by Enel Produzione or EP Slovakia within 12 months from the date on which the Mochovce Power Plant receives a permit for the trial operation of the reactors of the third and fourth block, currently under construction. Upon the use of either option, Enel Produzione will transfer the remaining 50% share in the registered capital of SPH to EP Slovakia for consideration of another EUR 375 million. This amount will be payable upon closing the transaction and is also subject to the adjustment mechanism described below. The final settlement and the closing of the second stage is conditional upon obtaining of a final permit for commercial operation of the third and fourth block of the Mochovce Power Plant.

As mentioned above, the total price for Enel Produzione's 66% share in Slovenské elektrárne, i.e. EUR 750 million (of which EUR 150 million was paid in cash upon closing of the first stage), will be subject to an adjustment mechanism. The adjustment will be determined by independent experts and applied upon closing of the second stage of the transaction and will reflect certain parameters, including the change in the net financial position of Slovenské elektrárne, the development of energy prices on the Slovak markets, the efficiency of operation of Slovenské elektrárne (as compared to reference values laid down in the agreement) and the enterprise value of the third and fourth block of the Mochovce Power Plant. As at 31 December 2016, the Group recognised the estimated deferred contingent consideration from the first stage of the transaction of EUR 6 million (refer to Note 34 – Trade payables and other liabilities).

### **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 EPH, 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 19 – 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****Subsidiaries**

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

*In millions of EUR*

	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2017 Total<sup>(1)</sup></b>
Property, plant, equipment, land, buildings	513	1	514
Intangible assets	11	-	11
Trade receivables and other assets	115	(1)	114
Financial instruments – assets	1	-	1
Inventories	68	-	68
Cash and cash equivalents	74	-	74
Deferred tax asset	1	5	6
Provisions	(44)	(21)	(65)
Deferred tax liabilities	(14)	1	(13)
Loans and borrowings	(335)	(1)	(336)
Financial instruments – liabilities	(3)	-	(3)
Trade payables and other liabilities	(74)	-	(74)
<b>Net identifiable assets and liabilities</b>	<b>313</b>	<b>(16)</b>	<b>297</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			38
Negative goodwill on acquisition of new subsidiaries			(54)
<b>Cost of acquisition</b>			<b>281</b>
Consideration paid, satisfied in cash (A)			209
Purchase price liability			21
Consideration, other			51
<b>Total consideration transferred</b>			<b>281</b>
Less: Cash acquired (B)			74
<b>Net cash inflow (outflow) (C) = (B – A )</b>			<b>(135)</b>

*(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 and ABS PROPERTY LIMITED are provided in the following table.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2016 Total<sup>(1)</sup></b>
Property, plant, equipment, land, buildings	15	-	15
Intangible assets	-	43	43
Trade receivables and other assets	12	-	12
Inventories	2	-	2
Cash and cash equivalents	14	-	14
Deferred tax asset	1	-	1
Provisions	(11)	-	(11)
Deferred tax liabilities	-	(9)	(9)
Loans and borrowings	(5)	-	(5)
Trade payables and other liabilities	(7)	-	(7)
<b>Net identifiable assets and liabilities</b>	<b>21</b>	<b>34</b>	<b>55</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			-
<b>Cost of acquisition</b>			<b>55</b>
Consideration paid, satisfied in cash (A)			53
Purchase price liability			2
<b>Total consideration transferred</b>			<b>55</b>
Less: Cash acquired (B)			14
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>(39)</b>

(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 SPH Group and LEAG Group are provided in the following table.

<i>In millions of EUR</i>	<b>2016 Total</b>
Non-current assets	6,440
Current assets	3,405
<b>Fair value of assets</b>	<b>9,845</b>
Non-current liabilities	(7,754)
Current liabilities	(1,111)
<b>Fair value of liabilities</b>	<b>(8,865)</b>
<b>Fair value of identifiable net assets</b>	<b>980</b>
Net asset value attributable to the Group's share	410
<b>Negative goodwill</b>	<b>254</b>

For details on major acquisitions please refer also to Appendix 1 – Business combinations and Appendix 2 – Acquisitions of associates and joint ventures.



### **iii. Rationale for acquisitions**

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

- The subsidiaries' businesses are complementary to EPH'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, EPH is investing both in energy companies and in companies supplying the energy industry. The Group's current aim is to further strengthen its position, and become an important participant in the energy market 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 151 million. For the development of historical goodwill, please refer to Note 17 – Intangible assets (including goodwill).

In 2017, the Group recognised goodwill of EUR 38 million from the acquisition of EPNEI Group and Spedica 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 as 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.

<i>In millions of EUR</i>	<b>2017 Total</b>
Revenue of the acquirees recognised since the acquisition date	255
Profit (loss) of the acquirees recognised since the acquisition date	25

<i>In millions of EUR</i>	<b>2016 Total</b>
Revenue of the acquirees recognised since the acquisition date	16
Profit (loss) of the acquirees recognised since the acquisition date	(22)

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.

<i>In millions of EUR</i>	<b>2017 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2017*	610
Profit (loss) of the acquirees recognised in the year ended 31 December 2017*	14

*In millions of EUR*

	<b>2016 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2016*	16
Profit (loss) of the acquirees recognised in the year ended 31 December 2016*	(22)

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

For details on major acquisitions please refer also to Appendix 1 – Business combinations and Appendix 2 – Acquisition of associates and joint ventures.

**(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:

<i>In millions of EUR</i>	<b>Property, plant and equipment</b>	<b>Intangi- ble assets</b>	<b>Trade receivables and other assets</b>	<b>Provi- sions</b>	<b>Deferred tax asset/ (liability)</b>	<b>Loans and borrowings</b>	<b>Total net effect on financial position</b>
<b>Subsidiary</b>							
EP SHB LIMITED and EP LANGUAGE LIMITED	(3)	-	-	(1)	<sup>(1)</sup> 1	(1)	(4)
Kraftwerk Mehrum GmbH	1	10	-	(18)	5	-	(2)
POZAGAS a.s.	4		(1)	(2)	-	-	1
EP New Energy Italia S.R.L. and its subsidiaries	(1)	-	-	-	-	-	(1)
	<b>1</b>	<b>10</b>	<b>(1)</b>	<b>(21)</b>	<b>6</b>	<b>(1)</b>	<b>(6)</b>

(1) Represents decrease in deferred tax liability.

The fair value adjustments resulting from the purchase price allocation of Spedica Group were not significant and therefore management of the Group decided not to recognise any fair value adjustment resulting from these business combinations in 2017.

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

<i>In millions of EUR</i>	<b>Intangible assets</b>	<b>Deferred tax asset/ (liability)</b>	<b>Total net effect on financial position</b>
<b>Subsidiary</b>			
LYNEMOUTH POWER LIMITED	43	(9)	34
	<b>43</b>	<b>(9)</b>	<b>34</b>

The fair value adjustments resulting from the purchase price allocation of ABS PROPERTY LIMITED were not significant and therefore management of the Group decided not to recognise any fair value adjustment resulting from this business combination in 2016.

**(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.

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

**Disposal of 31% interest in EPIF Group**

On 24 February 2017, EPH completed the previously concluded agreement with a consortium of global institutional investors led by Macquarie Infrastructure and Real Assets (MIRA) on the sale of a 31% stake in EPIF Infrastructure, a.s., its subsidiaries and associates (for structure of EPIF Group, refer to note 39 – Group entities). The remaining 69% of EPIF Group remains with EPH, which retains management control over EPIF. EPH recognized non-controlling interest of EUR 36 million as a result of the transaction. The difference between consideration received and non-controlling interest recognized was recorded directly in equity.

**ii. 31 December 2016**

On 31 May the Group disposed Pražská teplárenská LPZ, a.s. and on 31 December the Group accounted for a deconsolidation effect (due to immateriality) of its investment in Karotáž a cementace, s.r.o. These effects are provided in the following table:

<i>In millions of EUR</i>	<b>Net assets sold in 2016</b>
Property, plant and equipment	27
Trade receivables and other assets	8
Cash and cash equivalents	13
Deferred tax liabilities	(3)
Trade payables and other liabilities	(7)
<b>Net identifiable assets and liabilities</b>	<b>38</b>
Non-controlling interest	(9)
<b>Net assets value disposed</b>	<b>29</b>
Sales price	82
<b>Gain (loss) on disposal</b>	<b>53</b>

**7. Sales**

<i>In millions of EUR</i>	<b>2017</b>	<b>2016</b>
<b>Sales: Energy</b>		
<i>of which: Electricity</i>	3,043	2,440
<i>Gas</i>	1,989	1,675
<i>Heat</i>	345	358
<i>Coal</i>	294	268
<i>Other</i>	3	2
<b>Total Energy</b>	<b>5,674</b>	<b>4,743</b>
<b>Sales: Other</b>	<b>357</b>	<b>193</b>
<b>Gain (loss) from commodity derivatives for trading with electricity and gas, net</b>	<b>(26)</b>	<b>(5)</b>
<b>Total</b>	<b>6,005</b>	<b>4,931</b>

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

**8. Cost of sales**

<i>In millions of EUR</i>	<b>2017</b>	<b>2016</b>
<b>Cost of Sales: Energy</b>		
<i>Consumption of coal and other material</i>	967	663
<i>Cost of sold electricity</i>	967	920
<i>Cost of sold gas and other energy products</i>	825	499
<i>Consumption of energy</i>	139	129
<i>Other cost of sales</i>	141	110
<b>Total Energy</b>	<b>3,039</b>	<b>2,321</b>
<b>Cost of Sales: Other</b>		
<i>Other cost of goods sold</i>	154	49
<i>Other cost of sales</i>	75	41
<i>Consumption of material</i>	15	15
<i>Consumption of energy</i>	8	10
<i>Changes in WIP, semi-finished products and finished goods</i>	1	3
<b>Total Other</b>	<b>253</b>	<b>118</b>
<b>Total</b>	<b>3,292</b>	<b>2,439</b>

Cost of sales presented in the above table contains only cost of purchased energy and purchased materials consumed in producing energy output, it does not contain directly attributable overheads (particularly personnel expenses, depreciation and amortisation, repairs and maintenance, emission rights, taxes and charges etc.).

**9. Personnel expenses**

<i>In millions of EUR</i>	<b>2017</b>	<b>2016</b>
Wages and salaries	323	327
Compulsory social security contributions	102	102
Expenses and revenues related to employee benefits (IAS 19)	25	4
Board members' remuneration (including boards of subsidiaries)	11	41
Other social expenses	21	29
<b>Total</b>	<b>482</b>	<b>503</b>

The average number of employees during 2017 was 10,237 (2016: 10,310), of which 229 were executives (2016: 198).

**10. Emission rights**

<i>In millions of EUR</i>	<b>2017</b>	<b>2016</b>
Deferred income (grant) released to profit and loss	10	11
Profit (loss) from sale of emission rights	(12)	1
Creation of provision for emission rights	(102)	(72)
Use of provision for emission rights	80	90
Consumption of emission rights	(80)	(90)
<b>Total</b>	<b>(104)</b>	<b>(60)</b>

The Ministries of the Environment of the Czech Republic, Slovakia, Germany, Hungary, 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 United Energy, a.s., Plzeňská energetika a.s., Pražská teplárenská a.s., Elektrárny Opatovice, a.s., SPP Storage, s.r.o., JTSD - Braunkohlebergbau GmbH, Helmstedter Revier GmbH, Kraftwerk Mehrum GmbH, Stredoslovenská energetika, a.s., NAFTA a.s., eustream, a.s., Budapesti Erőmű Zrt., EGGBOROUGH POWER LIMITED, LYNEMOUTH POWER LIMITED, Fiume Santo S.P.A., Centro Energia Ferrara S.R.L. and Ep Produzione S.P.A.

**11. Taxes and charges**

<i>In millions of EUR</i>	<b>2017</b>	<b>2016</b>
Carbon price support <sup>(1)</sup>	41	35
Property tax and real estate transfer tax	10	11
Electricity tax	7	7
Other taxes and charges expenses (revenues)	9	7
<b>Total</b>	<b>67</b>	<b>60</b>

(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.

## 12. Other operating income

<i>In millions of EUR</i>	<b>2017</b>	<b>2016</b>
Compensation from insurance companies	27	9
Profit from disposal of tangible and intangible assets	18	3
Consulting fees	9	6
Rental income	8	7
Property acquired free-of-charge and fees from customers	7	7
Profit from sale of material	5	2
Ecological tax reimbursement	5	5
Revenues from written off liabilities	4	-
Transportation revenues	4	-
Contractual penalties	3	1
Inventories surplus	1	5
Fee and commission income – intermediation	-	1
Other	18	23
<b>Total</b>	<b>109</b>	<b>69</b>

## 13. Other operating expenses

<i>In millions of EUR</i>	<b>2017</b>	<b>2016</b>
Office equipment and other material	53	53
Change in provisions, net	48	23
Consulting expenses	47	49
Outsourcing and other administration fees	44	37
Rent expenses	34	31
Information technologies costs	16	19
Insurance expenses	15	17
Transport expenses	12	11
Re-transmission fee <sup>(1)</sup>	9	6
Impairment losses	6	47
<i>Of which relates to:</i>		
<i>Goodwill</i>	-	29
<i>Property, plant and equipment and intangible assets</i>	1	12
<i>Trade receivables and other assets</i>	3	5
<i>Inventories</i>	2	1
Fees and commissions expense – intermediation	6	7
Gifts and sponsorship	4	5
Advertising expenses	4	4
Training, courses, conferences	3	3
Security services	3	3
Communication expenses	2	2
Shortages and damages	1	21
Loss from written off receivables	1	2
Contractual penalties	-	5
Environmental expenses	-	1
Own work capitalised to fixed assets	(43)	(45)
Other	30	55
<b>Total</b>	<b>295</b>	<b>356</b>

(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.

### Fees payable to statutory auditors

<i>In millions of EUR</i>	<b>2017</b>	<b>2016</b>
Statutory audits	1	1
Other attestation services	-	-
<b>Total</b>	<b>1</b>	<b>1</b>



The figures presented above include expenses recorded by all subsidiaries and also associates and joint-ventures consolidated using the equity method in 100% amount. Statutory audits include fees payable for statutory audits of financial statements. Other attestation services include all other audit engagements such as audits of entry/exit reporting packages, extraordinary statutory audits, half-year reviews, audits of valuations, etc.

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

##### Recognised in profit or loss

*In millions of EUR*

	2017	2016
Interest income	24	25
Dividend income	10	6
Revenue from released deferred earn-out	-	6
Other finance income	2	4
<b>Finance income</b>	<b>36</b>	<b>41</b>
Interest expense incl. various financing and refinancing related fees	(196)	(243)
Net foreign exchange loss	(15)	(29)
Interest expense from unwind of provision discounting	(14)	(17)
Fees and commissions expense for payment transactions	(1)	(1)
Fees and commissions expense for guarantees	(1)	(1)
Fees and commissions expense relating to disposal of a minority <sup>(1)</sup>	-	(12)
Fees and commissions expense for other services	(7)	(7)
<b>Finance expense</b>	<b>(234)</b>	<b>(310)</b>
Profit (loss) from other derivatives for trading	11	(1)
Profit (loss) from hedging derivatives	6	17
Profit (loss) from currency derivatives for trading	(11)	11
Impairment losses on financial assets	(17)	(73)
Profit (loss) from commodity derivatives for trading	(39)	3
Profit (loss) from assets at fair value	-	(2)
Profit (loss) from interest rate derivatives for trading <sup>(2)</sup>	-	(18)
<b>Profit (loss) from financial instruments</b>	<b>(50)</b>	<b>(63)</b>
<b>Net finance income (expense) recognised in profit or loss</b>	<b>(248)</b>	<b>(332)</b>

(1) This position represents various expenses and fees EPH paid in relation to the process of sale of a minority share in EP Infrastructure, a.s., the process of which was completed on 24 February 2017.

(2) All derivatives are for the risk management purposes.

## 15. Income tax expenses

### Income taxes recognised in profit or loss

*In millions of EUR*

	2017	2016
<i>Current taxes:</i>		
Current year	(362)	(286)
Adjustment for prior periods	(4)	(5)
<b>Total current taxes</b>	<b>(366)</b>	<b>(291)</b>
<i>Deferred taxes:</i>		
Origination and reversal of temporary differences	38	(1)92
<b>Total deferred taxes</b>	<b>38</b>	<b>92</b>
<b>Total income taxes (expense) benefit recognised in profit or loss</b>	<b>(328)</b>	<b>(199)</b>

(1) The reason for the decrease in deferred tax liability is change in corporate income tax rate in Slovakia from 22% to 21% and in Hungary from 19% to 9% effective from start of the year 2017.

Deferred taxes are calculated using currently enacted tax rates expected to apply when the asset is realised or the liability settled. According to Czech legislation the corporate income tax rate is 19% for fiscal years 2017 and 2016. The Slovak corporate income tax rate is 21% for fiscal year 2017 (2016: 22%). The German federal income tax rate range for 2017 is 28.66% – 30.00% (2016: 28.22% – 29.13%) and Poland income tax rate for fiscal years 2017 and 2016 is 19%. Italian income tax rate for fiscal year 2017 is 24% (2016: 27.50%) and Hungarian income tax rate for fiscal year 2017 is 9% (2016: 19%). British income tax rate for fiscal year 2017 is 19% (2016: 20%). Current year income tax includes also special sector tax effective in Slovakia and Hungary.

### Income tax recognised in other comprehensive income

*In millions of EUR*

	2017		
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	(139)	-	(139)
Foreign currency translation differences from presentation currency	126	-	126
Effective portion of changes in fair value of cash-flow hedges	8	(5)	3
Fair value reserve included in other comprehensive income	(8)	(1)	(9)
<b>Total</b>	<b>(13)</b>	<b>(6)</b>	<b>(19)</b>

*In millions of EUR*

	2016		
	Gross	Income tax	Net of income tax
Foreign currency translation differences for foreign operations	(1)	-	(1)
Foreign currency translation differences from presentation currency	(3)	-	(3)
Effective portion of changes in fair value of cash-flow hedges	134	(18)	116
Fair value reserve included in other comprehensive income	(26)	-	(26)
<b>Total</b>	<b>104</b>	<b>(18)</b>	<b>86</b>

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		1,205		999
Income tax using the Company's domestic rate (19%)	19.0%	229	19.0%	190
Effect of tax rates in foreign jurisdictions	2.8%	34	4.7%	47
Non-deductible expenses <sup>(1)</sup>	3.2%	38	4.6%	46
Other non-taxable income <sup>(2)</sup>	(5.0%)	(60)	(9.4%)	(94)
Change in tax rate <sup>(3)</sup>	-	-	(4.5%)	(45)
Effect of special levy for business in regulated services	5.3%	64	3.4%	34
Current year losses for which no deferred tax asset was recognised	1.6%	19	0.8%	8
Withholding tax, income tax adjustments for prior periods	0.3%	4	1.1%	11
Effect of different tax rate used for deferred tax from local tax rate	-	-	0.2%	2
<b>Income taxes recognised in profit or loss</b>	<b>27.2%</b>	<b>328</b>	<b>19.9%</b>	<b>199</b>

(1) The basis consists mainly of non-deductible interest expense of EUR 62 million (2016: EUR 92 million) and creation of provisions of EUR 65 million.

(2) The basis consists mainly of share of profit of equity accounted investees of EUR 107 million (2016: EUR 312 million), release of provision for impairment losses of EUR 48 million (2016: EUR 0 million), negative goodwill of EUR 54 million (2016: EUR 0 million) and non-taxable interest income of EUR 20 million (2016: EUR 9 million).

(3) The reason for the decrease in deferred tax liability in 2016 is change in corporate income tax rate in Slovakia from 22% to 21% and in Hungary from 19% to 9% effective from start of the year 2017.

## 16. Property, plant and equipment

*In millions of EUR*

	Land and buildings	Gas pipelines	Technical equipment, plant and machinery	Other equipment, fixtures and fittings	Under construction	Total
<b>Cost</b>						
<b>Balance at 1 January 2017</b>	<b>2,256</b>	<b>4,513</b>	<b>2,977</b>	<b>15</b>	<b>314</b>	<b>10,075</b>
Effects of movements in foreign exchange rates	42	1	45	-	(10)	78
Additions	55	2	97	1	276	431
Additions through business combinations <sup>(1)</sup>	71	-	440	1	2	514
Disposals	(11)	(4)	(20)	-	(4)	(39)
Transfers	25	38	62	-	(125)	-
Transfer to disposal group held for sale	(4)	-	-	-	-	(4)
<b>Balance at 31 December 2017</b>	<b>2,434</b>	<b>4,550</b>	<b>3,601</b>	<b>17</b>	<b>453</b>	<b>11,055</b>
<b>Depreciation and impairment losses</b>						
<b>Balance at 1 January 2017</b>	<b>(534)</b>	<b>(513)</b>	<b>(1,069)</b>	<b>(6)</b>	<b>(6)</b>	<b>(2,128)</b>
Effects of movements in foreign exchange rates	(12)	-	(18)	-	-	(30)
Depreciation charge for the year	(102)	(119)	(264)	(2)	(1)	(488)
Disposals	5	3	14	-	-	22
Impairment losses recognised in profit or loss	(6)	-	-	-	5	(1)
<b>Balance at 31 December 2017</b>	<b>(649)</b>	<b>(629)</b>	<b>(1,337)</b>	<b>(8)</b>	<b>(2)</b>	<b>(2,625)</b>
<b>Carrying amounts</b>						
<b>At 1 January 2017</b>	<b>1,722</b>	<b>4,000</b>	<b>1,908</b>	<b>9</b>	<b>308</b>	<b>7,947</b>
<b>At 31 December 2017</b>	<b>1,785</b>	<b>3,921</b>	<b>2,264</b>	<b>9</b>	<b>451</b>	<b>8,430</b>

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

<i>In millions of EUR</i>	<b>Land and buildings</b>	<b>Gas pipelines</b>	<b>Technical equipment, plant and machinery</b>	<b>Other equipment, fixtures and fittings</b>	<b>Under construction</b>	<b>Total</b>
<b>Cost</b>						
<b>Balance at 1 January 2016</b>	<b>2,224</b>	<b>4,490</b>	<b>2,746</b>	<b>7</b>	<b>149</b>	<b>9,616</b>
Effects of movements in foreign exchange rates	(9)	-	(4)	-	(5)	(18)
Additions	59	4	172	3	288	526
Additions through business combinations <sup>(1)</sup>	1	-	9	5	-	15
Disposals	(11)	(5)	(20)	-	(10)	(46)
Disposed entities <sup>(2)</sup>	(33)	-	(10)	-	-	(43)
Transfers	19	24	65	-	(108)	-
Transfer from disposal group held for sale <sup>(3)</sup>	6	-	19	-	-	25
<b>Balance at 31 December 2016</b>	<b>2,256</b>	<b>4,513</b>	<b>2,977</b>	<b>15</b>	<b>314</b>	<b>10,075</b>
<b>Depreciation and impairment losses</b>						
<b>Balance at 1 January 2016</b>	<b>(439)</b>	<b>(397)</b>	<b>(824)</b>	<b>(3)</b>	<b>(6)</b>	<b>(1,669)</b>
Effects of movements in foreign exchange rates	3	-	2	-	-	5
Depreciation charge for the year	(112)	(120)	(260)	(2)	-	(494)
Disposals	9	4	14	-	-	27
Disposed entities <sup>(2)</sup>	9	-	7	-	-	16
Transfer from disposal group held for sale	-	-	(1)	-	-	(1)
Impairment losses recognised in profit or loss	(4)	-	(7)	(1)	-	(12)
<b>Balance at 31 December 2016</b>	<b>(534)</b>	<b>(513)</b>	<b>(1,069)</b>	<b>(6)</b>	<b>(6)</b>	<b>(2,128)</b>
<b>Carrying amounts</b>						
<b>At 1 January 2016</b>	<b>1,785</b>	<b>4,093</b>	<b>1,922</b>	<b>4</b>	<b>143</b>	<b>7,947</b>
<b>At 31 December 2016</b>	<b>1,722</b>	<b>4,000</b>	<b>1,908</b>	<b>9</b>	<b>308</b>	<b>7,947</b>

(1) Purchase of LYNNMOUTH POWER LIMITED and ABS PROPERTY LIMITED.

(2) The disposal of Pražská teplárenská LPZ, a.s.

(3) Specific assets and liabilities of Stredoslovenská energetika, a.s. were again reclassified to continuing assets and liabilities as the intention to sell these assets ceased.

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

**Idle assets**

As at 31 December 2017 and 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**

At 31 December 2017, property, plant and equipment with a carrying value of EUR 404 million (2016: EUR 397 million) is subject to pledges to secure bank loans.

## 17. Intangible assets (including goodwill)

*In millions of EUR*

	<b>Goodwill</b>	<b>Software</b>	<b>Emission rights</b>	<b>Customer relationship and other contracts</b>	<b>Other intangible assets</b>	<b>Total</b>
<b>Cost</b>						
<b>Balance at 1 January 2017</b>	<b>143</b>	<b>76</b>	<b>89</b>	<b>302</b>	<b>14</b>	<b>624</b>
Effect of movements in foreign exchange rates	7	-	-	-	-	7
Additions	-	8	32	-	2	42
Disposals	-	(3)	(87)	-	-	(90)
Additions through business combinations <sup>(1)</sup>	38	-	11	-	-	49
Transfers	-	2	-	-	(2)	-
<b>Balance at 31 December 2017</b>	<b>188</b>	<b>83</b>	<b>45</b>	<b>302</b>	<b>14</b>	<b>632</b>
<b>Amortisation and impairment losses</b>						
<b>Balance at 1 January 2017</b>	<b>(37)</b>	<b>(35)</b>	<b>-</b>	<b>(150)</b>	<b>(4)</b>	<b>(226)</b>
Amortisation for the year	-	(13)	-	(26)	-	(39)
Disposals	-	2	-	-	-	2
<b>Balance at 31 December 2017</b>	<b>(37)</b>	<b>(46)</b>	<b>-</b>	<b>(176)</b>	<b>(4)</b>	<b>(263)</b>
<b>Carrying amount</b>						
<b>At 1 January 2017</b>	<b>106</b>	<b>41</b>	<b>89</b>	<b>152</b>	<b>10</b>	<b>398</b>
<b>At 31 December 2017</b>	<b>151</b>	<b>37</b>	<b>45</b>	<b>126</b>	<b>10</b>	<b>369</b>

(1) Purchase of Spedica Group, Kraftwerk Mehrum and EPNEI Group.



<i>In millions of EUR</i>	<b>Goodwill</b>	<b>Software</b>	<b>Emission rights</b>	<b>Customer relationship and other contracts</b>	<b>Other intangible assets</b>	<b>Total</b>
<b>Cost</b>						
<b>Balance at 1 January 2016</b>	<b>145</b>	<b>66</b>	<b>66</b>	<b>281</b>	<b>9</b>	<b>567</b>
Effect of movements in foreign exchange rates	(2)	-	(1)	(5)	-	(8)
Additions	-	10	114	-	7	131
Disposals	-	(2)	(90)	(17)	-	(109)
Additions through business combinations <sup>(1)</sup>	-	-	-	43	-	43
Transfers	-	2	-	-	(2)	-
<b>Balance at 31 December 2016</b>	<b>143</b>	<b>76</b>	<b>89</b>	<b>302</b>	<b>14</b>	<b>624</b>
<b>Amortisation and impairment losses</b>						
<b>Balance at 1 January 2016</b>	<b>(8)</b>	<b>(23)</b>	<b>-</b>	<b>(121)</b>	<b>(3)</b>	<b>(155)</b>
Amortisation for the year	-	(13)	-	(46)	(1)	(60)
Disposals	-	1	-	17	-	18
Impairment losses recognised in profit or loss	(29)	-	-	-	-	(29)
<b>Balance at 31 December 2016</b>	<b>(37)</b>	<b>(35)</b>	<b>-</b>	<b>(150)</b>	<b>(4)</b>	<b>(226)</b>
<b>Carrying amount</b>						
<b>At 1 January 2016</b>	<b>137</b>	<b>43</b>	<b>66</b>	<b>160</b>	<b>6</b>	<b>412</b>
<b>At 31 December 2016</b>	<b>106</b>	<b>41</b>	<b>89</b>	<b>152</b>	<b>10</b>	<b>398</b>

(1) Purchase of LYNNMOUTH POWER LIMITED.

In 2017, EPH Group purchased emission allowances of EUR 23 million (2016: EUR 104 million). The remaining part of EUR 9 million (2016: EUR 10 million) was allocated to the Group by the Ministry of the Environment of the Czech Republic, Slovakia and Hungary.

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

Other intangible assets comprise valuable rights.

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

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.

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

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

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

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
EP Energy, a.s.:		
Elektrárny Opatovice, a.s.	90	85
EP Cargo a.s.	5	5
EP ENERGY TRADING, a.s.	5	5
Plzeňská energetika a.s.	3	3
SPV100, s.r.o.	1	-
Biomasse Crotone S.P.A.	20	-
Biomasse Italia S.P.A.	16	-
Helmstedter Revier GmbH	6	5
EP Investment Advisors, s.r.o.	3	3
SPEDICA GROUP COMPANIES, s.r.o.	2	-
<b>Total goodwill</b>	<b>151</b>	<b>106</b>

In 2017, the balance of goodwill increased by EUR 38 million as a result of acquisition of EPNEI Group and Spedica Group. The remaining increase of EUR 7 million was caused by positive effect of changes in the FX rate.

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 decrease of EUR 2 million was caused by negative 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 pre-tax discount rates ranged from 5.31% to 7.33% (2016: range from 4.94% to 6.34%). Changes in used discount rates compared to prior year reflect recent market development, namely increase in risk-free rates and cost of debt used for calculation.

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).

#### **Additional information on CGU with significant goodwill assigned:**

The recoverable amount of Elektrárny Opatovice, a.s. was based on its value in use, determined by discounting the future cash flows to be generated from the continuing use of Elektrárny Opatovice, a.s.

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

	2017	2016
Discount rate	6.28%	6.02%
Terminal value growth rate	2.00%	2.00%

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

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

- estimated refurbishments necessary to comply with applicable regulations (impact especially on electricity output/sales, OPEX and CAPEX);
- market expectations regarding power and CO2 prices, development based on historical trends;
- a slight decrease in heat supplies and modest increase of heat prices;
- the inflation driven development of various other positions, especially overhead costs.

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

## 18. Investment property

*In millions of EUR*

	31 December 2017	31 December 2016
Opening balance	3	3
Changes during the reporting period	-	-
<b>Closing balance</b>	<b>3</b>	<b>3</b>

### Security

As at 31 December 2017, no investment property is subject to pledges to secure bank loans (2016: EUR 0 million).

## 19. Equity accounted investees

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

*In millions of EUR*

		<b>Ownership</b> <b>31 December 2017</b>	<b>Carrying amount</b> <b>31 December 2017</b>
<b>Associates and joint ventures</b>	<b>Country</b>	<b>%</b>	
LEAG Group <sup>(1)</sup>	(3)	50.00	359
SPH Group <sup>(2)</sup>	(3)	(4)	191
Kraftwerk Schkopau GbR	Germany	41.90	76
Ergosud S.P.A.	Italy	50.00	52
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50.00	21
Fernwärme GmbH Hohenmölsen - Webau	Germany	48.96	4
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	Poland	38.93	3
Energotel, a.s.	Slovakia	26.60	1
<b>Total</b>		<b>-</b>	<b>707</b>

*In millions of EUR*

		<b>Ownership</b> <b>31 December 2016</b>	<b>Carrying amount</b> <b>31 December 2016</b>
<b>Associates and joint ventures</b>	<b>Country</b>	<b>%</b>	
LEAG Group <sup>(1)</sup>	(3)	50.00	282
SPH Group <sup>(2)</sup>	(3)	(4)	202
Kraftwerk Schkopau GbR	Germany	41.90	80
POZAGAS a.s.	Slovakia	41.30	56
Ergosud S.P.A.	Italy	50.00	52
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50.00	20
Pražská teplárenská Holding a.s.	Czech Republic	49.00	14
Fernwärme GmbH Hohenmölsen - Webau	Germany	48.96	4
Energotel, a.s.	Slovakia	26.60	2
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	Poland	38.93	-
<b>Total</b>		<b>-</b>	<b>712</b>

(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) Comprising Slovak Power Holding B.V., Slovenské elektrárne a.s. Centrum pre vedu a výskum, s.r.o.; Ochrana a bezpečnosť SE, a.s.; SE Predaj, s.r.o.; Slovenské elektrárne Česká republika, s.r.o.; SE Služby inžinierskych stavieb, s.r.o.; REAKTORTEST, s.r.o.; Chladiace veže Bohumice, spol. s r.o. and ÚJV Řež, a.s.

(3) Country of incorporation varies, for details refer to Note 39 – Group entities.

(4) Ownership percentage varies, for details refer to Note 39 – Group entities.

In 2017, the Group reported a valuation allowance of EUR 32 million (2016: EUR 13 million) to its financial investment in Przedsiębiorstwo Górnicze SILESIA Sp. z o.o. ("PGS"), which was recorded as a result of the impairment test carried out as at 31 December 2017 and which reflects the current conditions on the Polish hard coal market. Carrying amount of the investment in PGS as at 31 December 2017 therefore decreased to EUR 3 million (2016: EUR 0 million).

Furthermore, in 2017 the Group reported a valuation allowance of EUR 45 million (2016: EUR 0 million) to its financial investments in SPH Group, which was recorded as a result of the impairment test carried out as at 31 December 2017. Carrying amount of the investment in SPH Group as at 31 December 2017 therefore decreased to EUR 191 million (2016: EUR 202 million).

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

*In millions of EUR*

		<b>Ownership</b>	<b>Share of</b>
		<b>31 December 2017</b>	<b>profit (loss) 2017</b>
<b>Associates and joint ventures</b>	<b>Country</b>	<b>%</b>	
LEAG Group	(1)	50.00	82
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	Poland	38.93	(10)
Ergosud S.P.A.	Italy	50.00	5
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50.00	2
Kraftwerk Schkopau GbR	Germany	41.90	(1)
POZAGAS a.s.	Slovakia	41.30	(5)
SPH Group	(1)	(2)	34
<b>Total</b>		<b>-</b>	<b>107</b>

*In millions of EUR*

		<b>Ownership</b>	<b>Share of</b>
		<b>31 December 2016</b>	<b>profit (loss) 2016</b>
<b>Associates and joint ventures</b>	<b>Country</b>	<b>%</b>	
LEAG Group	(1)	50.00	(3)275
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	Poland	38.93	(25)
Ergosud S.P.A.	Italy	50.00	7
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50.00	1
Kraftwerk Schkopau GbR	Germany	41.90	(2)
POZAGAS a.s.	Slovakia	41.30	7
SPH Group	(1)	(2)	49
<b>Total</b>		<b>-</b>	<b>312</b>

(1) Country of incorporation varies, for details refer to Note 39 – Group entities.

(2) Ownership percentage varies, for details refer to Note 39 – Group entities.

(3) Including negative goodwill arising on the acquisition of LEAG Group, for details refer to Note 6 (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*

<b>Associates and joint ventures</b>	<b>Revenue</b>	<b>Profit (loss)</b>	<b>Other comprehensive income</b>	<b>Total comprehensive income</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Equity</b>
LEAG Group	2,153	164	(10)	154	4,209	3,494	715
SPH Group	2,655	109	(10)	99	6,687	5,974	713
Pražská teplárenská Holding a.s. (1)	27	(2)26	-	(2)26	119	-	119
Kraftwerk Schkopau GbR (3)	40	7	-	7	230	121	109
Kraftwerk Schkopau Betriebsgesellschaft GmbH (3)	104	-	-	-	10	10	-
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH (3)	53	5	-	5	58	30	28
Fernwärme GmbH Hohenmölsen - Webau (2)	5	-	-	-	14	5	9
POZAGAS a.s. (4)	18	(7)	-	(7)	90	17	73
Energotel, a.s.	12	1	-	1	13	7	6
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	154	(26)	-	(26)	232	244	(12)
Ergosud S.P.A.	67	9	-	9	300	195	105
<b>Total</b>	<b>5,288</b>	<b>288</b>	<b>(20)</b>	<b>268</b>	<b>11,962</b>	<b>10,097</b>	<b>1,865</b>

(1) On 14 December 2017 the PT Holding Investments B.V. increased its share in Pražská teplárenská Holding, a.s. from 49% to 100% (effective group interest changed to 67.62%). Profit and loss item represents the amounts from the beginning of the year to the date of the acquisition of remaining 51% share.

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

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

(4) On 12 December 2017 the Group increased its share in POZAGAS a.s. from 28.24% to 42.77% and gained management control over the entity. Profit and loss item represents the amounts from the beginning of the year to the date of obtaining the control over the entity.

*In millions of EUR*

	Non-current assets	Current assets	Non-current liabilities	Current liabilities
<b>Associates and joint ventures</b>				
LEAG Group	2,149	2,060	2,576	918
SPH Group	5,800	887	4,930	1,044
Pražská teplárenská Holding a.s. <sup>(1)</sup>	104	15	-	-
Kraftwerk Schkopau GbR <sup>(2)</sup>	13	217	115	6
Kraftwerk Schkopau Betriebsgesellschaft GmbH <sup>(2)</sup>	-	10	-	10
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH <sup>(2)</sup>	30	28	16	14
Fernwärme GmbH Hohenmölsen - Webau <sup>(2)</sup>	13	1	1	4
POZAGAS a.s. <sup>(3)</sup>	38	52	14	3
Energotel, a.s.	6	7	-	7
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	199	33	202	42
Ergosud S.P.A.	218	82	160	35
<b>Total</b>	<b>8,570</b>	<b>3,392</b>	<b>8,014</b>	<b>2,083</b>

(1) On 14 December 2017 the PT Holding Investments B.V. increased its share in Pražská teplárenská Holding, a.s. from 49% to 100% (effective group interest changed to 67.62%). Profit and loss item represents the amounts from the beginning of the year to the date of the acquisition of remaining 51% share.

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

(3) On 12 December 2017 the Group increased its share in POZAGAS a.s. from 28.24% to 42.77% and gained management control over the entity. Profit and loss item represents the amounts from the beginning of the year to the date of obtaining the control over the entity.

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*

	Revenue	Profit (loss)	Other compre- hensive income	Total compre- hensive income	Assets	Liabilities	Equity
<b>Associates and joint ventures</b>							
LEAG Group <sup>(1)</sup>	1,245	40	-	40	3,879	3,318	561
SPH Group <sup>(1)</sup>	1,267	149	-	149	6,253	5,640	613
Pražská teplárenská Holding a.s.	28	<sup>(2)</sup> 28	-	<sup>(2)</sup> 28	115	-	115
Kraftwerk Schkopau GbR <sup>(2)</sup>	36	6	-	6	232	124	108
Kraftwerk Schkopau Betriebsgesellschaft GmbH <sup>(2)</sup>	103	-	-	-	11	11	-
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH <sup>(2)</sup>	48	3	-	3	60	33	27
Fernwärme GmbH Hohenmölsen - Webau <sup>(2)</sup>	6	-	-	-	15	8	7
POZAGAS a.s.	32	10	-	10	100	20	80
Energotel, a.s.	13	2	-	2	15	6	9
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	103	(63)	-	(63)	231	296	(65)
Ergosud S.P.A.	62	14	-	14	322	219	103
<b>Total</b>	<b>2,943</b>	<b>189</b>	<b>-</b>	<b>189</b>	<b>11,233</b>	<b>9,675</b>	<b>1,558</b>

(1) Revenue, Profit (loss) and Total comprehensive income represent amounts from the date of acquisition by the Group.

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

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

*In millions of EUR*

	<b>Non-current assets</b>	<b>Current assets</b>	<b>Non-current liabilities</b>	<b>Current liabilities</b>
<b>Associates and joint ventures</b>				
LEAG Group	2,873	1,006	2,852	466
SPH Group	6,057	196	3,698	1,942
Pražská teplárenská Holding a.s.	86	29	-	-
Kraftwerk Schkopau GbR <sup>(1)</sup>	17	215	116	8
Kraftwerk Schkopau Betriebsgesellschaft GmbH <sup>(1)</sup>	-	11	-	11
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH <sup>(1)</sup>	34	26	24	9
Fernwärme GmbH Hohenmölsen - Webau <sup>(1)</sup>	14	1	3	5
POZAGAS a.s.	56	44	16	4
Energotel, a.s.	7	8	-	6
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	175	56	259	37
Ergosud S.P.A.	275	47	192	27
<b>Total</b>	<b>9,594</b>	<b>1,639</b>	<b>7,160</b>	<b>2,515</b>

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



## 20. Deferred tax assets and liabilities

### Recognised deferred tax assets and liabilities

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

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2017</b>	<b>31 December 2017</b>	<b>31 December 2016</b>	<b>31 December 2016</b>	<b>31 December 2016</b>
	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>	<b>Assets</b>	<b>Liabilities</b>	<b>Net</b>
<b>Temporary difference related to:</b>						
Property, plant and equipment	25	(1,088)	(1,063)	30	(1,096)	(1,066)
Intangible assets	27	(30)	(3)	30	(35)	(5)
Investment securities at amortised cost	-	(4)	(4)	-	-	-
Inventories	6	(2)	4	4	-	4
Trade receivables and other assets	3	(1)	2	2	-	2
Provisions	119	(7)	112	114	(19)	95
Employee benefits (IAS 19)	6	(1)	5	5	-	5
Loans and borrowings	2	(20)	(18)	5	(11)	(6)
Tax losses	28	-	28	17	-	17
Derivatives	4	(29)	(25)	3	(40)	(37)
Other items	6	(8)	(2)	3	-	3
<b>Subtotal</b>	<b>226</b>	<b>(1,190)</b>	<b>(964)</b>	<b>213</b>	<b>(1,201)</b>	<b>(988)</b>
Set-off tax	(157)	157	-	(157)	157	-
<b>Total</b>	<b>69</b>	<b>(1,033)</b>	<b>(964)</b>	<b>56</b>	<b>(1,044)</b>	<b>(988)</b>

### 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 <sup>(1)</sup>	Transfer to disposal group held for sale <sup>(2)</sup>	Effect of movements in foreign exchange rate	Balance at 31 December 2017
Property, plant and equipment	(1,066)	12	-	(6)	-	(3)	(1,063)
Intangible assets	(5)	2	-	-	-	-	(3)
Investment securities at amortised cost	-	(3)	-	-	-	(1)	(4)
Inventories	4	-	-	-	-	-	4
Trade receivables and other assets	2	-	-	-	-	-	2
Provisions	95	14	(2)	5	-	-	112
Employee benefits (IAS 19)	5	-	-	-	-	-	5
Loans and borrowings	(6)	(2)	(12)	-	-	2	(18)
Tax losses	17	11	-	-	-	-	28
Derivatives	(37)	2	8	-	-	2	(25)
Other	3	2	-	(6)	1	(2)	(2)
<b>Total</b>	<b>(988)</b>	<b>38</b>	<b>(6)</b>	<b>(7)</b>	<b>1</b>	<b>(2)</b>	<b>(964)</b>

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

(2) The transfer of Pod Juliskou, a.s. to disposal group held for sale.

*In millions of EUR*

<b>Balances related to:</b>	<b>Balance at 1 January 2016</b>	<b>Recognised in profit or loss</b>	<b>Recognised in other comprehensive income</b>	<b>Acquired in business combinations<sup>(1)</sup></b>	<b>Transfer to disposal group held for sale<sup>(2)</sup></b>	<b>Disposed entities<sup>(3)</sup></b>	<b>Effect of movements in foreign exchange rate</b>	<b>Balance at 31 December 2016</b>
Property, plant and equipment	(1,118)	52	-	(1)	1	3	(3)	(1,066)
Intangible assets	(5)	7	1	(8)	-	-	-	(5)
Financial instruments at fair value through profit or loss	1	(1)	-	-	-	-	-	-
Inventories	2	2	-	-	-	-	-	4
Trade receivables and other assets	2	-	-	-	-	-	-	2
Provisions	72	21	3	-	-	-	(1)	95
Employee benefits (IAS 19)	5	-	-	-	-	-	-	5
Loans and borrowings	(9)	3	-	-	-	-	-	(6)
Tax losses	9	7	-	1	-	-	-	17
Derivatives	(17)	1	(22)	-	-	-	1	(37)
Other	2	-	-	-	-	-	1	3
<b>Total</b>	<b>(1,056)</b>	<b>92</b>	<b>(18)</b>	<b>(8)</b>	<b>1</b>	<b>3</b>	<b>(2)</b>	<b>(988)</b>

(1) The purchase of LYNEMOUTH POWER LIMITED.

(2) The transfer of Nový Veleslavín, a.s. and Nová Invalidovna, a.s. to disposal group held for sale.

(3) The disposal of Pražská teplotárenská LPZ, a.s.

### Unrecognised deferred tax assets

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

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Tax losses carried forward	337	268
<b>Total</b>	<b>337</b>	<b>268</b>

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

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Slovak Gas Holding B.V.	159	153
Seattle Holding B.V.	60	43
EPH Gas Holding B.V.	53	53
EP Infrastructure a.s.	41	-
Czech Gas Holding Investment B.V.	9	7
PT Holding Investments B.V.	4	4
SPP Infrastructure	4	-
EPPE Germany a.s.	3	3
EPPE Italy N.V.	3	3
WOOGEL LIMITED	1	1
Other	-	1
<b>Total</b>	<b>337</b>	<b>268</b>

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 67 million (2016: EUR 53 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:

	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>After 2022</b>	<b>Total</b>
<b>Tax losses</b>	45	2	-	3	287	337

Tax losses expire over a period of 5 years in the Czech Republic, 4 years in Slovakia and 9 years in the Netherlands for standard tax losses. Under current tax legislation, 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.

## 21. Inventories

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Fossil fuel	82	43
Spare parts	65	38
Raw material and supplies	64	54
Overburden	22	25
Work in progress	4	3
Finished goods and merchandise	10	-
<b>Total</b>	<b>247</b>	<b>163</b>

As at 31 December 2017, inventories in the amount of EUR 20 million (2016: EUR 30 million) were subject to pledges.

## 22. Trade receivables and other assets

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Trade receivables	696	472
Accrued income	139	78
Advance payments	87	49
Estimated receivables	81	61
Other receivables and assets	123	20
Allowance for bad debts	(23)	(20)
<b>Total</b>	<b>1,103</b>	<b>660</b>
<i>Non-current</i>	161	42
<i>Current</i>	942	618
<b>Total</b>	<b>1,103</b>	<b>660</b>

In 2017, EUR 1 million receivables were written off through profit or loss (2016: EUR 2 million).

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

As at 31 December 2017, trade receivables and other assets amounting EUR 1,073 million are not past due (2016: EUR 651 million), remaining balance of EUR 30 million is overdue (2016: EUR 9 million).

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 37 – Risk management policies and disclosures.

## 23. Cash and cash equivalents

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Current accounts with banks	739	1,073
Bills of exchange issued by banks	25	36
Term deposits	52	27
<b>Total</b>	<b>816</b>	<b>1,136</b>

Term deposits and bills of exchange issued by banks with original maturity of up to three months are classified as cash equivalents.

As at 31 December 2017, cash equivalents of EUR 385 million are subject to pledges (2016: EUR 151 million). According to the bond documentation cash balances at specific entities are pledged in favour of the bondholders in case EPE defaults on bonds payments. As such, the pledged cash is readily available to the EPH Group and does not represent restricted cash.

### Significant investing and financing activities not requiring cash:

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Investing activities	511	-
Financing activities	-	-
<b>Total</b>	<b>511</b>	<b>-</b>

For the year 2017 non-cash investing activities include partial set-off of SPPI loan provided to Slovenský plynárenský priemysel, a.s. The total amount of the loan was EUR 428 million, of which the amount EUR 158 million was set-off against dividends declared by SPPI to Slovenský plynárenský priemysel, a.s. The amount of EUR 322 million represents EPH loan provided to shareholders which was set-off against dividends declared by EPH to its shareholders. The amount of EUR 32 million represents EPH loan provided to Przedsiębiorstwo Górnicze SILESIA Sp. z o.o. which was set-off against increase of share capital.

## 24. 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).

## 25. Tax receivables

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Value added tax receivables	92	74
Current income tax receivables	29	28
Energy tax	2	2
Other tax receivables	9	3
<b>Total</b>	<b>132</b>	<b>107</b>

## 26. Assets and liabilities held for sale and discontinued operations

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

## 27. Equity

### Share capital, share premium and reserve for own shares

The authorised, issued and fully paid share capital as at 31 December 2017 consisted of 28,946,239 ordinary shares with a par value of CZK 100 each (2016: 28,946,239 shares) and 2,155,568,900 ordinary shares with a par value of CZK 1 each (2016: 2,155,568,900 shares).

The shareholders are entitled to receive dividends and to one vote per 1 CZK share and 100 votes per 100 CZK share, at meetings of the Company's shareholders.

31 December 2017	Number of shares		Ownership %	Voting rights %
	1 CZK	100 CZK		
EP Investment S.à.r.l.	1,574,538,029	2,990,835	37.10	53.00
EP Investment II S.à.r.l. (owned by Daniel Křetínský)	126,103,731	15,354,097	32.90	47.00
Own shares <sup>(1)</sup>	454,927,140	10,601,307	30.00	-
<b>Total</b>	<b>2,155,568,900</b>	<b>28,946,239</b>	<b>100.00</b>	<b>100.00</b>

(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.

31 December 2016	Number of shares		Ownership %	Voting rights %
	1 CZK	100 CZK		
BIQUES LIMITED (part of J&T PARTNERS I L.P.)	236,085,576	10,601,307	25.66	25.66
EP Investment S.à.r.l. (owned by Daniel Křetínský)	1,683,397,724	1,935,906	37.17	37.17
MILEES LIMITED (part of J&T PARTNERS II L.P.)	236,085,600	16,409,026	37.17	37.17
<b>Total</b>	<b>2,155,568,900</b>	<b>28,946,239</b>	<b>100.00</b>	<b>100.00</b>

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

	Number of shares 2017	
	1 CZK	100 CZK
Shares outstanding at the beginning of the year	2,155,568,900	28,946,239
<b>Shares outstanding at the end of the year</b>	<b>2,155,568,900</b>	<b>28,946,239</b>

	Number of shares 2016	
	1 CZK	100 CZK
Shares outstanding at the beginning of the year	3,301,099,240	57,892,478
Own shares cancelled at 22 January 2016	(1,145,530,340)	(28,946,239)
<b>Shares outstanding at the end of the year</b>	<b>2,155,568,900</b>	<b>28,946,239</b>

### Share premium

The Company recognised a Share premium of EUR 64 million in 2012.

### Reserve for own shares

On 26 January 2018 and 24 February 2018, 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. These shares were not cancelled as at 31 December 2017. The reserve for own shares amounting to EUR 1,444 million represents

the difference between the purchase price and the nominal value of the shares. The nominal value of the shares amounting EUR 56 million is recognised as a decrease in Share capital.

This reserve represents difference between the purchase price and the nominal value of the shares. The nominal value of the shares amounting EUR 56 million is recognised as a decrease in Share capital.

In 2014 EPH acquired 44.44% of its own shares from TIMEWORTH HOLDINGS LIMITED. As at the date of the transaction, these shares were reported within EPH's equity as reserve for own shares in amount of EUR 932 million as the shares were not cancelled. On 22 January 2016, own shares were cancelled and the difference between the nominal value and purchase price in excess over the nominal value of EUR 932 million originally presented as reserve for own shares was released to retained earnings.

Reserves recognised in equity comprise the following items:

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Hedging reserve	117	112
Other capital funds from capital contributions	23	23
Non-distributable reserves	8	2
Fair value reserve	(38)	(30)
Other capital reserves	(54)	(54)
Translation reserve	(94)	(83)
<b>Total</b>	<b>(38)</b>	<b>(30)</b>

#### **Non-distributable reserves**

The creation of a legal reserve fund in the Czech Republic was prior to 1 January 2014 required at a minimum of 20% (10% for limited liability companies) of net profit (annually) and up to a minimum of 10% (5% for limited liability companies) of the registered share capital (cumulative balance). The legal reserve fund could have only been used to cover losses of the Company and may not have been distributed as a dividend. The calculation of the legal reserve was based on local statutory regulations. From 1 January 2014, in relation to the newly enacted legislation in the Czech Republic, legal reserve fund and its creation are no longer, under certain circumstances, obligatory. Similarly, legal reserve fund can be from 1 January 2014, under certain conditions, distributed in a form of dividend. The legal reserve of EUR 8 million was reported as at 31 December 2017 (2016: EUR 2 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.

#### **Other capital reserves**

In 2009 the Group accounted for pricing differences that arose both from establishment of the Group as at 10 August 2009 and acquisition of certain new subsidiaries in the subsequent periods prior to 9 October 2009. Such subsidiaries were acquired under common control of J&T Finance Group, a.s. (which held controlling interest in the Group at the time of acquisition of the subsidiaries), and therefore excluded from 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 recorded at the book value, which is presented in the financial statements of J&T Finance Group, a.s. (i.e. including historical goodwill less potential impairment). The difference between the cost of acquisition, carrying values of net assets and original goodwill carried forward as at the acquisition date was recorded in consolidated equity as pricing differences.

In 2010 in relation to the disposal of certain subsidiaries the revaluation reserve increased by EUR 74 million. The amount corresponds not only to pricing differences assigned directly to disposed subsidiaries but also to their direct parent companies (SPEs), which, although they remained in scope, are not cash generating units as standalones and thereby do not carry any goodwill potential.

In 2011 other capital reserves increased further by EUR 56 million in relation to the several subsidiaries that were spun off to EP Industries, a.s. as a part of non-cash dividend distribution.



In 2013 other capital reserves increased by EUR 1 million due to the process of restructuralisation in SPP Group.

### 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 33 – Financial instruments and Note 37 – Risk management policies and disclosure).

During the year the Group recycled EUR 0 million from Hedging reserves to Profit or loss (2016: EUR 0 million).

## 28. Earnings per share

### Basic earnings per share

Basic earnings per share in EUR per equivalent 1,000 CZK of share nominal value equal 0.12 (2016: 0.09).

The calculation of basic earnings per share as at 31 December 2017 was based on a profit attributable to ordinary shareholders of EUR 441 million (2016: EUR 431 million), and a weighted average number of ordinary shares outstanding of 3,750 million (2016: 5,050 million).

### Weighted average number of ordinary shares 2017

*In millions of shares*

	Nominal	Weighted
Issued ordinary shares as at 1 January 2017	5,050	5,050
Own shares acquired on 26 January 2017 (1share/CZK 1)	(219)	(203)
Own shares acquired on 24 February 2017 (1share/CZK 1)	(236)	(200)
Own shares acquired on 24 February 2017 (1share/CZK 100)	(1,060)	(897)
<b>Total</b>	<b>3,535</b>	<b>3,750</b>

### Weighted average number of ordinary shares 2016

*In millions of shares*

	Nominal	Weighted
Issued ordinary shares	5,050	5,050
<b>Total</b>	<b>5,050</b>	<b>5,050</b>

### 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.

## 29. Non-controlling interest

31 December 2017

*In millions of EUR*

	Pražská teplárenská a.s. and its subsidiaries	Stredoslovenská energetika, a.s. and its subsidiaries	NAFTA a.s. and its subsidiaries	SPP Infrastructure, a.s. and its subsidiaries <sup>(3)</sup>	SPP – distribúcia, a.s. and its subsidiaries	Ep Produzione Centrale Livorno Ferraris S.P.A.	eustream, a.s.	Other subsidiaries <sup>(4)</sup>	Total
<b>Non-controlling percentage</b>	<b>32.38%</b>	<b>66.19%</b>	<b>52.41%</b>	<b>66.19%</b>	<b>66.19%</b>	<b>25.00%</b>	<b>66.19%</b>		
Business activity	Production and distribution of heat	Distribution of electricity	Gas storage and exploration	Distribution of gas	Distributi- on of gas	Production of electricity and heat	Distributi- on of gas		
Country <sup>(1)</sup>	Czech Republic	Slovakia	Slovakia	Slovakia	Slovakia	Italy			
<b>Carrying amount of NCI at 31 December 2017</b>	<b>91</b>	<b>516</b>	<b>166</b>	<b>(309)</b>	<b>1,124</b>	<b>45</b>	<b>550</b>	<b>(668)</b>	<b>1,515</b>
<b>Profit (loss) attributable to non- controlling interest</b>	<b>9</b>	<b>72</b>	<b>34</b>	<b>(2)</b>	<b>92</b>	<b>1</b>	<b>245</b>	<b>(15)</b>	<b>436</b>
<b>Dividends declared</b>	<b>(14)</b>	<b>(40)</b>	<b>(2)</b>	<b>(378)</b>	<b>-</b>	<b>(1)</b>	<b>-</b>	<b><sup>(5)</sup>(188)</b>	<b>(623)</b>
<b>Statement of financial position<sup>(2)</sup></b>									
Total assets	346	1,095	688	6,582	2,814	233	2,719		
of which: non-current	280	766	647	<sup>(6)</sup> 6,228	2,367	160	2,291		
current	66	329	41	354	447	73	428		
Total liabilities	65	316	371	2,142	1,116	53	1,888		
of which: non-current	34	140	294	1,373	1,018	17	1,752		
current	30	176	77	769	98	36	136		
<b>Net assets</b>	<b>281</b>	<b>779</b>	<b>317</b>	<b>4,440</b>	<b>1,698</b>	<b>180</b>	<b>831</b>	<b>-</b>	<b>-</b>
<b>Statement of comprehensive income<sup>(2)</sup></b>									
Total revenues	204	1,001	164	847	423	245	760		
of which: dividends received	-	-	-	800	-	-	-		
Profit after tax	25	115	71	797	155	3	388		
<b>Total comprehensive income year<sup>(2)</sup></b>	<b>25</b>	<b>115</b>	<b>71</b>	<b>797</b>	<b>155</b>	<b>3</b>	<b>388</b>	<b>-</b>	<b>-</b>
<b>Net cash inflows (outflows)<sup>(2)</sup></b>	<b>(35)</b>	<b>1</b>	<b>(9)</b>	<b>-</b>	<b>(43)</b>	<b>11</b>	<b>(33)</b>	<b>-</b>	<b>-</b>

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 39 – Group entities).

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

(3) Excluding NAFTA a.s. and its subsidiaries, SPP Storage, s.r.o. and SPP – distribúcia, a.s. and its subsidiaries, eustream, a.s. and its subsidiaries and POZAGAS a.s.

(4) Column “Other subsidiaries” represents primarily 31% non-controlling interest in holding entities in EPIF Group. The non-controlling interest in these entities is negative as the consolidated net asset value of the entities after elimination of investment in subsidiaries is negative.

(5) Dividends in amount of EUR 187 million were paid by EP Infrastructure, a.s.

(6) Includes dividends from eustream, a.s., SPP – distribúcia, a.s., NAFTA, a.s. and POZAGAS a.s. eliminated in calculation of NCI.

<b>31 December 2016</b>	<b>Pražská teplárenská a.s. and its subsidiaries</b>	<b>Stredoslovenská energetika, a.s. and its subsidiaries</b>	<b>NAFTA a.s. and its subsidiaries</b>	<b>SPP Infrastructure, a.s. and its subsidiaries<sup>(3)</sup></b>	<b>SPP – distribúcia, a.s. and its subsidiaries</b>	<b>Ep Produzione Centrale Livorno Ferraris S.P.A.</b>	<b>Other subsidiaries</b>	<b>Total</b>
<i>In millions of EUR</i>								
<b>Non-controlling percentage</b>	<b>26.18%</b>	<b>51.00%</b>	<b>31.01%</b>	<b>51.00%</b>	<b>51.00%</b>	<b>25.00%</b>		
Business activity	Production and distribution of heat	Distribution of electricity	Gas storage and exploration	Distribution of gas	Distribution of gas	Production of electricity and heat		
Country <sup>(1)</sup>	Czech Republic	Slovakia	Slovakia	Slovakia	Slovakia	Italy		
<b>Carrying amount of NCI at 31 December 2016</b>	<b>76</b>	<b>379</b>	<b>92</b>	<b>221</b>	<b>859</b>	<b>45</b>	<b>35</b>	<b>1,707</b>
<b>Profit (loss) attributable to non-controlling interest</b>	<b>22</b>	<b>27</b>	<b>21</b>	<b>218</b>	<b>74</b>	<b>(1)</b>	<b>8</b>	<b>369</b>
<b>Dividends declared</b>	<b>(15)</b>	<b>(33)</b>	<b>(33)</b>	<b>(428)</b>	<b>(51)</b>	<b>(4)</b>	<b>(8)</b>	<b>(572)</b>
<b>Statement of financial position<sup>(2)</sup></b>								
Total assets	365	1,044	686	4,771	2,815	232		
<i>of which: non-current</i>	267	857	651	4,533	2,439	152		
<i>current</i>	98	187	35	238	376	80		
Total liabilities	66	301	353	2,124	1,130	50		
<i>of which: non-current</i>	32	137	304	1,908	1,028	14		
<i>current</i>	34	164	49	216	102	36		
<b>Net assets</b>	<b>299</b>	<b>743</b>	<b>333</b>	<b>2,647</b>	<b>1,685</b>	<b>182</b>	<b>-</b>	<b>-</b>
<b>Statement of comprehensive income<sup>(2)</sup></b>								
Total revenues	325	914	179	975	413	176		
<i>of which: dividends received</i>	-	-	-	172	-	-		
Profit after tax	72	53	75	599	146	(2)		
Total other comprehensive income for the year, net of tax	-	-	(1)	(25)	(1)	-		
<b>Total comprehensive income for the year<sup>(2)</sup></b>	<b>72</b>	<b>53</b>	<b>74</b>	<b>574</b>	<b>145</b>	<b>(2)</b>	<b>-</b>	<b>-</b>
<b>Net cash inflows (outflows)<sup>(2)</sup></b>	<b>34</b>	<b>(31)</b>	<b>4</b>	<b>10</b>	<b>27</b>	<b>(24)</b>		

(1) Principal place of business of subsidiaries and associates varies (for detail refer to Note 39 – Group entities).

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

(3) Excluding NAFTA a.s. and its subsidiaries, SPP Storage, s.r.o. and SPP – distribúcia, a.s. and its subsidiaries. Including eustream, a.s. and its subsidiaries.

### 30. Loans and borrowings

<i>In millions of EUR</i>	31 December 2017	31 December 2016
Issued debentures at amortised costs	3,237	3,075
Loans payable to credit institutions	2,830	2,413
Bank overdraft	31	8
Loans payable to other than credit institutions	17	35
Liabilities from financial leases	6	10
<b>Total</b>	<b>6,121</b>	<b>5,541</b>
<i>Non-current</i>	5,060	5,441
<i>Current</i>	1,061	100
<b>Total</b>	<b>6,121</b>	<b>5,541</b>

The weighted average interest rate on loans for 2017 was 2.36% (2016: 2.49%).

#### Issued debentures at amortised costs

Details about debentures issued as at 31 December 2017 are presented in the following table:

<i>In millions of EUR</i>	Principal	Accrued interest	Unamortised fee	Maturity	Interest rate (%)	Effective interest rate (%)
SPP Infrastructure Financing bond I	<sup>(1)</sup> 749	13	(1)	18/07/2020	3.750	3.773/3.717
SPP Infrastructure Financing bond II	<sup>(2)</sup> 494	12	-	12/02/2025	2.625	2.685
SPPD bond	<sup>(3)</sup> 497	7	-	23/06/2021	2.625	2.828
EP Energy 2018 notes	598	4	-	01/05/2018	4.375	4.691
EP Energy 2019 notes	499	5	(4)	01/11/2019	5.875	6.301
EPH Financing CZ 2018 notes	117	-	-	30/09/2018	4.200	4.755
EPH Financing CZ 2020 notes	117	1	(1)	09/06/2020	3.500	3.590
EPH Financing SK 2018 notes	75	1	-	29/06/2018	4.200	4.823
EPH Financing SK 2020 notes	54	1	(1)	28/08/2020	3.500	4.060
<b>Total</b>	<b>3,200</b>	<b>44</b>	<b>(7)</b>	<b>-</b>	<b>-</b>	<b>-</b>

- 1) Balance consists of two tranches. The first tranche of EUR 500 million is stated net of discount of EUR 3 million, which will be released through the effective interest rate for the whole period until its maturity. The second tranche of EUR 250 million is stated with a premium of EUR 2 million. Therefore two effective interest rates are presented.
- 2) Balance represents bond principal in amount of EUR 500 million which is stated net of discount of EUR 6 million. This discount will be released through effective interest rate for the whole period until its maturity.
- 3) Balance represents bond principal in amount of EUR 500 million which is stated net of discount of EUR 3 million. This discount will be released through effective interest rate for the whole period until its maturity.

#### EP Energy bonds

In 2012 and 2013 EP Energy Group (“EPE”, “EPE Group”) issued the senior secured notes. EPE Group comprises energy entities subsidiaries and associates as described in Note 39 – Group entities.

##### *i. 2019 notes*

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

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

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

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

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

The 2019 Notes are stated at net of debt issue costs of EUR 10 million (at inception). These costs are allocated to the profit and loss account over the term of the 2019 Notes through the effective interest rate of 6.301%.

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

*ii. 2018 notes*

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

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

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

The 2018 Notes rank pari passu with the EPE Senior Secured Notes due 2019 issued on 31 October 2012 (the "2019 Notes"). The 2018 Notes and the guarantees are also secured by first ranking liens on the same assets that secure EPE's and the guarantors' obligations under the 2019 Notes.

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

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

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

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

SPP Infrastructure Financing bond (2020 Notes)

The first tranche of guaranteed notes in the amount of EUR 500 million was issued on 18 July 2013 and the second tranche in the amount of EUR 250 million was issued on 10 September 2013. The notes are due in 2020 ("2020 Notes") and are listed on the official market of the Irish Stock Exchange. The 2020 Notes bear an interest of 3.75% per annum, payable annually in arrears on 18 July of each year. The 2020 Notes were issued by SPP Infrastructure Financing B.V., and are guaranteed by eustream, a.s.

The terms and conditions pursuant to which the 2020 Notes were issued contain a limited number of restrictive covenants, mainly negative pledges.

The 2020 Notes are stated net of debt issue costs of EUR 5 million (at inception). These costs are allocated to the profit and loss account over the term of the 2020 Notes through the effective interest rates of 3.773% (first tranche) and 3.717% (second tranche).

The proceeds of the 2020 Notes were on-lent to eustream, a.s. via the purchase of 2020 Intra-group notes issued by eustream, a.s. bearing 4.12% p.a. while interest payments are aligned to effectively finance payments by SPP Infrastructure Financing B.V.

#### 2021 SPPD bond

On 23 June 2014, SPP - distribúcia, a.s. issued bonds in the amount of EUR 500 million with a fixed interest rate of 2.625% p.a. The maturity of bonds is on 23 June 2021. The 2021 SPPD bond is stated net of debt issue costs of EUR 3 million (at inception). These costs are allocated to the profit and loss account through the effective interest rate of 2.828%.

#### SPP Infrastructure Financing bond II (2025 Notes)

On 12 February 2015, SPP Infrastructure Financing B.V. issued bonds in the amount of EUR 500 million with a fixed interest rate of 2.625% p.a. The maturity of bonds is on 12 February 2025. The 2020 SPP IF bond is stated net of debt issue costs of EUR 1 million (at inception). These costs are allocated to the profit and loss account through the effective interest rate of 2.685%.

#### EPH Financing SK notes

##### *i. 2018 notes*

On 29 June 2015, EPH Financing SK, a.s. issued bonds in the amount of EUR 41 million with a fixed interest rate of 4.200% p.a. In 2016 additional bonds in the amount of EUR 34 million were subscribed. Total principal of bonds issued as at 31 December 2017 amounts to EUR 75 million (2016: EUR 75 million). The maturity of bonds is on 29 June 2018. The EPH Financing SK bond is stated net of debt issue costs of EUR 1 million (at inception). These costs are allocated to the profit and loss account through the effective interest rate of 4.823%.

##### *ii. 2020 notes*

On 28 February 2017, EPH Financing SK, a.s. issued bonds in the amount of EUR 6 million with a fixed interest rate of 3.500% p.a. Until 31 December 2017 additional bonds in the amount of EUR 48 million were subscribed. Total principal of bonds issued as at 31 December 2017 amounts to EUR 54 million. The maturity of bonds is on 28 August 2020. The EPH Financing SK bond is stated net of debt issue costs of EUR 1 million (at inception). These costs are allocated to the profit and loss account through the effective interest rate of 4.06%.

#### EPH Financing CZ notes

##### *i. 2018 notes*

On 30 September 2015, EPH Financing CZ, a.s. issued bonds in the amount of EUR 49 million (CZK 1,330 million) with a fixed interest rate of 4.200% p.a. In 2016 additional bonds in the amount of EUR 62 million (CZK 1,670 million) were subscribed. Total principal of bonds issued as at 31 December 2017 amounts to EUR 117 million (CZK 3,000 million; 2016: CZK 3,000 million). The maturity of bonds is on 30 September 2018.

EPH Financing CZ, a.s. may redeem some or all of the 2018 Notes at any time and price on the market or otherwise. Unless redeemed prematurely (the option of premature redemption is not currently being considered by the company), the 2018 Notes will be redeemed by the Group in their principal amount on 30 September 2018.

The EPH Financing CZ 2018 bond is stated net of debt issue costs of EUR 1 million (at inception). These costs are allocated to the profit and loss account through the effective interest rate of 4.755%.

##### *ii. 2020 notes*

On 9 December 2016, EPH Financing CZ, a.s. issued bonds in the amount of EUR 22 million (CZK 600 million) with a fixed interest rate of EUR 3.500% p.a. In 2017, additional bonds in the amount of EUR 91 million (CZK 2,400 million) were subscribed. Total principal of bonds issued as at 31 December 2017 amounts to EUR 117 million (CZK 3,000 million; 2016: CZK 600 million). The maturity of bonds is on 9 June 2020.

EPH Financing CZ, a.s. may redeem some or all of the 2020 Notes at any time and price on the market or otherwise. Unless redeemed prematurely (the option of premature redemption is not currently being considered by the company), the 2018 Notes will be redeemed by the Group in their principal amount on 9 June 2020.

The EPH Financing CZ 2020 bond is stated net of debt issue costs. These costs are allocated to the profit and loss account through the effective interest rate of EUR 3.59%.

## Other loans and borrowings

### Terms and debt repayment schedule

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

<i>In millions of EUR</i>	<b>Cur- rency</b>	<b>Nominal interest rate</b>	<b>Year of maturity (up to)</b>	<b>Balance at 31/12/17</b>	<b>Due within 1 year</b>	<b>Due in 1–5 years</b>	<b>Due in following years</b>
Secured bank loan	EUR	variable*	2023	1,913	18	1,885	10
Unsecured bank loan	EUR	variable*	2025	580	139	333	108
Secured bank loan	EUR	fixed	2025	228	7	219	2
Secured bank loan	CZK	variable*	2026	61	-	37	24
Unsecured bank loan	EUR	fixed	2023	37	18	16	3
Unsecured bank loan	CZK	fixed	2023	10	-	10	-
Secured bank loan	CZK	fixed	2021	1	-	1	-
Unsecured loan	CZK	fixed	2020	9	-	9	-
Unsecured loan	EUR	fixed	2018	7	7	-	-
Unsecured loan	PLN	variable*	2025	1	-	-	1
Overdraft	EUR	variable*	-	31	31	-	-
Liabilities from financial leases	-	-	-	6	2	3	1
<b>Total interest-bearing liabilities</b>				<b>2,884</b>	<b>222</b>	<b>2,513</b>	<b>149</b>

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

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

<i>In millions of EUR</i>	<b>Cur- rency</b>	<b>Nominal interest rate</b>	<b>Year of maturity (up to)</b>	<b>Balance at 31/12/16</b>	<b>Due within 1 year</b>	<b>Due in 1–5 years</b>	<b>Due in following years</b>
Secured bank loan	EUR	variable*	2023	1,918	34	1,882	2
Unsecured bank loan	EUR	variable*	2025	390	1	307	82
Secured bank loan	CZK	variable*	2026	58	-	35	23
Unsecured bank loan	EUR	fixed	2023	34	9	20	5
Unsecured bank loan	CZK	variable*	2022	10	-	-	10
Secured bank loan	USD	fixed	2018	2	-	2	-
Secured bank loan	CZK	fixed	2021	1	-	1	-
Unsecured loan	CZK	fixed	2020	22	8	14	-
Unsecured loan	EUR	fixed	2018	12	5	7	-
Unsecured loan	PLN	variable	2025	1	-	-	1
Liabilities from financial leases	-	-	-	10	5	5	-
Overdraft	EUR	variable*	-	8	8	-	-
<b>Total interest-bearing liabilities</b>				<b>2,466</b>	<b>70</b>	<b>2,273</b>	<b>123</b>

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

### EPIF Facility Agreement

On 21 June 2017, EPIF entered into a Senior Term and revolving Facilities Agreement between, Citibank N.A., London Branch and UniCredit Bank Czech Republic and Slovakia, a.s. as global co-ordinators, among certain financial institutions named therein as mandated lead arrangers and bookrunners, mandated lead arrangers, lead arrangers and arrangers, respectively and UniCredit Bank AG, London Branch as agent and security agent (the “EPIF Facility Agreement”).

The EPIF Facility Agreement provides for the following term loan facilities in the aggregate amount of EUR 1,750 million:



- Facility A in an amount of EUR 533 million;
- Facility B1 in an amount of EUR 304 million;
- Facility B2 in an amount of EUR 229 million;
- Facility C in an amount of EUR 534 million;
- Facility D in an amount of EUR 150 million.

Further it made available to EPIF a revolving loan facility (Facility E) up to EUR 200 million.

In addition it made available to EPIF Incremental facility (Facility F) of up to EUR 250 million that can be utilized to refinance existing EPE 2018 Indenture. The Facility F was undrawn as at 31 December 2017.

As of 31 December 2017 the total principal amount outstanding under the EPIF Facility Agreement was EUR 1,847 million. The maturity date for Facility A is three years after the signing date of the EPIF Facility Agreement, the maturity date for Facilities B1 and B2 is four years after the signing date of the EPIF Facility Agreement and the maturity date for Facility C, D and E is five years after the signing date of the EPIF Facility Agreement and maturity date for Incremental Facility is five years after the effective date.

The interest rate under the EPIF Facility Agreement is calculated as a margin plus the reference rate. The reference rate is EURIBOR and, if EURIBOR is less than zero, that rate is zero.

The amounts drawn under the EPIF Facility Agreement and obtained thereunder were (partly) utilized to repay Term Facilities Agreement from 29 February 2016.

#### **Fair value information**

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

*In millions of EUR*

	<b>31 December 2017</b>		<b>31 December 2016</b>	
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Carrying amount</b>	<b>Fair value</b>
Issued debentures at amortised costs	3,237	3,268	3,075	3,155
Loans payable to credit institutions	2,830	2,855	2,413	2,456
Bank overdraft	31	31	8	8
Loans payable to other than credit institutions	17	17	35	35
Liabilities from financial leases	6	6	10	11
<b>Total</b>	<b>6,121</b>	<b>6,177</b>	<b>5,541</b>	<b>5,665</b>

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).



### 31. Provisions

<i>In millions of EUR</i>	<b>Employee benefits</b>	<b>Provision for emission rights</b>	<b>Onerous contracts</b>	<b>Provision for lawsuits and litigations</b>	<b>Provision for restoration and decommissioning<sup>(3)</sup></b>	<b>Other</b>	<b>Total</b>
<b>Balance at 1 January 2017</b>	<b>154</b>	<b>80</b>	<b>58</b>	<b>14</b>	<b>731</b>	<b>12</b>	<b>1,049</b>
Provisions made during the year	27	102	2	8	76	16	231
Provisions used during the year	(40)	(80)	-	-	(34)	(3)	(157)
Provisions reversed during the year	(3)	-	(9)	(2)	(9)	(1)	(24)
Acquisitions through business combinations <sup>(1)</sup>	6	18	-	-	41	-	65
Transfer <sup>(2)</sup>	-	-	(18)	-	18	-	-
Unwinding of discount*	-	-	-	-	14	-	14
Effects of movements in foreign exchange rate	(2)	-	-	-	(4)	1	(5)
<b>Balance at 31 December 2017</b>	<b>142</b>	<b>120</b>	<b>33</b>	<b>20</b>	<b>833</b>	<b>25</b>	<b>1,173</b>
<i>Non-current</i>	<i>103</i>	<i>-</i>	<i>33</i>	<i>-</i>	<i>779</i>	<i>3</i>	<i>918</i>
<i>Current</i>	<i>39</i>	<i>120</i>	<i>-</i>	<i>20</i>	<i>54</i>	<i>22</i>	<i>255</i>

\* Unwinding of discount is included in interest expense.

(1) The purchase of EP SHB LIMITED, EP LANGAGE LIMITED, Kraftwerk Mehrum GmbH, POZAGAS a.s. 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 440 million represents other decommissioning provisions.

<i>In millions of EUR</i>	<b>Employee benefits</b>	<b>Provision for emission rights</b>	<b>Onerous contracts</b>	<b>Provision for lawsuits and litigations</b>	<b>Provision for restoration and decommissioning<sup>(3)</sup></b>	<b>Other</b>	<b>Total</b>
<b>Balance at 1 January 2016</b>	<b>119</b>	<b>102</b>	<b>70</b>	<b>9</b>	<b>691</b>	<b>5</b>	<b>996</b>
Provisions made during the year	70	72	1	6	47	10	<b>206</b>
Provisions used during the year	(33)	(90)	(2)	-	(15)	(3)	<b>(143)</b>
Provisions reversed during the year	(2)	-	(9)	(1)	(8)	-	<b>(20)</b>
Acquisitions through business combinations <sup>(1)</sup>	-	-	-	-	10	1	<b>11</b>
Transfer <sup>(2)</sup>	-	-	(2)	-	2	-	<b>-</b>
Unwinding of discount*	1	-	-	-	16	-	<b>17</b>
Effects of movements in foreign exchange rate	(1)	(4)	-	-	(12)	(1)	<b>(18)</b>
<b>Balance at 31 December 2016</b>	<b>154</b>	<b>80</b>	<b>58</b>	<b>14</b>	<b>731</b>	<b>12</b>	<b>1,049</b>
<i>Non-current</i>	<i>106</i>	<i>-</i>	<i>58</i>	<i>-</i>	<i>651</i>	<i>2</i>	<i>817</i>
<i>Current</i>	<i>48</i>	<i>80</i>	<i>-</i>	<i>14</i>	<i>80</i>	<i>10</i>	<i>232</i>

\* 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 384 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 142 million (2016: EUR 154 million) was recorded by Mitteldeutsche Braunkohlengesellschaft GmbH, Kraftwerk Mehrum GmbH, EGGBOROUGH POWER LIMITED, Stredoslovenská distribučná, a.s. (former Stredoslovenská energetika – Distribúcia a.s.), SPP – distribúcia, a.s., NAFTA a.s., eustream, a.s., Stredoslovenská energetika a.s., Ep Produzione S.P.A., Fiume Santo S.P.A., Ep Produzione Centrale Livorno Ferraris S.P.A., Elektrárny Opatovice, a.s., Pražská teplárenská, a.s., United Energy, a.s.

#### 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
<b>Plan A</b>		
Fair value of plan asset	4	4
Present value of obligations	(6)	(6)
<b>Total employee benefit (asset)</b>	<b>(2)</b>	<b>(2)</b>
<b>Plan B</b>		
Fair value of plan asset	2	2
Present value of obligations	(3)	(3)
<b>Total employee benefit (asset)</b>	<b>(1)</b>	<b>(1)</b>
<b>Plan C</b>		
Fair value of plan asset	-	-
Present value of obligations	(1)	(1)
<b>Total employee benefit (asset)</b>	<b>(1)</b>	<b>(1)</b>

**Movement in the present value of defined benefit obligations**

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>	<b>Total</b>
<b>Balance at 1 January 2017</b>	<b>(6)</b>	<b>(3)</b>	<b>(1)</b>	<b>(10)</b>
Benefits paid by plan	-	1	-	1
Actuarial gains (losses)	-	(1)	-	(1)
<b>Balance at 31 December 2017</b>	<b>(6)</b>	<b>(3)</b>	<b>(1)</b>	<b>(10)</b>

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>	<b>Total</b>
<b>Balance at 1 January 2016</b>	<b>(6)</b>	<b>(3)</b>	<b>(1)</b>	<b>(10)</b>
Benefits paid by plan	-	1	-	1
Actuarial gains (losses)	-	(1)	-	(1)
<b>Balance at 31 December 2016</b>	<b>(6)</b>	<b>(3)</b>	<b>(1)</b>	<b>(10)</b>

**Movement in fair value of plan assets**

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>	<b>Total</b>
<b>Balance at 1 January 2017</b>	<b>4</b>	<b>2</b>	<b>-</b>	<b>6</b>
Benefits paid by plan	-	-	-	-
Contributions to plan assets	-	-	-	-
<b>Balance at 31 December 2017</b>	<b>4</b>	<b>2</b>	<b>-</b>	<b>6</b>

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>	<b>Total</b>
<b>Balance at 1 January 2016</b>	<b>4</b>	<b>2</b>	<b>-</b>	<b>6</b>
Benefits paid by plan	-	(1)	-	(1)
Contributions to plan assets	-	1	-	1
<b>Balance at 31 December 2016</b>	<b>4</b>	<b>2</b>	<b>-</b>	<b>6</b>

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

**As at 31 December 2017**

<i>In %</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>
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**

<i>In %</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Plan C</b>
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.

<i>In millions of EUR</i>	2017	2016
<b>Plan A</b>		
Fair value of plan asset	30	24
Present value of obligations	(51)	(56)
<b>Total employee benefit</b>	<b>(21)</b>	<b>(32)</b>
<b>Plan B</b>		
Fair value of plan asset	1	1
Present value of obligations	(2)	(2)
<b>Total employee benefit</b>	<b>(1)</b>	<b>(1)</b>
<b>Early Retirement</b>		
Present value of obligations	(28)	(38)
<b>Total employee benefit</b>	<b>(28)</b>	<b>(38)</b>

**Movements in the present value of defined benefit obligations**

<i>In millions of EUR</i>	Plan A	Plan B	Early retirement	Total
<b>Balance at 1 January 2017</b>	<b>(56)</b>	<b>(2)</b>	<b>(38)</b>	<b>(96)</b>
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
<b>Balance at 31 December 2017</b>	<b>(51)</b>	<b>(2)</b>	<b>(28)</b>	<b>(81)</b>
<i>In millions of EUR</i>	Plan A	Plan B	Early retirement	Total
<b>Balance at 1 January 2016</b>	<b>(44)</b>	<b>(2)</b>	<b>(36)</b>	<b>(82)</b>
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)
<b>Balance at 31 December 2016</b>	<b>(56)</b>	<b>(2)</b>	<b>(38)</b>	<b>(96)</b>

### Movement in fair value of plan assets

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Total</b>
<b>Balance at 1 January 2017</b>	<b>24</b>	<b>1</b>	<b>25</b>
Contributions to plan assets	6	-	6
Expected return on plan assets	-	-	-
Actuarial gains (losses) recognised in other comprehensive income	-	-	-
<b>Balance at 31 December 2017</b>	<b>30</b>	<b>1</b>	<b>31</b>

<i>In millions of EUR</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Total</b>
<b>Balance at 1 January 2016</b>	<b>22</b>	<b>1</b>	<b>23</b>
Contributions to plan assets	2	-	2
Expected return on plan assets	1	-	1
Actuarial gains (losses) recognised in other comprehensive income	(1)	-	(1)
<b>Balance at 31 December 2016</b>	<b>24</b>	<b>1</b>	<b>25</b>

### Expense recognised in profit and loss:

<i>In millions of EUR</i>	<b>2017</b>	<b>2016</b>
Current service costs	-	(7)
Current interest costs	(1)	(2)
Expected return on plan assets	-	1
<b>Total</b>	<b>(1)</b>	<b>(8)</b>

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

#### As at 31 December 2017

<i>In %</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Early Retirement</b>
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

<i>In %</i>	<b>Plan A</b>	<b>Plan B</b>	<b>Early Retirement</b>
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.

*iii. Stredoslovenská energetika, a.s. and Stredoslovenská distribučná, a.s.*

The provision recorded by Stredoslovenská energetika, a.s. and Stredoslovenská distribučná, a.s. (former Stredoslovenská energetika – Distribúcia, a.s.) amounts to EUR 11 million (2016: EUR 10 million). The SSE Group has the following retirement plan with defined benefit and defined contribution plans:

*Pension Plans*

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

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

*Unfunded pension plan with defined benefit*

According to the Corporate Group collective agreement for the period 2017 – 2019, the Group is obliged to pay its employees upon age pension or disability pension, depending on seniority, the following multiples of the average monthly salary:

<b>Years of service</b>	<b>Multiples of average monthly wage</b>
10 years or less	2
11 – 15 years	4
16 – 20 years	5
21 – 25 years	6
25 years and more	7

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

*Other benefits*

The SSE Group also pays benefits for work and life anniversaries:

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

**Provision for emission rights**

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

**Provision for lawsuits**

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

For more details refer to Note 40 – Litigations and claims.

As disclosed in Note 40 – 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 833 million (2016: EUR 731 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), NAFTA a.s. (EUR 92 million; 2016: EUR 97 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), POZAGAS a.s. (EUR 11 million,

2016: EUR 0 million) eustream, a.s. (EUR 8 million; 2016: EUR 12 million for the SPPI Group) 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*

	<b>2017</b>
	<b>Profit (loss)</b>
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*

	<b>2017</b>
	<b>Profit (loss)</b>
Increase of discount rate by 1%	69
Decrease of discount rate by 1%	(84)

NAFTA a.s. currently has 154 production wells in addition to 244 storage wells. Production wells that are currently in production or are being used for other purposes are expected to be abandoned after reserves have been fully produced or when it has been determined that the wells will not be used for any other purposes. Storage wells are expected to be abandoned after the end of their useful lives. NAFTA a.s. has the obligation to dismantle the production and storage wells, decontaminate contaminated soil, restore the area, and restore the site to its original condition to the extent as stipulated by law.

The provision for abandonment and restoration has been estimated using existing technology and reflects expected future inflation. The present value of these costs was calculated using a discount rate, which reflects the current market assessment of the time value of money – risk free rate (2017: 2.15%; 2016: 2.65%). The provision takes into account the estimated costs for the abandonment of production and storage



wells and centres, and the costs of restoring the sites to their original condition. These costs are expected to be incurred between 2017 and 2093.

The Group uses stress tests in the form of expected costs, inflation and discount rate shocks, i.e. simulated immediate increase/decrease of expected costs by 10% and increases in inflation or the discount rate by 1%.

At the reporting date, a change of 10% in the expected costs would have increased or decreased the provision for asset retirement obligations by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

At the reporting date, an increase of 1% in the inflation or discount rate would have increased or decreased the provision for asset retirement obligations by the amounts shown in the table below. This analysis assumes that all other variables remain constant.

*In millions of EUR*

	<b>2017</b>
	<b>Profit (loss)</b>
Decrease of expected costs of 10%	12
Increase of expected costs of 10%	(12)
Increase of inflation rate of 1%	(28)
Increase of discount rate of 1%	19

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*

	<b>2017</b>
	<b>Profit (loss)</b>
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*

	<b>2017</b>
	<b>Profit (loss)</b>
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.

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.

POZAGAS a.s., LYNEMOUTH POWER LIMITED and eustream, a.s. 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, Pozagas a.s., LYNEMOUTH POWER LIMITED and eustream, a.s. 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.

**32. Deferred income***In millions of EUR*

	31 December 2017	31 December 2016
Government grants	112	43
Free-of-charge received property	42	17
Other deferred income	60	62
<b>Total</b>	<b>214</b>	<b>122</b>
Non-current	195	99
Current	19	23
<b>Total</b>	<b>214</b>	<b>122</b>

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

Balance of government grants in amount of EUR 112 million (2016: EUR 43 million) is mainly represented by Elektrárny Opatovice, a.s. of EUR 38 million (2016: EUR 21 million), Alternative Energy, s.r.o. of EUR 5 million (2016: EUR 4 million), eustream, a.s. of EUR 62 million (2016: EUR 11 million) and United Energy a.s. of EUR 5 million (2016: EUR 5 million). Elektrárny Opatovice, a.s. and Alternative Energy, s.r.o. were provided with government grants to reduce emission pollutions and to build biogas facility. This deferred income is released in the income statement on a straight-line basis in the amount of depreciation charges of non-current tangible assets constructed and is recognized as other operating income.

Balance of government grants recognised by eustream, a.s. includes the grants allocated by the European Commission for various business projects.

Balance of other deferred income in amount of EUR 60 million (2016: EUR 62 million) is represented mainly by Stredoslovenská distribučná, a.s. Stredoslovenská distribučná, a.s. recorded as other deferred income following items: fee for grid connection paid by customers EUR 31 million (2016: EUR 26 million) and contributions paid by customers for the restoration of tangible assets related to distribution network EUR 3 million (2016: EUR 3 million).

### 33. Financial instruments

#### Financial instruments and other financial assets

*In millions of EUR*

	31 December 2017	31 December 2016
<b>Assets carried at amortised cost</b>		
Loans to other than credit institutions	531	496
Shares available for sale held at cost	105	87
Impairment of loans to other than credit institutions	(17)	(60)
<b>Total</b>	<b>619</b>	<b>523</b>
<b>Assets carried at fair value</b>		
<b>Hedging: of which</b>		
Commodity derivatives fair value hedge	36	32
Commodity derivatives cash flow hedge <sup>(1)</sup>	18	20
Other derivatives fair value hedge	9	12
Interest rate swaps cash flow hedge	8	-
<b>Risk management purpose: of which</b>		
Commodity derivatives reported as trading	1	-
Currency forwards reported as trading	19	7
	17	6
	2	1
<b>Total</b>	<b>55</b>	<b>39</b>
Non-current	111	129
Current	563	433
<b>Total</b>	<b>674</b>	<b>562</b>

(1) Commodity derivatives designated as cash flow hedges primarily relate to forwards for sale/purchase of electricity which EP ENERGY TRADING, a.s. used to hedge the cash flows related to purchase/sale of electricity utilised for electricity supply to final customers. The effectiveness of the hedging relationship is typically assessed by comparison of hedged volume to actual volumes sourced or delivered.

Additionally, eustream, a.s. is active in hedging cash inflows predominantly from gas-in-kind received from shippers. eustream, a.s. regularly performs estimations of the surplus of natural gas from received gas-in-kind and enters into short and mid-term commodity swaps in order to hedge its natural gas selling prices.

#### Financial instruments and other financial liabilities

*In millions of EUR*

	31 December 2017	31 December 2016
<b>Liabilities carried at amortised cost</b>		
Issued bills of exchange at amortised costs	61	69
<b>Total</b>	<b>61</b>	<b>69</b>
<b>Liabilities carried at fair value</b>		
<b>Hedging: of which</b>		
Currency forwards cash flow hedge	79	22
Interest rate swaps cash flow hedge	48	1
Commodity derivatives cash flow hedge	26	12
<b>Risk management purpose: of which</b>		
Commodity derivatives reported as trading	5	9
Interest rate swaps reported as trading	42	48
Currency forwards reported as trading	27	17
Other derivatives reported as trading	9	29
	6	1
	-	1
<b>Total</b>	<b>121</b>	<b>70</b>
Non-current	31	65
Current	151	74
<b>Total</b>	<b>182</b>	<b>139</b>

The weighted average interest rate on loans to other than credit institutions for 2017 was 6.23% (2016: 6.47%).

As at 31 December 2016, the Group recorded a valuation allowance of EUR 39 million to a loan provided to its associate Przedsiębiorstwo Górnicze SILESIA Sp. z o.o. ("PGS"). In 2017, the valuation allowance to the loan provided to PGS was released and no valuation allowance was reported as at 31 December 2017.

At the same time, the Group reported a valuation allowance of EUR 32 million (2016: EUR 13 million) to its financial investment in PGS (refer to Note 19 – Equity accounted investees). Valuation adjustments in both years were recorded as a result of the impairment test carried out as at 31 December 2017 and 2016 respectively. The results of the impairment tests reflect the current conditions on the Polish hard coal market.

Furthermore, as at 31 December 2016 the Group recorded as a result of the carried out credit analysis a valuation allowance of EUR 21 million to loans provided to a third party as the Company has doubts about a borrower's ability to fully settle its debts. In 2017, as a result of the credit analysis the portion of the valuation allowance of EUR 6 million was released. The valuation allowance reported as at 31 December 2017 amounts to EUR 15 million.

Shares available for sale held at cost primarily represent a 10% share in Veolia Energie ČR, a.s. in amount of EUR 80 million (2016: EUR 76 million). The increase of EUR 4 million was caused by positive effect of changes in the FX rate.

The management of EPH is of the opinion that it is extremely difficult to calculate fair value for this stake. Veolia Energie ČR, a.s. is not publicly traded, the Company does not have access to business plans or other reliable financial information based on which fair value of the share could be reasonably determined. As a result, the management of EPH decided to exercise the exception in IAS 39.46 and carry the shares at cost.

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

<i>In millions of EUR</i>	<b>31 December 2017 Nominal amount buy</b>	<b>31 December 2017 Nominal amount sell</b>	<b>31 December 2017 Positive fair value</b>	<b>31 December 2017 Negative fair value</b>
<b>Hedging: of which</b>	2,455	(2,449)	36	(79)
Interest rate swaps cash flow hedge	2,055	(2,055)	1	(26)
Commodity derivatives cash flow hedge	168	(162)	9	(5)
Commodity derivatives fair value hedge	83	(83)	18	-
Currency derivatives cash flow hedge	79	(80)	-	(48)
Other derivatives fair value hedge	70	(69)	8	-
<b>Risk management purpose: of which</b>	2,342	(2,363)	19	(42)
Commodity derivatives reported as trading	1,273	(1,288)	17	(27)
Currency forwards reported as trading	637	(643)	2	(6)
Interest rate swaps reported as trading	432	(432)	-	(9)
<b>Total</b>	<b>4,797</b>	<b>(4,812)</b>	<b>55</b>	<b>(121)</b>

<i>In millions of EUR</i>	<b>31 December 2016 Nominal amount buy</b>	<b>31 December 2016 Nominal amount sell</b>	<b>31 December 2016 Positive fair value</b>	<b>31 December 2016 Negative fair value</b>
<b>Hedging: of which</b>	525	(504)	32	(22)
Interest rate swaps cash flow hedge	235	(235)	-	(12)
Commodity derivatives cash flow hedge	171	(170)	12	(9)
Currency forwards cash flow hedge	28	(28)	-	(1)
Interest rate swaps fair value hedge	4	(4)	-	-
Commodity derivatives fair value hedge	87	(67)	20	-
<b>Risk management purpose: of which</b>	2,467	(2,474)	7	(48)
Interest rate swaps reported as trading	1,372	(1,372)	-	(29)
Commodity derivatives reported as trading	557	(564)	6	(17)
Currency forwards reported as trading	535	(535)	1	(1)
Other derivatives reported as trading	3	(3)	-	(1)
<b>Total</b>	<b>2,992</b>	<b>(2,978)</b>	<b>39</b>	<b>(70)</b>

Swap derivatives are recognised in respect of interest rate swaps as described in detail in Note 37 – Risk management policies and disclosures.

Commodity derivatives are recognised in respect of contracts for purchase and sale of electricity, which are denominated in CZK and EUR with maturity up to 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 37 – 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).

<i>In millions of EUR</i>	<b>2017</b>			
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b>Financial assets carried at fair value:</b>				
<b>Hedging: of which</b>	-	36	-	<b>36</b>
<i>Commodity derivatives fair value hedge</i>	-	18	-	18
<i>Commodity derivatives cash flow hedge</i>	-	9	-	9
<i>Other derivatives fair value hedge</i>	-	8	-	8
<i>Interest rate swaps cash flow hedge</i>	-	1	-	1
<b>Risk management purpose: of which</b>	-	19	-	<b>19</b>
<i>Commodity derivatives reported as trading</i>	-	17	-	17
<i>Currency forwards reported as trading</i>	-	2	-	2
<b>Total</b>	-	<b>55</b>	-	<b>55</b>
<b>Financial liabilities carried at fair value:</b>				
<b>Hedging: of which</b>	-	(79)	-	<b>(79)</b>
<i>Currency forwards cash flow hedge</i>	-	(48)	-	(48)
<i>Interest rate swaps cash flow hedge</i>	-	(26)	-	(26)
<i>Commodity derivatives cash flow hedge</i>	-	(5)	-	(5)
<b>Risk management purpose: of which</b>	-	(42)	-	<b>(42)</b>
<i>Commodity derivatives reported as trading</i>	-	(27)	-	(27)
<i>Interest rate swaps reported as trading</i>	-	(9)	-	(9)
<i>Currency forwards reported as trading</i>	-	(6)	-	(6)
<b>Total</b>	-	<b>(121)</b>	-	<b>(121)</b>

<i>In millions of EUR</i>	2016			Total
	Level 1	Level 2	Level 3	
<b>Financial assets carried at fair value:</b>				
<b>Hedging: of which</b>	-	32	-	32
Commodity derivatives fair value hedge	-	20	-	20
Commodity derivatives cash flow hedge	-	12	-	12
<b>Risk management purpose: of which</b>	-	7	-	7
Commodity derivatives reported as trading	-	6	-	6
Currency forwards reported as trading	-	1	-	1
<b>Total</b>	-	39	-	39
<b>Financial liabilities carried at fair value:</b>				
<b>Hedging: of which</b>	-	22	-	22
Interest rate swaps cash flow hedge	-	12	-	12
Commodity derivatives cash flow hedge	-	9	-	9
Currency forwards cash flow hedge	-	1	-	1
<b>Risk management purpose: of which</b>	-	48	-	48
Interest rate swaps reported as trading	-	29	-	29
Commodity derivatives reported as trading	-	17	-	17
Currency forwards reported as trading	-	1	-	1
Other derivatives reported as trading	-	1	-	1
<b>Total</b>	-	70	-	70

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:

<i>In millions of EUR</i>	Carrying value 31 December 2017	Fair value 31 December 2017
<b>Financial assets</b>		
Loans to other than credit institutions	<sup>(1)</sup> 514	593
Shares available for sale held at cost, net*	105	<sup>(2)</sup> -
<b>Total</b>	<b>619</b>	<b>593</b>
<b>Financial liabilities</b>		
Issued bills of exchange at amortised costs	61	57
<b>Total</b>	<b>61</b>	<b>57</b>
<i>In millions of EUR</i>	Carrying value 31 December 2016	Fair value 31 December 2016
<b>Financial assets</b>		
Loans to other than credit institutions	<sup>(1)</sup> 436	529
Shares available for sale held at cost, net*	87	<sup>(2)</sup> -
<b>Total</b>	<b>523</b>	<b>529</b>
<b>Financial liabilities</b>		
Issued bills of exchange at amortised costs	69	65
<b>Total</b>	<b>69</b>	<b>65</b>

\* As noted above Shares available for sale held at cost, net primarily represent the 10% share in Veolia Energie ČR, a.s.

(1) Loans to other than credit institutions are stated net of impairment.

(2) 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 EPH Group is contractually obliged to purchase 4,201,421 pieces (2016: 4,641,113 pieces) of emission rights at an average price 5.829 EUR/piece (2016: 6.138 EUR/piece).

**34. Trade payables and other liabilities***In millions of EUR*

	<b>31 December 2017</b>	<b>31 December 2016</b>
Trade payables	529	438
Liabilities to partners and associations	(1)227	-
Accrued expenses	160	104
Advance payments received	108	95
Payroll liabilities	78	81
Estimated payables	56	48
Other tax liabilities	55	59
Uninvoiced supplies	27	28
Other contingent consideration <sup>(2)</sup>	6	6
Other liabilities	109	73
<b>Total</b>	<b>1,355</b>	<b>932</b>
<i>Non-current</i>	125	120
<i>Current</i>	1,230	812
<b>Total</b>	<b>1,355</b>	<b>932</b>

(1) As at 31 December 2017, the EPH Group reported EUR 222 million as a liability to Slovenský plynárenský priemysel, a.s. ("SPP") (51% shareholder of SPP Infrastructure, a. s.) from unsettled dividend, and at the same time SPP Infrastructure, a.s. recognized a financial receivable against SPP of EUR 270 million. These mutual positions were not offset as of 31 December 2017 and therefore presented in the consolidated statement of financial position separately. The setoff was carried out on 13 February 2018.

(2) In 2016, the EPH Group acquired 33% share in SPH Group. In addition to the purchase price paid upon closing of the first stage of the transaction, remaining part of the purchase price will be subject to a price adjustment mechanism. As at 31 December 2017, EPH Group recognised a liability of EUR 6 million as an estimate of probable future payment (2016: EUR 6 million).

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 37 – Risk management policies and disclosures.



**Liabilities to social fund**

<i>In millions of EUR</i>	<b>2017</b>	<b>2016</b>
<b>Balance at 1 January</b>	1	1
Charged to expenses	2	2
Disposal/decrease in principal	(2)	(2)
<b>Balance at 31 December</b>	<b>1</b>	<b>1</b>

Liabilities to the social fund are presented under payroll liabilities.

**35. Financial commitments and contingencies****Off balance sheet liabilities**

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Granted pledges – securities	9,082	8,975
Commitments	255	113
Guarantees given <sup>(1)</sup>	158	158
Other granted pledges	1,271	965
<b>Total</b>	<b>10,766</b>	<b>10,211</b>

(1) Total balance of guarantees given includes also guarantees for loans given by the Company where debtors are individual companies within the Group.

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

**Guarantees given**

Guarantees given include mainly guarantees in the amount of EUR 120 million (2016: EUR 120 million) used as collateral for external financing.

**Commitments**

Majority of commitments is represented by contracts to purchase energy in following years in amount of EUR 239 million (2016: EUR 113 million), where physical delivery of the energy will be realised in future.

**Other granted pledges**

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Loans granted <sup>(1)</sup>	411	325
Property, plant and equipment	404	397
Cash and cash equivalents <sup>(2)</sup>	385	151
Trade receivables	51	62
Inventories	20	30
<b>Total</b>	<b>1,271</b>	<b>965</b>

(1) Total balance of pledged granted loans includes intercompany loans of EUR 404 million (2016: EUR 319 million), which are eliminated in these consolidated financial statements.

(2) According to the bond documentation cash balances at specific entities are pledged in favour of the bondholders in case EPE defaults on bonds payments. As such, the pledged cash is readily available to the Group and does not represent restricted cash.

**Off balance sheet assets**

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Received promises	372	336
Other received guarantees and warranties	234	203
<b>Total</b>	<b>606</b>	<b>539</b>

**Received promises**

Received promises mainly comprise the contracts for the future purchase of energy in amount of EUR 239 million (2016: EUR 197 million) and regulatory contingent assets related to green energy of EUR 97 million

(2016: EUR 138 million) recognised by SSE Group, which are represented by the contingent assets related to green energy for the year 2017, that was transferred to 2017 (2016: contingent assets cover year 2016).

*Regulatory contingent assets related to green energy*

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

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

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

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

**Other received guarantees and warranties**

Other received guarantees and warranties mainly consist of guarantees received to secure trade receivables in the amount of EUR 82 million (2016: EUR 99 million) recognised by SPP Infrastructure, a.s. and SPP – distribúcia, a.s. and EUR 73 million (2016: EUR 60 million) recognised by NAFTA a.s. and guarantees received to secure payments for gas supply in amount of EUR 76 million (2016: EUR 40 million) recognised by EP Commodities, a.s.

**36. Operating leases**

During the year ended 31 December 2017, EUR 34million (2016: EUR 31 million) was recognised as an expense in profit or loss in respect of operating leases.

During the year ended 31 December 2017, EUR 8 million (2016: EUR 7 million) was recognised as income in profit or loss in respect of operating leases.

### 37. 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*

	<b>Corporate (non-financial institutions)</b>	<b>State, government</b>	<b>Financial institutions</b>	<b>Banks</b>	<b>Individuals</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	8	-	-	805	-	3	<b>816</b>
Restricted cash	7	-	1	23	-	-	<b>31</b>
Trade receivables and other assets	979	18	2	2	17	85	<b>1,103</b>
Financial instruments and other financial assets	593	-	63	16	2	-	<b>674</b>
<b>Total</b>	<b>1,587</b>	<b>18</b>	<b>66</b>	<b>846</b>	<b>19</b>	<b>88</b>	<b>2,624</b>

**As at 31 December 2016**

*In millions of EUR*

	<b>Corporate (non-financial institutions)</b>	<b>State, government</b>	<b>Financial institutions</b>	<b>Banks</b>	<b>Individuals</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>							
Cash and cash equivalents	1	-	-	1,135	-	-	<b>1,136</b>
Restricted cash	-	-	-	30	-	-	<b>30</b>
Trade receivables and other assets	634	1	-	2	1	22	<b>660</b>
Financial instruments and other financial assets	350	-	208	4	-	-	<b>562</b>
<b>Total</b>	<b>985</b>	<b>1</b>	<b>208</b>	<b>1,171</b>	<b>1</b>	<b>22</b>	<b>2,388</b>

### Credit risk by location of debtor

#### As at 31 December 2017

*In millions of EUR*

	Czech Republic	Slovakia	Cyprus	Italy	Poland	Germany	Hungary	United Kingdom	Other	Total
<b>Assets</b>										
Cash and cash equivalents	457	175	-	88	4	41	13	30	8	816
Restricted cash	-	-	-	-	-	-	1	30	-	31
Trade receivables and other assets	190	245	1	233	14	136	13	128	143	1,103
Financial instruments and other financial assets	112	273	45	6	79	45	9	35	70	674
<b>Total</b>	<b>759</b>	<b>693</b>	<b>46</b>	<b>327</b>	<b>97</b>	<b>222</b>	<b>36</b>	<b>223</b>	<b>221</b>	<b>2,624</b>

#### As at 31 December 2016

*In millions of EUR*

	Czech Republic	Slovakia	Cyprus	Italy	Poland	Germany	Hungary	United Kingdom	Other	Total
<b>Assets</b>										
Cash and cash equivalents	640	197	-	86	3	55	2	152	1	1,136
Restricted cash	1	-	-	-	-	-	-	29	-	30
Trade receivables and other assets	140	192	2	98	8	90	18	66	46	660
Financial instruments and other financial assets	88	4	90	6	43	44	1	19	267	562
<b>Total</b>	<b>869</b>	<b>393</b>	<b>92</b>	<b>190</b>	<b>54</b>	<b>189</b>	<b>21</b>	<b>266</b>	<b>314</b>	<b>2,388</b>

As at 31 December 2017, location Other comprises mainly debtors located in the Netherlands, Belgium and Russia (2016: the Netherlands, Russia and France).

## 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)	514	-	1,073	1,587
After maturity (net)	-	-	30	30
<b>Total</b>	<b>514</b>	<b>-</b>	<b>1,103</b>	<b>1,617</b>

A – Assets for which a provision has been created

- Gross	26	-	46	72
- specific loss allowance	(17)	-	(22)	(39)
- collective loss allowance	-	-	(1)	(1)
<b>Net</b>	<b>9</b>	<b>-</b>	<b>23</b>	<b>32</b>

B – Assets for which a provision has not been created (overdue but not impaired)

- after maturity <30 days	-	-	4	4
- after maturity 31–180 days	-	-	2	2
- after maturity 181–365 days	-	-	-	-
- after maturity >365 days	-	-	1	1
<b>Net</b>	<b>-</b>	<b>-</b>	<b>7</b>	<b>7</b>

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
<b>Balance at 1 January 2017</b>	<b>(60)</b>	<b>-</b>	<b>(20)</b>	<b>(80)</b>
Impairment losses recognised during the year	(2)	-	(5)	(7)
Reversals of impairment losses recognised during the year	48	-	2	50
Effects of movements in foreign exchange rate	(3)	-	-	(3)
<b>Balance at 31 December 2017</b>	<b>(17)</b>	<b>-</b>	<b>(23)</b>	<b>(40)</b>

**Credit risk – impairment of financial assets****As at 31 December 2016***In millions of EUR*

	<b>Loans to other than credit institutions</b>	<b>Other short- term deposits (intended for investing activities)</b>	<b>Trade receivables and other assets</b>	<b>Total</b>
Before maturity (net)	436	-	651	<b>1,087</b>
After maturity (net)	-	-	9	<b>9</b>
<b>Total</b>	<b>436</b>	<b>-</b>	<b>660</b>	<b>1,096</b>
A – Assets for which a provision has been created				
- Gross	74	-	23	<b>97</b>
- specific loss allowance	(60)	-	(20)	<b>(80)</b>
- collective loss allowance	-	-	-	<b>-</b>
<b>Net</b>	<b>14</b>	<b>-</b>	<b>3</b>	<b>17</b>
B – Assets for which a provision has not been created (overdue but not impaired)				
- after maturity <30 days	-	-	5	<b>5</b>
- after maturity 31–180 days	-	-	1	<b>1</b>
- after maturity 181–365 days	-	-	-	<b>-</b>
- after maturity >365 days	-	-	-	<b>-</b>
<b>Net</b>	<b>-</b>	<b>-</b>	<b>6</b>	<b>6</b>

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

*In millions of EUR*

	<b>Loans to other than credit institutions</b>	<b>Other own term deposits (intended for investing activities)</b>	<b>Trade receivables and other assets</b>	<b>Total</b>
<b>Balance at 1 January 2016</b>	-	-	(14)	<b>(14)</b>
Impairment losses recognised during the year	(60)	-	(7)	<b>(67)</b>
Reversals of impairment losses recognised during the year	-	-	2	<b>2</b>
Effects of movements in foreign exchange rate	-	-	(1)	<b>(1)</b>
<b>Balance at 31 December 2016</b>	<b>(60)</b>	<b>-</b>	<b>(20)</b>	<b>(80)</b>

Impairment losses on loans to other than credit institutions as at 31 December 2017 relate mainly to loans provided to a third party, where, as a result of the carried out credit analysis, the Group has doubts about a borrower's ability to fully settle its debts.

Impairment losses on loans to other than credit institutions as at 31 December 2016 relate to a loan provided to the Group's associate Przedsiębiorstwo Górnicze SILESIA Sp. z o.o. recorded as a result of the carried out impairment test and to loans provided to a third party, where, as a result of the carried out credit analysis, the Group has doubts about a borrower's ability to fully settle its debts.

Impairment losses on trade receivables and other assets at 31 December 2017 and 31 December 2016 relate to several customers that have indicated that they do not expect to be able to pay their outstanding balances, mainly due to economic circumstances. The Group believes that the unimpaired amounts that are past due by more than 30 days are still collectible, based on extensive analyses of the underlying ratings of the customers.

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

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

**(b) Liquidity risk**

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

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

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

The table below provides an analysis of financial assets and liabilities by relevant maturity groupings based on the remaining period from the reporting date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment schedules allow for early repayment possibilities. Therefore, in the case of liabilities, the earliest 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 <sup>(1)</sup>	Up to 3 months	3 months to 1 year	1–5 years	Over 5 years	Undefined maturity
<b>Assets</b>							
Cash and cash equivalents	816	816	816	-	-	-	-
Restricted cash	31	31	7	1	-	23	-
Trade receivables and other assets	<sup>(2)</sup> 1,065	1,065	609	292	135	2	27
Financial instruments and other financial assets	674	697	304	168	11	115	99
out of which Derivatives - inflow	55	1,851	420	942	41	448	-
outflow		(1,840)	(413)	(941)	(41)	(445)	-
<b>Total</b>	<b>2,586</b>	<b>2,609</b>	<b>1,736</b>	<b>461</b>	<b>146</b>	<b>140</b>	<b>126</b>
<b>Liabilities</b>							
Loans and borrowings	6,121	6,643	55	1,148	4,715	723	2
Trade payables and other liabilities	<sup>(3)</sup> 1,298	1,298	917	234	89	34	24
Financial instruments and financial liabilities	182	168	44	36	26	62	-
out of which Derivatives - inflow		2,946	608	660	110	1,568	-
outflow	(121)	(2,972)	(629)	(661)	(113)	(1,569)	-
<b>Total</b>	<b>7,601</b>	<b>8,109</b>	<b>1,016</b>	<b>1,418</b>	<b>4,830</b>	<b>819</b>	<b>26</b>
<b>Net liquidity risk position</b>	<b>(5,015)</b>	<b>(5,500)</b>	<b>720</b>	<b>(957)</b>	<b>(4,684)</b>	<b>(679)</b>	<b>100</b>

(1) Contractual cash flows disregarding discounting to net present value and including potential interest.

(2) Prepaid expenses and advances provided in total amount of EUR 38 million are excluded from the carrying amount as these items will cause no future cash inflow.

(3) Advances received in amount of EUR 57 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*

	<b>Carrying amount</b>	<b>Contractual cash flows<sup>(1)</sup></b>	<b>Up to 3 months</b>	<b>3 months to 1 year</b>	<b>1–5 years</b>	<b>Over 5 years</b>	<b>Undefined maturity</b>
<b>Assets</b>							
Cash and cash equivalents	<b>1,136</b>	1,136	1,136	-	-	-	-
Restricted cash	<b>30</b>	30	-	1	-	29	-
Trade receivables and other assets	<sup>(2)</sup> <b>618</b>	618	462	121	25	-	10
Financial instruments and other financial assets	<b>562</b>	589	134	227	40	100	88
<i>out of which Derivatives - inflow</i>	<b>39</b>	306	215	74	17	-	-
<i>  outflow</i>		(279)	(194)	(68)	(17)	-	-
<b>Total</b>	<b>2,346</b>	<b>2,373</b>	<b>1,732</b>	<b>349</b>	<b>65</b>	<b>129</b>	<b>98</b>
<b>Liabilities</b>							
Loans and borrowings	<b>5,541</b>	6,208	74	160	5,163	811	-
Trade payables and other liabilities	<sup>(3)</sup> <b>869</b>	869	542	166	87	31	43
Financial instruments and financial liabilities	<b>139</b>	139	26	51	46	16	-
<i>out of which Derivatives - inflow</i>		2,686	194	1,038	853	601	-
<i>  outflow</i>	<b>(70)</b>	(2,699)	(194)	(1,050)	(853)	(602)	-
<b>Total</b>	<b>6,549</b>	<b>7,216</b>	<b>642</b>	<b>377</b>	<b>5,296</b>	<b>858</b>	<b>43</b>
<b>Net liquidity risk position</b>	<b>(4,203)</b>	<b>(4,843)</b>	<b>1,090</b>	<b>(28)</b>	<b>(5,231)</b>	<b>(729)</b>	<b>55</b>

(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 42 million are excluded from the carrying amount as these items will cause no future cash inflow.

(3) Advances received in amount of EUR 63 million are excluded from the carrying amount as these items will cause no future cash outflow.

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

**(c) Interest rate risk**

The Group's operations are subject to the risk of interest rate fluctuations to the extent that interest-earning assets (including investments) and interest-bearing liabilities 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:

<i>In millions of EUR</i>	<b>Up to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Undefined maturity (or non-interest bearing)</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	790	-	-	26	<b>816</b>
Restricted cash	30	-	-	1	<b>31</b>
Trade receivables and other assets	1	-	1	1,101	<b>1,103</b>
Financial instruments and other financial assets <sup>(1)</sup>	438	7	94	135	<b>674</b>
<i>out of which Derivatives - inflow</i>	380	-	-	1,471	<b>1,851</b>
<i>outflow</i>	-	-	(380)	(1,460)	<b>(1,840)</b>
<b>Total</b>	<b>1,259</b>	<b>7</b>	<b>95</b>	<b>1,263</b>	<b>2,624</b>
<b>Liabilities</b>					
Loans and borrowings	3,434	2,169	512	6	<b>6,121</b>
Trade payables and other liabilities	18	-	-	1,337	<b>1,355</b>
Financial instruments and financial liabilities <sup>(1)</sup>	100	7	-	75	<b>182</b>
<i>out of which Derivatives - inflow</i>	2,111	-	-	835	<b>2,946</b>
<i>outflow</i>	(32)	(400)	(1,679)	(861)	<b>(2,972)</b>
<b>Total</b>	<b>3,552</b>	<b>2,176</b>	<b>512</b>	<b>1,418</b>	<b>7,658</b>
<b>Net interest rate risk position</b>	<b>(2,293)</b>	<b>(2,169)</b>	<b>(417)</b>	<b>(155)</b>	<b>(5,034)</b>

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

Notional amounts of financial instruments are included in Note 33 – Financial instruments.

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

<i>In millions of EUR</i>	<b>Up to 1 year</b>	<b>1 year to 5 years</b>	<b>Over 5 years</b>	<b>Undefined maturity (or non-interest bearing)</b>	<b>Total</b>
<b>Assets</b>					
Cash and cash equivalents	1,100	-	-	36	<b>1,136</b>
Restricted cash	1	-	-	29	<b>30</b>
Trade receivables and other assets	40	-	-	620	<b>660</b>
Financial instruments and other financial assets <sup>(1)</sup>	292	82	82	106	<b>562</b>
<i>out of which Derivatives - inflow</i>	-	-	-	306	<i>306</i>
<i>outflow</i>	-	-	-	(279)	<i>(279)</i>
<b>Total</b>	<b>1,433</b>	<b>82</b>	<b>82</b>	<b>791</b>	<b>2,388</b>
<b>Liabilities</b>					
Loans and borrowings	3,205	1,386	939	11	<b>5,541</b>
Trade payables and other liabilities	-	6	-	926	<b>932</b>
Financial instruments and financial liabilities <sup>(1)</sup>	76	36	6	21	<b>139</b>
<i>out of which Derivatives - inflow</i>	1,611	-	-	1,075	<i>2,686</i>
<i>outflow</i>	(350)	(656)	(605)	(1,088)	<i>(2,699)</i>
<b>Total</b>	<b>3,281</b>	<b>1,428</b>	<b>945</b>	<b>958</b>	<b>6,612</b>
<b>Net interest rate risk position</b>	<b>(1,848)</b>	<b>(1,346)</b>	<b>(863)</b>	<b>(167)</b>	<b>(4,224)</b>

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

Notional amounts of financial instruments are included in Note 33 – 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.

<i>In millions of EUR</i>	<b>2017 Profit (loss)</b>	<b>2016 Profit (loss)</b>
Decrease in interest rates by 100 bp	(4)	(5)
Increase in interest rates by 100 bp	(1)	(7)

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 than the respective functional currencies of Group entities, primarily EUR, USD, GBP, PLN and HUF.

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

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

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

<i>In millions of EUR</i>	<b>CZK</b>	<b>USD</b>	<b>EUR</b>	<b>GBP</b>	<b>PLN</b>	<b>HUF</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>								
Cash and cash equivalents	253	3	511	31	5	13	-	<b>816</b>
Restricted cash	-	-	-	30	-	1	-	<b>31</b>
Trade receivables and other assets	175	6	762	127	13	20	-	<b>1,103</b>
Financial instruments and other financial assets	145	-	418	33	72	6	-	<b>674</b>
	<b>573</b>	<b>9</b>	<b>1,691</b>	<b>221</b>	<b>90</b>	<b>40</b>	<b>-</b>	<b>2,624</b>
<b>Off-balance sheet assets</b>								
Received promises	-	-	372	-	-	-	-	<b>372</b>
Receivables from derivative operations	1,559	8	2,756	437	-	37	-	<b>4,797</b>
	<b>1,559</b>	<b>8</b>	<b>3,128</b>	<b>437</b>	<b>-</b>	<b>37</b>	<b>-</b>	<b>5,169</b>
<b>Liabilities</b>								
Loans and borrowings	317	-	5,803	-	1	-	-	<b>6,121</b>
Trade payables and other liabilities	136	14	963	214	13	15	-	<b>1,355</b>
Financial instruments and financial liabilities	83	-	31	68	-	-	-	<b>182</b>
	<b>536</b>	<b>14</b>	<b>6,797</b>	<b>282</b>	<b>14</b>	<b>15</b>	<b>-</b>	<b>7,658</b>
<b>Off-balance sheet liabilities</b>								
Commitments	-	-	255	-	-	-	-	<b>255</b>
Payables related to derivative operations	1,613	4	2,708	452	4	31	-	<b>4,812</b>
	<b>1,613</b>	<b>4</b>	<b>2,963</b>	<b>452</b>	<b>4</b>	<b>31</b>	<b>-</b>	<b>5,067</b>
<b>Net FX risk position</b>	<b>37</b>	<b>(5)</b>	<b>(5,106)</b>	<b>(61)</b>	<b>76</b>	<b>25</b>	<b>-</b>	<b>(5,034)</b>

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 33 – Financial instruments for more details).

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

<i>In millions of EUR</i>	<b>CZK</b>	<b>USD</b>	<b>EUR</b>	<b>GBP</b>	<b>PLN</b>	<b>HUF</b>	<b>Other</b>	<b>Total</b>
<b>Assets</b>								
Cash and cash equivalents	214	1	750	152	3	16	-	<b>1,136</b>
Restricted cash	1	-	-	29	-	-	-	<b>30</b>
Trade receivables and other assets	109	1	472	55	6	17	-	<b>660</b>
Financial instruments and other financial assets	106	-	423	19	14	-	-	<b>562</b>
	<b>430</b>	<b>2</b>	<b>1,645</b>	<b>255</b>	<b>23</b>	<b>33</b>	<b>-</b>	<b>2,388</b>
<b>Off-balance sheet assets</b>								
Received promises	-	-	336	-	-	-	-	<b>336</b>
Receivables from derivative operations	1,349	7	1,313	186	31	-	106	<b>2,992</b>
	<b>1,349</b>	<b>7</b>	<b>1,649</b>	<b>186</b>	<b>31</b>	<b>-</b>	<b>106</b>	<b>3,328</b>
<b>Liabilities</b>								
Loans and borrowings	226	2	5,312	-	1	-	-	<b>5,541</b>
Trade payables and other liabilities	119	-	670	113	5	25	-	<b>932</b>
Financial instruments and financial liabilities	81	-	58	-	-	-	-	<b>139</b>
	<b>426</b>	<b>2</b>	<b>6,040</b>	<b>113</b>	<b>6</b>	<b>25</b>	<b>-</b>	<b>6,612</b>
<b>Off-balance sheet liabilities</b>								
Commitments	4	-	108	-	-	-	1	<b>113</b>
Payables related to derivative operations	1,250	140	1,426	108	30	24	-	<b>2,978</b>
	<b>1,254</b>	<b>140</b>	<b>1,534</b>	<b>108</b>	<b>30</b>	<b>24</b>	<b>1</b>	<b>3,091</b>
<b>Net FX risk position</b>	<b>4</b>	<b>-</b>	<b>(4,395)</b>	<b>142</b>	<b>17</b>	<b>8</b>	<b>-</b>	<b>(4,224)</b>

Off-balance sheet assets and liabilities include notional amounts of financial instruments (refer to Note 33 – Financial instruments for more details).

The following significant exchange rates applied during the period:

CZK	31 December 2017		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
HUF 100	8.517	8.230	8.682	8.721
GBP 1	30.058	28.786	33.121	31.586
PLN 1	6.185	6.114	6.198	6.126

### Sensitivity analysis

A strengthening (weakening) of the Czech crown, as indicated below, against the EUR, GBP, PLN and HUF 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.

<i>Effect in millions of EUR</i>	2017 Profit (loss)	2016 Profit (loss)
EUR (5% strengthening)	56	49
PLN (5% strengthening)	(4)	(4)
HUF (5% strengthening)	-	(1)

<i>Effect in millions of EUR</i>	2017 Other comprehensive income	2016 Other comprehensive income
EUR (5% strengthening)	-	55

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

### (e) Commodity risk

The Group's exposure to commodity risk principally consists of exposure to fluctuations in the prices of commodities, especially energy, gas and emission 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.

Commodity derivatives primarily represents forwards on purchase or sale of electricity and swaps relating to gas which is typically used to hedge the commodity price for eustream's operations, specifically locking the sales prices for surplus of gas-in-kind received from shippers (for more details refer to Note 33 – Financial instruments).



### Sensitivity analysis

An increase/decrease in the price of electricity by 5% would have no significant impact to profit from the related commodity derivatives presented in Note 33 – Financial instruments.

An increase/decrease in the price of natural gas by 5% would have increased/decreased profit from the related commodity derivatives described in Note 33 – Financial instruments by the amount as shown in the table below.

*Impact in millions of EUR*

	2017 Profit (loss)	2016 Profit (loss)
Increase by 5%	(7)	(7)
Decrease by 5%	7	7

### (f) Regulatory risk

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

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

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

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

The basic framework for the price regulation of gas supplies is provided by Act No. 250/2012 Coll. on Regulation in Network Industries and the Regulation Policy for the current 2017 – 2021 regulation period. Details related to the scope and method of conducting price regulation are determined in the generally-binding legal regulations issued by the RONI.

Gas Transmission business is obliged regularly to submit tariff structure proposals in respect of the relevant regulatory period to the RONI for approval. The current regulatory period started on 1 January 2017 and will end on 31 December 2021.

**(g) Concentration risk**

Major part of gas transmission, gas and power distribution and gas storage revenues, which are primarily recognized by SPPI Group and Stredoslovenská distribučná, a.s., are concentrated to a small number of customers. This is caused by the nature of business which has high barriers of entry. At the same time, majority of these revenues is subject to regulation as well as recognized under long-term contracts, often under “take or pay” schemes which limit the volatility of revenues year-on-year. From the credit risk perspectives, the counterparties are typically high-profile entities which are dependent on the supplied service which naturally limits the present credit risk.

**(h) 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:

<i>In millions of EUR</i>	<b>31 December 2017</b>	<b>31 December 2016</b>
Total liabilities	10,116	8,881
Less: cash and cash equivalents	816	1,136
<b>Net debt</b>	<b>9,300</b>	<b>7,745</b>
Total equity attributable to equity holders of the Company	1,165	1,387
Less: amounts accumulated in equity relating to cash flow hedges	117	112
<b>Adjusted capital</b>	<b>1,048</b>	<b>1,275</b>
<b>Debt to adjusted capital</b>	<b>8.87</b>	<b>6.07</b>

**(i) Hedge accounting**

The negative balance as at 31 December 2017 of EUR 11 million (2016: positive balance of EUR 142 million) represents primarily derivative agreements to hedge on interest rate concluded by POWERSUN a.s. and EP Energy, a.s., a foreign exchange rate concluded by LYNEMOUTH POWER LIMITED, an electricity price and a foreign exchange rate concluded by EP ENERGY TRADING, a.s., a gas price and a foreign exchange rate concluded by SPP Infrastructure, a.s. and SPP Storage, s.r.o. and the effect from a cash flow hedge recognised on the EPH Group level.

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

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

The Group applied hedge accounting for financial instruments designed to hedge the foreign currency risk cash-flows denominated in foreign currency (EUR). The hedging instruments were bonds issued in EUR in total amount of EUR 1,097 million. The hedged cash inflows in EUR arising from EUR denominated transactions (primarily at Elektrárny Opatovice, a.s., United Energy, a.s., Plzeňská energetika a.s., EP ENERGY TRADING, a.s.) were expected to occur and impact profit or loss in periods of 2020 to 2029. The hedging relationship on the Group consolidated level was terminated in November 2017 when the FX rate reached the level which the transaction was hedged for. Due to the termination of this hedging transaction the Group doesn’t report any foreign currency cash flow hedge reserve connected with this hedging act (2016: negative EUR 49 million) as of 31 December 2017.

*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 negative EUR 39 million (2016: positive EUR 165 million) as of 31 December 2017.

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

The Group applies hedge accounting for hedging instruments designed to hedge the commodity price risk and the foreign currency risk of cash-flows from Group's power production sold to third parties. This includes commodity derivatives with net settlement for commodity risk, and Group's liabilities denominated in EUR. As a result of the hedge relationship on the Group level, the Group recorded a foreign currency cash flow hedge reserve of EUR 9 million (2016: EUR 7 million). For risk management policies, refer to Note 37(d) and (e) – Risk management policies and disclosures.

*Cash flow hedges – hedge of commodity price risk*

The Group applies hedge accounting for commodity hedging instruments designed to hedge cash flow from sales of gas. The hedging instruments are commodity swaps used by eustream, a.s. in order to hedge selling price for its surplus of gas in-kind. A decline in the prices could result in a decrease in net income and cash flows.

*Cash flow hedges – hedge of interest rate risk*

The Group applies hedge accounting for hedging instruments designed to hedge interest rate risk of its debt financing. The hedging instruments are interest rate swaps used by the EP Infrastructure, a.s. and EP Energy, a.s. in order to hedge risk related to repricing of interest rates on its financing. As a result of the hedge relationship on the Group level, the Group recorded a negative interest rate cash flow hedge reserve of EUR 6 million (2016: negative EUR 4 million). For risk management policies, refer to Note 37 (c) – Risk management policies and disclosures.

### 38. Related parties

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

**(a) The summary of outstanding balances with related parties as at 31 December 2017 and 31 December 2016 was as follows:**

*In millions of EUR*

	Accounts receivable and other financial assets 2017	Accounts payable and other financial liabilities 2017	Accounts receivable and other financial assets 2016	Accounts payable and other financial liabilities 2016
Ultimate shareholders <sup>(1)</sup>	-	-	100	-
Companies controlled by ultimate shareholders	5	1	4	1
Associates and joint ventures	158	10	114	34
Key management personnel of the entity or its parent	-	-	-	5
Other related parties	-	-	1	75
<b>Total</b>	<b>163</b>	<b>11</b>	<b>219</b>	<b>115</b>

(1) EP Investment S.à.r.l. and EP Investment II S.à.r.l. represent the ultimate shareholder (2016: BIQUEES LIMITED, MILEES LIMITED and EP Investment S.à.r.l.).

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

*In millions of EUR*

	<b>Revenues 2017</b>	<b>Expenses 2017</b>	<b>Revenues 2016</b>	<b>Expenses 2016</b>
Ultimate shareholders <sup>(1)</sup>	-	-	3	-
Companies controlled by ultimate shareholders	7	3	3	2
Associates and joint ventures	103	91	36	122
Key management personnel of the entity or its parent	-	-	-	-
Other related parties	-	-	-	6
<b>Total</b>	<b>110</b>	<b>94</b>	<b>42</b>	<b>130</b>

*(1) EP Investment S.à.r.l. and EP Investment II S.à.r.l. represent the ultimate shareholder (2016: BIQUEES LIMITED, MILEES LIMITED and EP Investment S.à.r.l.).*

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

In 2016, the Group recognised an expense of EUR 39 million for a valuation allowance to a loan provided to its associate Przedsiębiorstwo Górnicze SILESIA Sp. z o.o. In 2017, the valuation allowance was reversed.

### Transactions with the key management personnel

For the financial years ended 31 December 2017 and 2016 the EPH Group's key management personnel is represented by members of the Board of Directors of the following major entities: EP Energy, a.s., Stredoslovenská energetika, a.s., SPP Infrastructure, a.s., eustream, a.s., SPP – distribúcia, a.s., NAFTA a.s., Elektrárny Opatovice, a.s., Pražská teplárenská a.s., United Energy, a.s., Plzeňská energetika a.s., SPP Storage, s.r.o., EP ENERGY TRADING, a.s, EGGBOROUGH POWER LIMITED, LYNEMOUTH POWER LIMITED, Energetický a průmyslový holding, a.s., EP Commodities, a.s., Ep Produzione S.P.A. Group, EP Investment Advisors, s.r.o., 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:

<i>In millions of EUR</i>	<b>2017</b>	<b>2016</b>
Nr. of personnel	89	94
Compensation, fees and rewards	9	9
Compulsory social security contributions	<u>1</u>	<u>1</u>
<b>Total</b>	<b><u>10</u></b>	<b><u>10</u></b>

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

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

### 39. 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
Energetický a průmyslový holding, a.s.	Czech Republic	-	-	-	-	-	-
EP Power Europe, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
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	-	-	Full	Full
Mitteldeutsche Braunkohlengesellschaft mbH	Germany	100	Direct	100	Direct	Full	Full
MIBRAG Consulting International GmbH	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. <sup>(1)</sup>	Czech Republic	-	-	100	Direct	-	Full
EP UK INVESTMENTS LTD	United Kingdom	100	Direct	100	Direct	Full	Full
Eggborough Holdeo 2 S.à r.l. <sup>(2)</sup>	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 <sup>(3)</sup>	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 <sup>*(3)</sup>	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

		31 December 2017		31 December 2016		2017	2016
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
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.	Czech Republic	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	-	-	At cost	-
EP Fleet, k.s.	Czech Republic	0.10	Direct	0.10	Direct	Full	Full
EP Investment Advisors, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Fleet, k.s.	Czech Republic	99.80	Direct	99.80	Direct	Full	Full
EP Auto, s.r.o. *	Czech Republic	100	Direct	100	Direct	Full	Full
EP Fleet, k.s.	Czech Republic	0.10	Direct	0.10	Direct	Full	Full
WOOGEL LIMITED *	Cyprus	25	Direct	25	Direct	Full	Full
DCR INVESTMENT a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
MINING SERVICES AND ENGINEERING Sp. z o.o.	Poland	100	Direct	100	Direct	Full	Full
Przedsiębiorstwo Górnicze SILESIA Sp. z o.o.	Poland	38.93	Direct	38.93	Direct	Equity	Equity
SEDILAS ENTERPRISES LIMITED	Cyprus	100	Direct	100	Direct	Full	Full
EPH Financing SK, a.s.	Slovakia	100	Direct	100	Direct	Full	Full
EPH Financing CZ, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Coal Trading, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EOP & HOKA s.r.o.	Czech Republic	100	Direct	99.79	Direct	Full	Full
EOP HOKA SK, s.r.o.	Slovakia	50	Direct	50	Direct	Full	Full
EOP HOKA POLSKA SPÓŁKA Z OGRANICZONA ODPOWIEDZIALNOSCIA	Poland	100	Direct	100	Direct	Full	Full
EOP HOKA SK, s.r.o.	Slovakia	50	Direct	50	Direct	Full	Full
EP COAL TRADING POLSKA S.A.	Poland	100	Direct	100	Direct	Full	Full
EP Slovakia B.V. *	Netherlands	100	Direct	100	Direct	Full	Full
Slovak Power Holding B.V. *	Netherlands	50	Direct	50	Direct	Equity	Equity
Slovenské elektrárne, a.s.	Slovakia	66	Direct	66	Direct	Equity	Equity
Centrum pre vedu a výskum, s.r.o.	Slovakia	100	Direct	100	Direct	Equity	Equity
Ochrana a bezpečnosť SE, a.s.	Slovakia	100	Direct	100	Direct	Equity	Equity
SE Predaj, s.r.o.	Slovakia	100	Direct	100	Direct	Equity	Equity
Slovenské elektrárne Česká republika, s.r.o.	Czech Republic	100	Direct	100	Direct	Equity	Equity
SE Služby inžinierskych stavieb, s.r.o.	Slovakia	100	Direct	100	Direct	Equity	Equity
REAKTORTEST, s.r.o.	Slovakia	49	Direct	49	Direct	Equity	Equity
Chladiace veže Bohunice, spol. s r.o.	Slovakia	-	-	35	Direct	-	IFRS 5
ÚJV Řež, a.s.	Czech republic	27.80	Direct	27.80	Direct	Equity	Equity
Energotel, a.s.	Slovakia	20	Direct	20	Direct	Equity	Equity
Nadácia EPH	Slovakia	100	Direct	100	Direct	Full	Full
ADCONCRETUM REAL ESTATE DOO BEOGRAD-STARI GRAD	Serbia	100	Direct	100	Direct	Full	Full
PGP Terminal, a.s. *	Czech Republic	60	Direct	60	Direct	Full	Full
PLAZMA LIPTOV, a.s.	Slovakia	50	Direct	50	Direct	At cost	At cost
EP Logistics International, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
LokoTrain s.r.o.	Czech Republic	65	Direct	65	Direct	Full	Full
EP Cargo Deutschland GmbH	Germany	100	Direct	100	Direct	Full	Full
EP CARGO POLSKA S.A.	Poland	100	Direct	100	Direct	Full	Full
EP Cargo Invest, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
SPEDICA GROUP COMPANIES, s.r.o.	Czech Republic	67.33	Direct	-	-	Full	-
SPEDICA LOGISTIC, s.r.o.	Czech Republic	67	Direct	-	-	Full	-
SGC-LOGISTIC GmbH	Germany	100	Direct	-	-	At cost	-
RAILSPED, s.r.o.	Czech Republic	100	Direct	-	-	Full	-

	31 December 2017		31 December 2016		2017	2016
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Consolidation method	Consolidation method
RM LINES, a.s.	Czech Republic	61.20	Direct	-	Full	-
SPEDICA AGRO, s.r.o.	Czech Republic	68	Direct	-	Full	-
SPEDICA, s.r.o.	Czech Republic	100	Direct	-	Full	-
JTSD - Braunkohlebergbau GmbH	Germany	10	Direct	100	Full	Full
Mitteldeutsche Braunkohlengesellschaft mbH	Germany	100	Direct	100	Full	Full
MIBRAG Consulting International GmbH	Germany	100	Direct	100	Full	Full
GALA-MIBRAG-Service GmbH	Germany	100	Direct	100	Full	Full
MUEG Mitteldeutsche Umwelt- und Entsorgung GmbH	Germany	50	Direct	50	Equity	Equity
Fernwärme GmbH Hohenmölsen - Webau	Germany	48.96	Direct	48.96	Equity	Equity
Ingenieurbüro für Grundwasser GmbH	Germany	25	Direct	25	Equity	Equity
Bohr & Brunnenbau GmbH	Germany	100	Direct	100	Full	Full
Helmstedter Revier GmbH (Buschhaus)	Germany	100	Direct	100	Full	Full
Norddeutsche Gesellschaft zur Ablagerung von Mineralstoffen mbH (NORGAM mbH)	Germany	51	Direct	51	Full	Full
Terrakomp GmbH	Germany	100	Direct	100	Full	Full
MIBRAG Neue Energie GmbH	Germany	100	Direct	100	Full	Full
EP Germany GmbH *	Germany	100	Direct	100	Full	Full
Saale Energie GmbH	Germany	100	Direct	100	Full	Full
Kraftwerk Schkopau GbR	Germany	41.90	Direct	41.90	Equity	Equity
Kraftwerk Schkopau Betriebsgesellschaft mbH	Germany	44.40	Direct	44.40	Equity	Equity
ABS PROPERTY LIMITED	Ireland	100	Direct	100	Full	Full
ZERTILIO a.s.	Czech Republic	-	-	100	-	At cost
SLUGGERIA a.s.	Czech Republic	100	Direct	-	Full	-
EP Properties, a.s.	Czech Republic	100	Direct	-	Full	-
EPiF Investments a.s.	Czech Republic	100	Direct	-	Full	-
EP Infrastructure, a.s. *	Czech Republic	69	Direct	100	Full	Full
EP Energy, a.s. *	Czech Republic	100	Direct	100	Full	Full
AISE, s.r.o.	Czech Republic	80	Direct	80	Full	Full
PT Holding Investment B.V. *	Netherlands	100	Direct	100	Full	Full
Pražská teplárenská Holding a.s. *	Czech Republic	100	Direct	49	Full	Equity
Pražská teplárenská a.s.	Czech Republic	47.42	Direct	47.42	Full	Full
Pražská teplárenská Trading, a.s. <sup>(4)</sup>	Czech Republic	100	Direct	100	Full	Full
TERMONTA PRAHA a.s.	Czech Republic	100	Direct	100	Full	Full
Energotrans SERVIS, a.s. <sup>(5)</sup>	Czech Republic	100	Direct	95	Full	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Full	Full
PT Real Estate, a.s.	Czech Republic	47.42	Direct	47.42	Full	Full
RPC, a.s.	Czech Republic	100	Direct	100	Full	Full
Nový Veleslavín, a.s.	Czech Republic	-	-	100	-	IFRS 5
Pod Juliskou, a.s.	Czech Republic	100	Direct	100	IFRS 5	Full
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	IFRS 5	IFRS 5
Michelský trojúhelník, a.s.	Czech Republic	100	Direct	100	Full	Full
Nové Mořany, a.s.	Czech Republic	100	Direct	100	Full	Full
PT Properties I, a.s.	Czech Republic	100	Direct	100	Full	Full
PT Properties II, a.s.	Czech Republic	100	Direct	100	Full	Full
PT Properties III, a.s.	Czech Republic	100	Direct	100	Full	Full
PT Properties IV, a.s.	Czech Republic	100	Direct	100	Full	Full
PT měření, a.s.	Czech Republic	47.42	Direct	47.42	Full	Full
United Energy, a.s.	Czech Republic	100	Direct	100	Full	Full
EVO – Komořany, a.s.	Czech Republic	100	Direct	100	Full	Full
Severočeská teplárenská, a.s.	Czech Republic	100	Direct	100	Full	Full
United Energy Moldova, s.r.o.	Czech Republic	100	Direct	100	Full	Full
United Energy Invest, a.s.	Czech Republic	100	Direct	100	Full	Full
GABIT spol. s r.o.	Czech Republic	100	Direct	-	At cost	-



		31 December 2017		31 December 2016		2017	2016
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Ownership interest	Consolidation method	Consolidation method
EP Sourcing, a.s. (former EP Coal Trading, a.s.)	Czech Republic	100	Direct	100	Direct	Full	Full
EP ENERGY TRADING, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Plzeňská energetika a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
VTE Moldava II, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
MR TRUST s.r.o.*	Czech Republic	100	Direct	99.50	Direct	Full	Full
ARISUN, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Greeninvest Energy, a.s.	Czech Republic	41.70	Direct	41.70	Direct	IFRS 5	IFRS 5
POWERSUN a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Triskata, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
MR TRUST s.r.o. *	Czech Republic	-	-	0.50	Direct	Full	Full
VTE Pchery, s.r.o.	Czech Republic	64	Direct	64	Direct	Full	Full
CHIFFON ENTERPRISES LIMITED *	Cyprus	100	Direct	100	Direct	Full	Full
Claymore Equity, s.r.o. *	Slovakia	80	Direct	80	Direct	Full	Full
Alternative Energy, s.r.o.	Slovakia	90	Direct	90	Direct	Full	Full
EBEH Opatovice, a.s. v likvidaci <sup>(6)</sup>	Czech Republic	-	-	100	Direct	-	Full
Elektrárny Opatovice, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
V A H O s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
NPTH, a.s. *	Czech Republic	100	Direct	100	Direct	Full	Full
Pražská teplárenská a.s.	Czech Republic	50.58	Direct	50.58	Direct	Full	Full
Pražská teplárenská Trading, a.s. <sup>(4)</sup>	Czech Republic	100	Direct	100	Direct	Full	Full
TERMONTA PRAHA a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Energotrans SERVIS, a.s. <sup>(5)</sup>	Czech Republic	100	Direct	95	Direct	Full	Full
Teplo Neratovice, spol. s r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Real Estate, a.s.	Czech Republic	50.58	Direct	50.58	Direct	Full	Full
RPC, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nový Velešlavín, a.s.	Czech Republic	-	-	100	Direct	-	IFRS 5
Pod Juliskou, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	Full
Nová Invalidovna, a.s.	Czech Republic	100	Direct	100	Direct	IFRS 5	IFRS 5
Michelský trojúhelník, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Nové Mořany, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties I, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties II, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties III, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT Properties IV, a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
PT měření, a.s.	Czech Republic	50.58	Direct	50.58	Direct	Full	Full
Stredoslovenská energetika, a.s.	Slovakia	49	Direct	49	Direct	Full	Full
Stredoslovenská energetika – Distribúcia, a.s. <sup>(7)</sup>	Slovakia	100	Direct	100	Direct	Full	Full
Elektroenergetické montáže, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SSE – Metrológia s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
Stredoslovenská energetika – Project Development, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SSE-Solar, s.r.o.	Slovakia	100	Direct	100	Direct	Full	Full
SPX, s.r.o.	Slovakia	33.33	Direct	33.33	Direct	Equity	Equity
Energotel, a.s.	Slovakia	20	Direct	20	Direct	Equity	Equity
SSE CZ, s.r.o.	Czech Republic	100	Direct	100	Direct	Full	Full
SPV100, s.r.o.	Slovakia	100	Direct	-	-	At cost	-
EP ENERGY HR d.o.o.	Croatia	100	Direct	100	Direct	Full	Full
EP Cargo a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
EP Hungary, a.s. * <sup>(8)</sup>	Czech Republic	-	-	100	Direct	-	Full
Budapesti Erőmű Zrt.	Hungary	95.62	Direct	95.62	Direct	Full	Full
KÖBÁNYAHŐ Kft.	Hungary	25	Direct	25	Direct	At cost	At cost
ENERGZET SERVIS a.s.	Czech Republic	100	Direct	100	Direct	Full	Full
Czech Gas Holding Investment B.V.*	Netherlands	100	Direct	100	Direct	Full	Full
NAFTA a.s.	Slovakia	40.45	Direct	40.45	Direct	Full	Full

	31 December 2017		31 December 2016		2017	2016
	Country of incorporation	Ownership %	Ownership interest	Ownership %	Consolidation method	Consolidation method
Nafta Exploration s.r.o. v likvidácii	Slovakia	100	Direct	100	Full	Full
Karotáz a cementace, s.r.o.	Slovakia	51	Direct	51	At cost	Full
POZAGAS a.s.	Slovakia	65	Direct	35	Full	Equity
NAFTA Services, s.r.o.	Czech Republic	100	Direct	100	Full	Full
NAFTA International B.V. *	Netherlands	100	Direct	100	Full	Full
NAFTA RV	Ukraine	100	Direct	100	Full	Full
CNG Holdings Netherlands B.V.	Netherlands	50	Direct	50	Equity	Equity
CNG LLC	Ukraine	100	Direct	100	Equity	Equity
EPH Gas Holding B.V. *	Netherlands	100	Direct	100	Full	Full
Seattle Holding B.V. *	Netherlands	100	Direct	100	Full	Full
Slovak Gas Holding B.V. *	Netherlands	100	Direct	100	Full	Full
SPP Infrastructure, a.s.	Slovakia	49	Direct	49	Full	Full
eustream, a.s.	Slovakia	100	Direct	100	Full	Full
Central European Gas HUB AG	Austria	15	Direct	15	At cost	At cost
eastring B.V.	Netherlands	100	Direct	100	Full	Full
Plýnárenská metrológia, s.r.o.	Slovakia	100	Direct	100	Full	Full
SPP – distribúcia, a.s.	Slovakia	100	Direct	100	Full	Full
SPP – distribúcia Servis, s.r.o.	Slovakia	100	Direct	100	Full	Full
NAFTA a.s.	Slovakia	56.15	Direct	56.15	Full	Full
Nafta Exploration s.r.o. v likvidácii	Slovakia	100	Direct	100	Full	Full
Karotáz a cementace, s.r.o.	Czech Republic	51	Direct	51	At cost	Full
POZAGAS a.s.	Slovakia	65	Direct	35	Full	Equity
NAFTA Services, s.r.o.	Czech Republic	100	Direct	100	Full	Full
NAFTA International B.V.*	Netherlands	100	Direct	100	Full	Full
NAFTA RV	Ukraine	100	Direct	100	Full	Full
CNG Holdings Netherlands B.V.	Netherlands	50	Direct	50	Equity	Equity
CNG LLC	Ukraine	100	Direct	100	Equity	Equity
GEOTERM KOŠICE, a.s.	Slovakia	95.82	Direct	95.82	Full	Full
SPP Storage, s.r.o.	Czech Republic	100	Direct	100	Full	Full
POZAGAS a.s.	Slovakia	35	Direct	35	Full	Equity
SLOVGEOTERM a.s.	Slovakia	50	Direct	50	Equity	Equity
GEOTERM KOŠICE, a.s.	Slovakia	0.08	Direct	0.08	Full	Full
GALANTATERM spol. s r.o.	Slovakia	0.5	Direct	0.5	At cost	At cost
GALANTATERM spol. s r.o.	Slovakia	17.5	Direct	17.5	At cost	At cost
SPP Infrastructure Financing B.V.	Netherlands	100	Direct	100	Full	Full

\* 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.
- (4) On 1 February 2018 Pražská teplárenská Trading, a.s. was renamed to PT Koncept, a.s.
- (5) On 1 February 2018 Energotrans SERVIS, a.s. was renamed to PT Transit, a.s.
- (6) On 4 October 2017 the process of liquidation of EBEH Opatovice a.s. v likvidaci was terminated.
- (7) On 1 March 2018 Stredoslovenská energetika – Distribúcia, a.s. was renamed to Stredoslovenská distribučná, a.s.
- (8) EP Hungary, a.s. merged with EP ENERGY, a.s. as at 1 January 2017. EP ENERGY, a.s. is the successor company.

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

#### **40. Litigations and claims**

##### **Elektrárny Opatovice, a.s.**

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

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

UE is involved in several disputes with its former shareholders, who claim that compensation received for their shares subject to a compulsory squeeze-out procedure was inadequate, and who are challenging the validity of the underlying resolution of the general shareholders meeting. The matter is currently in a mediation phase when the settlement agreement has been concluded and the shareholders withdrew their claims. This should lead to the termination of the dispute over the amount of the consideration. The court decision about the termination of the lawsuit has not been delivered yet.

##### **Plzeňská energetika a.s.**

In August 2012, Škoda Investment a.s. (SI) filed a claim for unjust enrichment against Plzeňská energetika a.s. (PE) for approximately EUR 2 million. This unjust enrichment claim allegedly arises from the fact that Plzeňská energetika a.s. owns and operates utility distribution systems (e.g., for gas, water and heat), which lie on the property of Škoda Investment a.s., thereby illegally restricting the ownership of Škoda Investment a.s. In February 2016, both parties, i.e. PE as well as SI, received an official request from the court to settle the dispute by mediation. Following this request the hearing has been adjourned until further notice. In June 2016 SI has filed an additional claim for unjust enrichment against PE for approximately EUR 1 million.

Additional claim covers period 2013 – 2014. After considering all the circumstances Plzeňská energetika a.s. created an adequate provision as at 31 December 2017. In January 2018, another court hearing was held and the Court ruled in favor of Plzeňská energetika, a.s. Given that there is no formal written judgement yet available and the counterparty has appealed, the provision wasn't released but was reduced.

##### **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.

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

The SSE Group is a party to various legal proceedings. As at 31 December 2017 and 2016, no legal provisions were recorded. The Group management has decided not to disclose details in respect of material legal claims as they are currently ongoing and disclosure may prejudice the SSE Group.

### **Regulatory proceedings by ERO against Pražská teplárenská (“PT”)**

PT is involved in regulatory proceedings commenced in October 2015 by ERO claiming that prices charged to customers of PT’s local small-scale heating infrastructures in 2011 were in breach of the Czech Act on Prices. In March 2016, ERO issued a decision ordering PT to pay EUR 9 million (CZK 240 million) consisting of a penalty in the amount of EUR 4.5 million (CZK 120 million) and restitution to affected customers in the amount of EUR 4.5 million (CZK 120 million). PT appealed the decision on 24 March 2016 with supplemental information provided on 14 April 2016. On 7 July 2016 PT received a resolution from ERO by which the Chairman of ERO returned the case again to the first instance for a new hearing. In November 2016 PT received new decision which confirmed the result of the court of the first instance. PT appealed again and on 23 December 2016 ERO issued a decision changing the amount to be paid to EUR 8 million (CZK 222 million) consisting of a penalty in the amount of EUR 4 million (CZK 111 million) and restitution to affected customers in the amount of EUR 4 million (CZK 111 million). On 26 January 2017 PT filed an appeal on the decision and applied for suspensive effect. At the same time PT submitted a fine of EUR 4 million to the ERO’s account. On 23 February 2017 the regional court satisfied the request for a suspensive effect in full and on 28 April 2017 the ERU returned the fine back to PT and PT again conservatively recorded a provision of EUR 4 million. No development has taken place since then.

## **41. 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. (“Máttra”) 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) Investment grade ratings of EPIF and issue of 6-year Eurobonds**

EPIF has been assigned investment grade ratings from three major rating agencies. S&P Global Ratings (Preliminary BBB) on 23 February 2018, Moody’s (Baa3) on 1 March 2018 and Fitch Ratings (BBB-) on 2 March 2018, all with a stable outlook, have issued these ratings. The ratings were confirmed in relation to issuance of 6 years Eurobonds by EPIF.

On 19 April 2018, EPIF successfully placed its debut international offering of EUR 750 million 1.659% fixed rate notes due 2024.

Through this bond issuance, EPIF has been able to benefit from the current favourable conditions in the international debt capital markets in order to partially refinance its existing bank loans at the EPIF level and extend its debt maturity profile, while reducing the average cost of its borrowings.

### **(c) 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.

### **(d) Other subsequent events**

In December 2017, the City of Pilsen approved the key terms and conditions of a potential future merger of Plzeňská energetika a.s. and Plzeňská teplárenská, a.s. (“PLTEP”), a 100% subsidiary of the City of Pilsen, resulting in PLTEP as joint-venture successor company in which the EPIF Group would have a 35% interest and management control. The transaction is being negotiated as of the date of this financial

statements and the City of Pilsen is scheduled to finally approve the merger in May 2018. If approved, the merger may become effective later in 2018.

On 5 January 2018 EOP & HOKA s.r.o. acquired a 100% interest in SAJDOK a.s. for CZK 45 million (approximately EUR 1.76 million).

On 12 January 2018 PT Real Estate, a.s. sold its 100% share in Pod Juliskou a.s. for CZK 97 million (approximately EUR 3.79 million).

On 5 February 2018, the General Meeting of EPH declared dividends (disregarding own shares held by the Company) of EUR 10 million (equivalent of CZK 247 million) and at the same time confirmed previously declared interim dividends.

On 28 February 2018, EPH (as buyer) and WOOGEL LIMITED (as seller) signed Share Purchase Agreement for the acquisition of the 100% share in the company DCR INVESTMENT a.s. („DCRI“). The completion of the acquisition is expected to occur by the end of May 2018. On 26 April 2018, DCRI sold its 10% share in the company Veolia Energie ČR, a.s. to a third party.

On 2 March 2018, NAFTA a.s. entered with DEA Deutsche Erdoel AG into a share purchase agreement with the owner of German gas storage assets Inzenham, Wolfersberg and Breitbrunn located in Bavaria. The total working gas volume of these storages is approximately 1.8 bcm and around three quarters of the total capacity is contracted under long-term contracts with a price revision clause entered into with standard utility companies based in Germany. The EPH Group believes that these assets fit the business strategy of the EPIF Group, supporting NAFTA's clients with innovative products in the EU markets and representing long-term contracted assets, and they are in line with the risk and financial profile of the current activities of the EPIF Group. As of the date of these financial statements, the completion of the acquisition remains subject to obtaining of an antimonopoly approval and fulfilment of other customary conditions precedent.

On 19 April 2018, the company EP Infrastructure, a.s., EPH subsidiary, issued bonds with nominal value of EUR 750 million with interest rate of 1.659% and maturity in 2024. Proceeds from the bonds were used to partially settle outstanding bank loan on the company level resulting in optimized maturity profile and lower interest cost.

On 25 April 2017, the EPH Group drawn EUR 250 million of bullet bank financing due in December 2022.

On 1 May 2018, the loan proceeds together with own funds of EUR 348 million were used to repay the due EP Energy bonds of EUR 598 million.

On 2 May 2018, the General Meeting of EPH decided to reduce the share capital of the Company from the current balance totalling of CZK 5,050 million to the amount of CZK 3,535 million. The purpose of reducing the share capital is to cancel own shares by destroying them, healing the state where the Company owns shares that have not been disposed of. The entry of the share capital reduction to the Commercial Register is expected after all legal obligations have been met (about October 2018).

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.

As at the date of signing of the consolidated financial statements additional of 21,000 units of the second issue of bonds of EPH Financing SK, a.s. have been subscribed with the nominal of EUR 21 million.

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.

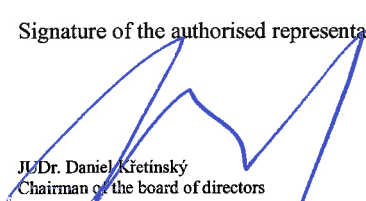
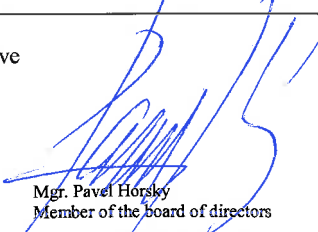
**Appendices\*:**

Appendix 1 – Business combinations

Appendix 2 – Acquisition of associates and joint ventures

Appendix 3 – Disposals of investments

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

Date:	Signature of the authorised representative	
31 May 2018	 JUDr. Daniel Křetinský Chairman of the board of directors	 Mgr. Pavel Horský Member of the board of directors

## Appendix 1 – Business combinations

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

### Effect of acquisitions

#### i. 31 December 2017

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed at the acquisition date of SPEDICA GROUP COMPANIES, s.r.o. and its subsidiaries SPEDICA LOGISTIC, s.r.o., RAILSPED s.r.o., RM LINES a.s., SPEDICA AGRO, s.r.o. and SPEDICA, s.r.o. are provided in the following table.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment<sup>(2)</sup></b>	<b>2017 Total</b>
Property, plant, equipment, land, buildings	3	-	3
Trade receivables and other assets	10	-	10
Cash and cash equivalents	4	-	4
Loans and borrowings	(2)	-	(2)
Trade payables and other liabilities	(17)	-	(17)
<b>Net identifiable assets and liabilities</b>	<b>(2)</b>	<b>-</b>	<b>(2)</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			2
Negative goodwill on acquisition of new subsidiaries			-
<b>Cost of acquisition</b>			-
Consideration paid, satisfied in cash (A)			-
<b>Total consideration transferred</b>			-
Less: Cash acquired (B)			4
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>4</b>

(1) Represents values at 100% share.

(2) The result of purchase price allocation was not significant and therefore management of the Group decided not to recognize any fair value adjustment resulting from business combinations in 2017.

<i>In millions of EUR</i>	<b>2017 Total</b>
Revenue of the acquirees recognised since the acquisition date	43
Profit (loss) of the acquirees recognised since the acquisition date	1

<i>In millions of EUR</i>	<b>2017 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2017*	47
Profit (loss) of the acquirees recognised in the year ended 31 December 2017*	1

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



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

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2017 Total</b>
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)
<b>Net identifiable assets and liabilities</b>	<b>96</b>	<b>(4)</b>	<b>92</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(6)
<b>Cost of acquisition</b>			<b>86</b>
Consideration paid, satisfied in cash (A)			86
Consideration, other			-
<b>Total consideration transferred</b>			<b>86</b>
Less: Cash acquired (B)			1
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>(85)</b>

(1) Represents values at 100% share.

<i>In millions of EUR</i>	<b>2017 Total</b>
Revenue of the acquirees recognised since the acquisition date	168
Profit (loss) of the acquirees recognised since the acquisition date	4

<i>In millions of EUR</i>	<b>2017 Total</b>
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.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2017 Total</b>
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)
<b>Net identifiable assets and liabilities</b>	<b>61</b>	<b>(12)</b>	<b>49</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			(48)
<b>Cost of acquisition</b>			<b>1</b>
Consideration paid, satisfied in cash (A)			1
<b>Total consideration transferred</b>			<b>1</b>
Less: Cash acquired (B)			3
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>2</b>

(1) Represents values at 100% share.

<i>In millions of EUR</i>	<b>2017 Total</b>
Revenue of the acquirees recognised since the acquisition date	44
Profit (loss) of the acquirees recognised since the acquisition date	20

<i>In millions of EUR</i>	<b>2017 Total</b>
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 POZAGAS a.s. are provided in the following table.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2017 Total</b>
Property, plant, equipment, land, buildings	33	4	37
Trade receivables and other assets	7	(1)	6
Cash and cash equivalents	47	-	47
Provisions	(9)	(2)	(11)
Deferred tax liabilities	(3)	-	(3)
Trade payables and other liabilities	(3)	-	(3)
<b>Net identifiable assets and liabilities</b>	<b>72</b>	<b>1</b>	<b>73</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			-
<b>Cost of acquisition</b>			<b>73</b>
Consideration paid, satisfied in cash (A)			22
Consideration, other			<sup>(2)</sup> 51
<b>Total consideration transferred</b>			<b>73</b>
Less: Cash acquired (B)			47
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>25</b>

(1) Represents values at 100% share.

(2) Consideration other is presented mainly by the fair value of previously recognized share in POZAGAS a.s.

<i>In millions of EUR</i>	<b>2017 Total</b>
Revenue of the acquirees recognised since the acquisition date	-
Profit (loss) of the acquirees recognised since the acquisition date	-

<i>In millions of EUR</i>	<b>2017 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2017*	28
Profit (loss) of the acquirees recognised in the year ended 31 December 2017*	(1)

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

The fair value of the consideration transferred and the amounts recognised for assets acquired and liabilities assumed 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.

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2017 Total</b>
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)
<b>Net identifiable assets and liabilities</b>	<b>86</b>	<b>(1)</b>	<b>85</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			36
Negative goodwill on acquisition of new subsidiaries			-
<b>Cost of acquisition</b>			<b>121</b>
Consideration paid, satisfied in cash (A)			100
Purchase price liability			21
<b>Total consideration transferred</b>			<b>121</b>
Less: Cash acquired (B)			19
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>(81)</b>

(1) Represents values at 100% share.

<i>In millions of EUR</i>	<b>2017 Total</b>
Revenue of the acquirees recognised since the acquisition date	-
Profit (loss) of the acquirees recognised since the acquisition date	-

<i>In millions of EUR</i>	<b>2017 Total</b>
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.

**ii. 31 December 2016**

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

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2016 Total</b>
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)
<b>Net identifiable assets and liabilities</b>	<b>19</b>	<b>34</b>	<b>53</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			-
<b>Cost of acquisition</b>			<b>53</b>
Consideration paid, satisfied in cash (A)			53
<b>Total consideration transferred</b>			<b>53</b>
Less: Cash acquired (B)			14
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>(39)</b>

(1) Represents values at 100% share.

<i>In millions of EUR</i>	<b>2016 Total</b>
Revenue of the acquirees recognised since the acquisition date	14
Profit (loss) of the acquirees recognised since the acquisition date	(21)

As the acquisition occurred as at 5 January 2016 and for the period from 1 January 2016 to 4 January 2016 there were no significant transactions, the amount of 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 2016) is the same as stated in the table above.

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

<i>In millions of EUR</i>	<b>Carrying amount<sup>(1)</sup></b>	<b>Fair value adjustment</b>	<b>2016 Total</b>
Property, plant, equipment, land, buildings	5	-	5
Trade receivables and other assets	1	-	1
Deferred tax assets	1	-	1
Loans and borrowings	(5)	-	(5)
<b>Net identifiable assets and liabilities</b>	<b>2</b>	<b>-</b>	<b>2</b>
Non-controlling interest			-
Goodwill on acquisitions of a subsidiary			-
Negative goodwill on acquisition of new subsidiaries			-
<b>Cost of acquisition</b>			<b>2</b>
Consideration paid, satisfied in cash (A)			-
Purchase price liability			2
<b>Total consideration transferred</b>			<b>2</b>
Less: Cash acquired (B)			-
<b>Net cash inflow (outflow) (C) = (B – A)</b>			<b>-</b>

(1) Represents values at 100% share.

<i>In millions of EUR</i>	<b>2016 Total</b>
Revenue of the acquirees recognised since the acquisition date	2
Profit (loss) of the acquirees recognised since the acquisition date	(1)

<i>In millions of EUR</i>	<b>2016 Total</b>
Revenue of the acquirees recognised in the year ended 31 December 2016*	2
Profit (loss) of the acquirees recognised in the year ended 31 December 2016*	(1)

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

## Appendix 2 – Acquisition of associates and joint ventures

The following tables provide further information on the amounts recognised for assets acquired and liabilities assumed as at the acquisition date for individually significant acquisitions of associates and joint ventures.

### Effect of acquisitions

#### i. 31 December 2016

The following table summarizes the recognised amounts of assets acquired and liabilities assumed in the acquisition of SPH Group, taking into consideration the facts stated in Note 6(a) – Acquisitions. No goodwill or negative goodwill has been recognised as the fair value of identifiable net assets equals the purchase price of the acquired interest:

<i>In millions of EUR</i>	<b>2016 Total</b>
Non-current assets	4,162
Current assets	1,643
<b>Fair value of assets</b>	<b>5,805</b>
Non-current liabilities	(4,950)
Current liabilities	(383)
<b>Fair value of liabilities</b>	<b>(5,333)</b>
<b>Fair value of identifiable net assets</b>	<b>472</b>
Net asset value attributable to the Group's share	156
<b>Negative goodwill</b>	<b>-</b>

The following table summarizes the recognised amounts of assets acquired and liabilities assumed in the acquisition of LEAG Group, taking into consideration the facts stated in Note 6(a) – Acquisitions. Negative goodwill arising from the acquisition has been recognised as a result of excess of fair value of identifiable net assets over the purchase price as follows:

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

### Appendix 3 – Disposals of investments

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

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

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

## **5. STATUTORY FINANCIAL STATEMENTS**





**KPMG Česká republika Audit, s.r.o.**

Pobřežní 1a  
186 00 Prague 8  
Czech Republic  
+420 222 123 111  
www.kpmg.cz

**Independent Auditor's Report to the Shareholders  
Energetický a průmyslový holding, a.s.**

***Opinion***

We have audited the accompanying financial statements of Energetický a průmyslový holding, a.s. ("the Company"), prepared in accordance with Czech accounting legislation, which comprise the balance sheet as at 31 December 2017, and the income statement, the statement of changes in equity and the cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes. Information about the Company is set out in Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

***Basis for Opinion***

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



### ***Other Information***

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

As described in Note 2 (i) to the financial statements, Energetický a průmyslový holding, a.s. has not prepared an annual report as at 31 December 2017, as it plans to include the respective information in a consolidated annual report. Consequently, this auditor's report does not include our statement on the other information.

### ***Responsibilities of the Statutory Body, Supervisory Board for the Financial Statements***

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

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

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

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness



- of accounting estimates and related disclosures made by the statutory body.
- Conclude on the appropriateness of the statutory body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
  - Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

***Statutory Auditor Responsible for the Engagement***

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

Prague  
31 May 2018

*KPMG Česká republika Audit*

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

Karel Charvát  
Partner  
Registration number 2032



**BALANCE SHEET**  
full version

**Energetický a průmyslový holding, a.s.**  
**Corporate ID 283 56 250**

As of  
31.12.2017  
(in CZK thousand)

Pařížská 130/26  
Josefov  
110 00 Praha 1

		31.12.2017			31.12.2016
		Gross	Adjustment	Net	Net
	<b>TOTAL ASSETS</b>	<b>142 908 347</b>	<b>2 335 671</b>	<b>140 572 676</b>	<b>130 854 282</b>
<b>B.</b>	<b>Fixed assets</b>	<b>114 807 431</b>	<b>1 959 064</b>	<b>112 848 367</b>	<b>106 939 274</b>
<i>B.I.</i>	<i>Intangible fixed assets</i>	<b>137</b>	<b>137</b>		
B.I.4.	Other intangible fixed assets	137	137		
<i>B.II.</i>	<i>Tangible fixed assets</i>	<b>269</b>	<b>173</b>	<b>96</b>	<b>132</b>
B.II.2.	Tangible movable assets and sets of tangible movable assets	269	173	96	132
<i>B.III.</i>	<i>Non-current financial assets</i>	<b>114 807 025</b>	<b>1 958 754</b>	<b>112 848 271</b>	<b>106 939 142</b>
B.III.1.	Equity investments - controlled or controlling entity	112 658 717		112 658 717	106 939 132
B.III.3.	Equity investments in associates	2 047 367	1 958 754	88 613	
B.III.5.	Other non-current securities and investments	100 941		100 941	10
<b>C.</b>	<b>Current assets</b>	<b>28 096 173</b>	<b>376 607</b>	<b>27 719 566</b>	<b>23 908 394</b>
<i>C.I.</i>	<i>Inventories</i>	<b>972</b>		<b>972</b>	
C.I.2.	Work in progress and semifinished goods	972		972	
<i>C.II.</i>	<i>Receivables</i>	<b>27 393 371</b>	<b>376 607</b>	<b>27 016 764</b>	<b>21 443 620</b>
C.II.1.	Long-term receivables	<b>8 514 948</b>	<b>376 607</b>	<b>8 138 341</b>	<b>2 167 055</b>
C.II.1.1.	Trade receivables	15 000		15 000	15 000
C.II.1.2.	Receivables - controlled or controlling entity	7 007 160		7 007 160	108 777
C.II.1.3.	Receivables - associates				1 155 588
C.II.1.5.	Receivables - other	<b>1 492 788</b>	<b>376 607</b>	<b>1 116 181</b>	<b>887 690</b>
C.II.1.5.4.	Sundry receivables	1 492 788	376 607	1 116 181	887 690
<i>C.II.2.</i>	<i>Short-term receivables</i>	<b>18 878 423</b>		<b>18 878 423</b>	<b>19 276 565</b>
C.II.2.1.	Trade receivables	618 774		618 774	275 304
C.II.2.2.	Receivables - controlled or controlling entity	14 496 656		14 496 656	13 175 791
C.II.2.3.	Receivables - associates	2 034 306		2 034 306	
C.II.2.4.	Receivables - other	<b>1 728 687</b>		<b>1 728 687</b>	<b>5 825 470</b>
C.II.2.4.3.	State - tax receivables	69 746		69 746	97 407
C.II.2.4.4.	Short-term prepayments made	123		123	39 220
C.II.2.4.5.	Estimated receivables	5 669		5 669	249
C.II.2.4.6.	Sundry receivables	1 653 149		1 653 149	5 688 594
<i>C.III.</i>	<i>Current financial assets</i>				<b>970 000</b>
C.III.2.	Other current financial assets				970 000
<i>C.IV.</i>	<i>Cash</i>	<b>701 830</b>		<b>701 830</b>	<b>1 494 774</b>
C.IV.1.	Cash on hand	21		21	5
C.IV.2.	Cash at bank	701 809		701 809	1 494 769
<b>D.</b>	<b>Other assets</b>	<b>4 743</b>		<b>4 743</b>	<b>6 614</b>
D.1.	Deferred expenses	4 743		4 743	6 614

		31.12.2017	31.12.2016
	<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>140 572 676</b>	<b>130 854 282</b>
<b>A.</b>	<b>Equity</b>	<b>120 449 130</b>	<b>119 269 601</b>
<i>A.I.</i>	<i>Share capital</i>	<b>3 535 135</b>	<b>5 050 193</b>
A.I.1.	Share capital	5 050 193	5 050 193
A.I.2.	Treasury shares and holdings (-)	-1 515 058	
<i>A.II.</i>	<i>Share premium and capital funds</i>	<b>-63 280 843</b>	<b>-24 006 280</b>
A.II.1.	Share premium	-62 993 801	-23 978 859
A.II.2.	<i>Capital funds</i>	<b>-287 042</b>	<b>-27 421</b>
A.II.2.2.	Gains or losses from the revaluation of assets and liabilities (+/-)	-287 042	-27 421
<i>A.IV.</i>	<i>Retained earnings (+/-)</i>	<b>128 948 453</b>	<b>36 296 210</b>
A.IV.1.	Accumulated profits brought forward	128 948 453	36 296 210
A.V.	<i>Profit or loss for the current period (+/-)</i>	<b>53 685 628</b>	<b>101 929 478</b>
A.VI.	Profit share prepayments declared (-)	-2 439 243	
<b>B.+C.</b>	<b>Liabilities</b>	<b>20 120 343</b>	<b>11 452 957</b>
<b>B.</b>	<b>Reserves</b>	<b>408</b>	<b>207</b>
B.4.	Other reserves	408	207
<b>C.</b>	<b>Payables</b>	<b>20 119 935</b>	<b>11 452 750</b>
<i>C.I.</i>	<i>Long-term payables</i>	<b>9 514 464</b>	<b>8 464 011</b>
C.I.2.	Payables to credit institutions	1 430 240	
C.I.5.	Long-term bills of exchange to be paid	154 280	643 555
C.I.6.	Payables - controlled or controlling entity	7 729 944	7 820 456
C.I.9.	<i>Payables - other</i>	<b>200 000</b>	
C.I.9.3.	Sundry payables	200 000	
<i>C.II.</i>	<i>Short-term payables</i>	<b>10 605 471</b>	<b>2 988 739</b>
C.II.2.	Payables to credit institutions	2 832 250	110
C.II.4.	Trade payables	92 661	57 767
C.II.5.	Short-term bills of exchange to be paid	1 396 880	1 221 841
C.II.6.	Payables - controlled or controlling entity	5 660 481	1 169 003
C.II.8.	<i>Other payables</i>	<b>623 199</b>	<b>540 018</b>
C.II.8.1.	Payables to partners	97 591	58 492
C.II.8.3.	Payables to employees	1 419	1 006
C.II.8.4.	Social security and health insurance payables	1 154	208
C.II.8.5.	State - tax payables and subsidies	105	302
C.II.8.6.	Estimated payables	360 726	234 314
C.II.8.7.	Sundry payables	162 204	245 696
<b>D.</b>	<b>Other liabilities</b>	<b>3 203</b>	<b>131 724</b>
D.1.	Accrued expenses	3 036	131 153
D.2.	Deferred income	167	571

**PROFIT AND LOSS ACCOUNT**  
structured by the nature of expense method

**Energetický a průmyslový holding, a.s.**  
**Corporate ID 283 56 250**

31.12.2017  
(in CZK thousand)

Pařížská 130/26  
Josefov  
110 00 Praha 1

		Year ended 31.12.2017	Year ended 31.12.2016
I.	Sales of products and services	9 909	83
A.	Purchased consumables and services	280 867	586 894
A.2.	Consumed material and energy	379	328
A.3.	Services	280 488	586 566
B.	Change in internally produced inventory (+/-)	-972	
D.	Staff costs	22 799	14 204
D.1.	Payroll costs	17 835	12 070
D.2.	Social security and health insurance costs and other charges	4 964	2 134
D.2.1.	Social security and health insurance costs	4 957	2 134
D.2.2.	Other charges	7	
E.	Adjustments to values in operating activities	82	59
E.1.	Adjustments to values of intangible and tangible fixed assets	82	59
E.1.1.	Adjustments to values of intangible and tangible fixed assets - permanent	82	59
III.	Other operating income	3 985 362	636 832
III.3.	Sundry operating income	3 985 362	636 832
F.	Other operating expenses	3 983 826	634 503
F.3.	Taxes and charges	32	13
F.4.	Reserves relating to operating activities and complex deferred expenses	202	-29
F.5.	Sundry operating expenses	3 983 592	634 519
*	<b>Operating profit or loss (+/-)</b>	<b>-291 331</b>	<b>-598 745</b>
IV.	Income from non-current financial assets - equity investments	157 620 330	108 152 741
IV.1.	Income from equity investments - controlled or controlling entity	157 620 330	108 152 741
G.	Costs of equity investments sold	103 943 511	2 434 460
VI.	Interest income and similar income	465 579	538 053
VI.1.	Interest income and similar income - controlled or controlling entity	173 139	136 869
VI.2.	Other interest income and similar income	292 440	401 184
I.	Adjustments to values and reserves relating to financial activities	-526 726	2 862 087
J.	Interest expenses and similar expenses	538 479	480 175
J.1.	Interest expenses and similar expenses - controlled or controlling entity	449 158	374 259
J.2.	Other interest expenses and similar expenses	89 321	105 916
VII.	Other financial income	1 507 749	6 914 290
K.	Other financial expenses	1 631 435	7 300 139
*	<b>Financial profit or loss (+/-)</b>	<b>54 006 959</b>	<b>102 528 223</b>
**	<b>Profit or loss before tax (+/-)</b>	<b>53 715 628</b>	<b>101 929 478</b>
L.	Income tax	30 000	
L.1.	Due income tax	30 000	
**	<b>Profit or loss net of tax (+/-)</b>	<b>53 685 628</b>	<b>101 929 478</b>
***	<b>Profit or loss for the current period (+/-)</b>	<b>53 685 628</b>	<b>101 929 478</b>
*	Net turnover for the current period	163 588 929	116 241 999

# STATEMENT OF CHANGES IN EQUITY

Energetický a průmyslový holding, a.s.  
Corporate ID 283 56 250

Year ended  
31.12.2017  
(in CZK thousand)

Pařížská 130/26  
Josefov  
110 00 Praha 1

	Share capital	Treasury shares	Share premium	Gains or losses from the revaluation of assets and liabilities (+/-)	Funds from profit, reserve fund	Accumulated profits brought forward	Profit or loss for the current period	Profit share prepayments declared	TOTAL EQUITY
<b>Balance at 31 December 2015</b>	<b>5 050 193</b>		<b>-23 978 859</b>	<b>19 777</b>	<b>101 414</b>	<b>31 446 421</b>	<b>4 748 375</b>		<b>17 387 321</b>
Distribution of profit or loss						4 748 375	-4 748 375		
Gains or losses from the revaluation of assets and liabilities				-47 198					-47 198
Cancellation of the reserve fund					-101 414	101 414			
Profit or loss for the current period							101 929 478		101 929 478
<b>Balance at 31 December 2016</b>	<b>5 050 193</b>		<b>-23 978 859</b>	<b>-27 421</b>		<b>36 296 210</b>	<b>101 929 478</b>		<b>119 269 601</b>
Profit share prepayments declared								-11 216 478	-11 216 478
Dividends declared						-500 000	-8 777 235	8 777 235	-500 000
Distribution of profit or loss						93 152 243	-93 152 243		
Repurchase of treasury shares and holdings		-1 515 058	-39 014 942						-40 530 000
Gains or losses from the revaluation of assets and liabilities				-259 621					-259 621
Profit or loss for the current period							53 685 628		53 685 628
<b>Balance at 31 December 2017</b>	<b>5 050 193</b>	<b>-1 515 058</b>	<b>-62 993 801</b>	<b>-287 042</b>		<b>128 948 453</b>	<b>53 685 628</b>	<b>-2 439 243</b>	<b>120 449 130</b>

# CASH FLOW STATEMENT

Energetický a průmyslový holding, a.s.  
Corporate ID 283 56 250

Year ended  
31.12.2017  
(in CZK thousand)

Pařížská 130/26  
Josefov  
110 00 Praha 1

		Year ended 31.12.2017	Year ended 31.12.2016
<b>P.</b>	<b>Opening balance of cash and cash equivalents</b>	<b>1 494 774</b>	<b>4 383 266</b>
Z.	Profit or loss from ordinary activities before tax	53 715 628	101 929 478
A.1.	Adjustments for non-cash transactions	-53 992 628	-102 528 194
A.1.1.	Depreciation of fixed assets	82	59
A.1.2.	Change in provisions and reserves	-527 496	2 862 058
A.1.3.	Profit/(loss) on the sale of fixed assets	-40 988 710	-96 261 281
A.1.4.	Revenues from profit shares	-12 688 109	-9 457 000
A.1.5.	Interest expense and interest income	72 900	-57 878
A.1.6.	Adjustments for other non-cash transactions	138 705	385 848
<b>A.*</b>	<b>Net operating cash flow before changes in working capital</b>	<b>-277 000</b>	<b>-598 716</b>
A.2.	Change in working capital	811 623	-1 198 964
A.2.1.	Change in operating receivables and other assets	-129 918	-517 054
A.2.2.	Change in operating payables and other liabilities	-28 459	288 090
A.2.4.	Change in current financial assets	970 000	-970 000
<b>A.**</b>	<b>Net cash flow from operations before tax</b>	<b>534 623</b>	<b>-1 797 680</b>
A.3.	Interest paid	-479 851	-330 720
A.4.	Interest received	84 653	33 943
<b>A.***</b>	<b>Net operating cash flows</b>	<b>139 425</b>	<b>-2 094 457</b>
B.1.	Fixed assets expenditures	-361 591	-6 316 500
B.2.	Proceeds from fixed assets sold	37 448 115	5 719 236
B.3.	Loans and borrowings to related parties	-15 684 029	-16 729 585
	Received profit shares	14 123 427	7 931 464
<b>B.***</b>	<b>Net investment cash flows</b>	<b>35 525 922</b>	<b>-9 395 385</b>
C.1.	Change in payables from financing	7 476 971	8 601 350
C.2.	Impact of changes in equity	-43 935 262	
C.2.2.	Capital payments to partners	-40 530 002	
C.2.6.	Profit shares paid	-3 405 260	
<b>C.***</b>	<b>Net financial cash flows</b>	<b>-36 458 291</b>	<b>8 601 350</b>
<b>F.</b>	<b>Net increase or decrease in cash and cash equivalents</b>	<b>-792 944</b>	<b>-2 888 492</b>
<b>R.</b>	<b>Closing balance of cash and cash equivalents</b>	<b>701 830</b>	<b>1 494 774</b>



# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

---

## Contents

1. Incorporation and description of the Business .....	2
2. Basis of accounting and general accounting policies applied by the Company.....	4
(a) Tangible and intangible fixed assets .....	4
(b) Non-current financial assets .....	5
(c) Receivables.....	5
(d) Derivatives .....	6
(e) Loans received and granted .....	6
(f) Foreign currency transactions .....	6
(g) Recognition of expenses and revenues .....	6
(h) Income tax .....	6
(i) Consolidation .....	7
(j) External financing costs .....	7
(k) Dividends .....	7
3. Change in accounting policies and procedures.....	7
4. Cash flow statement .....	8
5. Non-current financial assets .....	8
6. Long-term receivables.....	11
(a) Receivables – controlled and controlling entity.....	11
(b) Receivables - associates.....	12
(c) Other receivables .....	12
7. Short-term receivables .....	12
(a) Trade receivables .....	12
(b) Receivables – controlled and controlling entity.....	13
(c) State – tax receivables.....	14
(d) Other receivables .....	14
8. Other current financial assets .....	15
9. Equity.....	15
10. Long-term payables.....	16
(a) Payables to credit institutions .....	16
(b) Long-term bills of exchange to be paid .....	16
(c) Payables – controlled or controlling entity .....	16
11. Short-term payables .....	17
(a) Payables to credit institutions .....	17
(b) Trade payables.....	17
(c) Short-term bills of exchange to be paid .....	17
(d) Payables – controlled and controlling entity.....	18
(e) Payables to partners .....	18
(f) Estimated payables.....	18
(g) Sundry liabilities.....	19
12. Revenues and costs .....	19
13. Related parties (except for balances presented above) .....	20
(a) Revenues.....	20
14. Employees and executives .....	20
15. Fees payable to statutory auditors .....	20
16. Income tax.....	21
(a) Current tax .....	21
(b) Deferred tax .....	21
17. Significant off-balance sheet transactions .....	21
18. Significant subsequent events .....	21

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

## 1. Incorporation and description of the Business

Energetický a průmyslový holding, a.s. (hereinafter "the Company" or "EPH") was registered in the commercial register on 10 August 2009 by subscription of the registered capital in the form of a non-monetary contribution of 100% of shares of Bauliga, a.s., Honor Invest, a.s. and Masna Holding Limited.

Energetický a průmyslový holding (EPH), is a leading Central European energy group that operates assets in the Czech Republic, the Slovak Republic, Germany, Italy, the UK and Hungary and Poland. EPH focuses on energy infrastructure (regulated or over the long-term contracted assets in the areas of natural gas transmission, power, gas and heat distribution and gas storage), power generation, coal mining, trading in power industry commodities and logistics.

### *Ownership structure*

Following the sale of a minority shareholding in EP Infrastructure, a.s. (hereinafter "EPIF") changes also occurred in the shareholder structure of EPH as follows:

- The current shareholders - Biques Limited, Milees Limited and EP Investment S.à.r.l. - received in total EUR 1.5 billion at closing from EPH for the sale of their shares in EPH representing in aggregate 30% of EPH share capital. Whereas Biques Limited sold all its shares in EPH, Milees Limited and EP Investment S.à.r.l. sold each 2.17 % shares in EPH in this share-buy-back transaction.
- In addition, the current shareholders of EPH concluded a series of transactions, based on which Milees Limited sold all the remaining shares in EPH and Daniel Křetínský became an owner of a 94% share in EPH. Selected members of the existing EPH's senior management exercise rights relating to the remaining 6% share. For the above mentioned sale of its shares in EPH, Milees Limited will gradually receive the purchase price of EUR 1.75 to 2.75 billion (plus interest). The final amount payable to Milees Limited will reflect growth in the underlying value of EPH over the coming years.

The shareholders of the Company as at 31 December 2017 are:

	Interest in registered capital	Voting rights
	%	%
EP Investment S. à.r.l.	37.10	53.00
EP Investment II S. à.r.l.	32.90	47.00
Own shares	30.00	-
<b>Total</b>	<b>100</b>	<b>100</b>

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

---

## *Registered office*

Energetický a průmyslový holding, a.s.

Pařížská 130/26, Josefov

110 00 Praha 1

Czech Republic

## *Identification number*

283 56 250

## *Members of the Board of Directors and Supervisory Board as at 31 December 2017*

### *Members of the Board of Directors*

JUDr. Daniel Křetínský (Chairman)

Mgr. Marek Spurný

Mgr. Pavel Horský

Ing. Jan Špringl

### *Members of the Supervisory Board*

Mgr. Petr Sekanina (Chairman)

Mgr. Tereza Štefunková

Mgr. Martin Fedor

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

---

## 2. Basis of accounting and general accounting policies applied by the Company

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

The financial statements have been prepared on the historical cost basis.

The financial statements of the Company have been prepared as at the balance sheet date of 31 December 2017 for the 2017 calendar year ("the year" or "the accounting period").

All amounts are shown in thousands of Czech crowns (TCZK), unless stated otherwise.

### (a) Tangible and intangible fixed assets

#### *Valuation method*

Purchased fixed assets are valued at prices pursuant to Section 47 of Decree No. 500/2002. Tangible fixed assets costing up to TCZK 40 and intangible fixed assets costing up to TCZK 60 are not recognised in the balance sheet and are expensed in the year that they are acquired.

Assets generated by the Company's own activity are valued at cost, which includes direct material and personnel expenses and overheads related to the production of assets. Interest and other financial expenses are capitalised during the period of acquisition of the assets, i.e. until the assets are put to use. Afterwards, they are part of financial costs.

Intangible and tangible fixed assets acquired free of charge are valued at their replacement cost and posted in the Other capital funds account (not depreciated) and in asset accounts against accumulated depreciation (depreciated).

The temporary impairment of fixed intangible and tangible assets is shown through adjustments, which are reported in the correction column of the balance sheet along with depreciation.

Costs of technical improvement increases the cost of intangible and tangible fixed assets. Repair and maintenance costs are charged to current year expenses.

#### *Depreciation*

Tangible and intangible fixed assets are depreciated based on their acquisition cost and estimated useful lives on a straight-line and monthly basis, depreciation starts in the month following the month in which a relevant asset is put into use and ends in the month in which the asset is disposed. For technical improvements that become part of the depreciated assets, depreciation starts in the month in which a relevant technical improvement is put into use (this does not apply to technical improvements made to fixed assets of another).

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

Assets are depreciated using the following methods over the following periods:

Asset	Method	Period
Computer technology	Straight-line	3 years
Other intangible assets (trademark)	Straight-line	6 years

Land, works of art and fixed assets under construction are not depreciated.

## (b) Non-current financial assets

Non-current financial assets comprise equity investments in subsidiaries and associated companies, debt securities that the Company has the intent and ability to hold to maturity, and other long-term securities for which the Company's intent is not known upon acquisition.

Securities are initially stated at cost defined under Section 48 of Decree No. 500/2002 Coll. The cost of securities does not comprise interest on loans taken for their acquisition and expenses associated with their holding.

Equity investments are valued at acquisition cost at the balance sheet date. Where a particular equity investment has been impaired, an adjustment is established based on performed impairment tests. Impairment tests are carried out in the form of discounted operating cash flows.

Ownership interests contributed to the Company's registered capital are valued based on an expert opinion of an independent expert appointed by court.

Available-for-sale securities and ownership interests are valued at fair value, if the value can be determined. A change in fair value of available-for-sale securities is recognised in gains or losses from the revaluation of assets and liabilities in equity, if this is a change in fair value that is unlikely to be permanent. Impairment that is likely to be permanent is recognised as current period costs. If fair value of available-for-sale securities demonstrably increases after the impairment is recognised in finance cost accounts, the increase in fair value recognised up to the amount of formerly recognised impairment is recognised as revenue of the relevant period. The market value of securities as at the date of financial statements is used as the fair value.

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.

## (c) Receivables

Receivables are accounted for at their nominal value, assigned receivables are stated at acquisition cost, i.e. including other related costs (Section 25 of Act No. 563/1991 Coll.). As at the balance sheet date, a temporary impairment of doubtful receivables is accounted for using adjustments that are debited to expenses and are shown in the correction column in the balance sheet. Adjustments are

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

---

established to receivables that are more than 180 days overdue and to receivables identified based on an analysis of the credit status of individual customers.

The value of receivables from provided loans is increased by uncollected interest (except for default interest).

(d) Derivatives

*Trading derivatives*

As at the balance sheet date, derivatives held for trading are recognised at fair value under "Sundry receivables" or "Sundry payables", and gains (losses) from changes in their fair values are recorded in profit or loss.

(e) Loans received and granted

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. A part of long-term loans due within one year from the balance sheet date is classified as short-term loan.

(f) Foreign currency transactions

The Company applies the Czech National Bank official rate effective on the date of acquisition of an asset or the occurrence of a liability to foreign currency transactions. 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.

(g) Recognition of expenses and revenues

Revenues and expenses are recognised on an accrual basis, i.e. in the period to which they relate in terms of substance and timing. In compliance with the principle of prudence, provisions and adjustments are created to cover all risks, losses and impairment known as at the balance sheet date and are debited to expenses.

(h) Income tax

Current income tax is calculated using the effective tax rate and the accounting profit increased or decreased by permanent or temporary non-deductible expenses and non-taxable revenues (e.g. the

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

---

creation and utilisation of other provisions and adjustments, representation costs, differences between accounting and tax depreciation).

Deferred income tax is determined for companies constituting a group of companies and for all accounting entities subject to the obligation of having their financial statements audited. It is based on the balance sheet approach, i.e. the temporary differences between the tax base of assets and liabilities and their book value in the balance sheet, multiplied by the income tax rate expected to be valid for the subsequent accounting period.

A deferred tax asset is recognised only if it is probable that it will be utilised in future accounting periods.

An income tax reserve is established as the financial statements are prepared before the tax liability is determined. In the subsequent accounting period, the Company releases this provision and records the actual tax liability determined.

In the balance sheet, the income tax provision is reduced by income tax prepayments, and the net receivable (if any) is recorded in State - tax receivables.

(i) Consolidation

The Company prepares its consolidated financial statements in accordance with the International Financial Reporting Standards adopted by the EU (the widest group of entities). The Czech translation of the consolidated financial statements, along with the consolidated annual report, will be published in the Commercial Register in accordance with Section 21a of the Accounting Act and stored at the Company's registered office and on the [www.epholding.cz](http://www.epholding.cz) web page.

(j) External financing costs

Costs incurred to obtain external financing (including other associated costs) are charged to current year expenses on a one-off basis.

(k) Dividends

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established. Profit share prepayments are recognised in current year revenues, i.e. in the period when the profit share prepayment was declared.

### 3. Change in accounting policies and procedures

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

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

## 4. Cash flow statement

The cash flow statement was prepared using the indirect method. Cash equivalents include current liquid assets easily convertible into cash in an amount agreed in advance. Cash and cash equivalents can be analysed as follows:

(in TCZK)

	Balance at 31/12/2017	Balance at 31/12/2016
Cash on hand	21	5
Cash at bank	701 809	1 494 769
<b>Total cash and cash equivalents</b>	<b>701 830</b>	<b>1 494 774</b>

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

## 5. Non-current financial assets

At 31 December 2017 and 31 December 2016

### Equity investments – controlled or controlling entity

	Total profit (+) / loss (-) for 1/1/2017 - 31/12/2017 (in thousands of CZK/EUR/PLN)	Equity at 31/12/2017 (in thousands of CZK/EUR/PLN)	Acquisition cost as at 31/12/2017 (in TCZK)	Acquisition cost as at 31/12/2016 (in TCZK)
SEDILAS ENTERPRISES LIMITED*	-9 (EUR)	91 (EUR)	26	27
Mining Services and Engineering Sp. z o.o.*	350 (PLN)	3 561 (PLN)	311	312
EP Infrastructure, a.s.	-	-	-	100 129 990
EPIF Investments a.s.*	11 418 595 (CZK)	91 059 245 (CZK)	91 059 000	-
EP Investment Advisors, s.r.o.*	46 387 (CZK)	256 225 (CZK)	437 000	437 000
EP Logistics International, a.s.*	44 (CZK)	67 639 (CZK)	68 070	68 070
JTSD Braunkohlebergbau GmbH	85 421 (EUR)	160 360 (EUR)	398 465	4 215 584
Nadácia EPH*	0 (EUR)	6 (EUR)	170	180
EPH Financing SK, a.s.	8 (EUR)	42 (EUR)	771	816
EP Slovakia B.V.*	-963 (EUR)	149 611 (EUR)	4 032 128	2 702
EPPE Italy N.V. (formerly Czech Gas Holding N.V.)*,**	-	-	-	119
EPH Financing CZ, a.s.	172 (CZK)	2 273 (CZK)	2 000	2 000
EP Coal Trading, a.s.*	112 409 (CZK)	262 426 (CZK)	141 000	141 000
EP Power Europe, a.s.*	-107 637 (CZK)	17 204 267 (CZK)	16 362 800	1 762 000
PGP Terminal, a.s.*	-1 012 (CZK)	5 902 (CZK)	9 189	9 189
Adconcretum real estate Ltd.*	-250 (CZK)	47 911 (CZK)	89 124	94 289
ZERTILIO a.s.*	-	-	-	18 000
ABS PROPERTY LIMITED*	30 895 (CZK)	31 611 (CZK)	54 685	57 854
SLUGGERIA a.s.*	-490 (CZK)	1 467 (CZK)	1 971	-
EP Properties, a.s.*	-6 (CZK)	1 994 (CZK)	2 000	-



# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

WOOGEL LIMITED*	-9 095 (CZK)	-231 409 (CZK)	7	7
<b>Total</b>			<b>112 658 717</b>	<b>106 939 132</b>

\* Data derived from non-audited financial statements as at 31 December 2017.

\*\*In October 2017 the company changed its name from Czech Gas Holding N.V. to EPPE Italy N.V.

Except for WOOGEL LIMITED (25%), JTSD (10%) and PGP Terminal, a.s. (60%) are all investments fully owned.

At 31 December 2017 and 31 December 2016

Equity investments in associates				
	Total profit (+) / loss (-) for 1/1/2017 - 31/12/2017 (in TPLN)	Equity at 31/12/2017 (in TPLN)	Acquisition cost as at 31/12/2017 (in TCZK)	Acquisition cost as at 31/12/2016 (in TCZK)
Przedsiębiorstwo Górnicze Silesia Sp. z o.o.* ("PGS")	-97 605 (PLN)	-23 245 (PLN)	2 047 367	1 230 461
<b>Total</b>			<b>2 047 367</b>	<b>1 230 461</b>

\* Data derived from non-audited financial statements as at 31 December 2017.

The amount of the share in registered capital is 38.93%.

The Company recorded a valuation allowance of TCZK 1 958 754 to its financial investment in PGS (at 31 December 2016: TCZK 1 230 461). Valuation adjustment was recorded as a result of the impairment test of PGS, which reflect the current conditions on the Polish hard coal market.

*Registered offices of the companies as at 31 December 2017:*

SEDILAS ENTERPRISES LIMITED, Akropoleos, 59 – 61, SAVVIDES CENTER, 1 <sup>st</sup> Floor, Flat/Office 102, P. C. 2012, Nicosia, Cyprus
WOOGEL LIMITED, Kyriakou Matsi 16, Eagle House, 8 <sup>th</sup> Floor., Agioi Omologies, P.C. 1082, Nicosia, Cyprus
EP Commodities, a.s., Klimentská 1216/46, Nové Město, 110 00 Praha 1, Czech Republic
Adconcretum real estate Ltd., Belgrade, Vuka Karadzica 6, Serbia
ABS PROPERTY LIMITED, The Mews, 2 Auburn Villas, Carrickbrennan Road, Monkstown, Co. Dublin, Ireland
JTSD Braunkohlebergbau GmbH, Glück-Auf-Straße 1, 06711 Zeitz, Germany
EP Logistics International, a.s., náměstí Hrdinů 1693/4a, Nusle, 140 00 Praha 4, Czech Republic
PGP Terminal, a.s., Hlubinská 917/20, Moravská Ostrava, 702 00 Ostrava, Czech Republic
EP Power Europe, a.s., Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
SLUGGERIA a.s., Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
EPIF Investments a.s., Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

EP Investment Advisors, s.r.o., Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
Mining Services and Engineering Sp. z o.o., ul. Górnicza 60, 43-502, Czechowice-Dziedzice, Poland
Przedsiębiorstwo Górnicze Silesia Sp. z o.o., ul. Górnicza 60, 43-502, Czechowice-Dziedzice, Poland
Nadácia EPH, Cukrová 2272/14, Bratislava – Staré Mesto, 811 08, Slovakia
EPH Financing SK, a.s., Lamačská 3/A, Bratislava, 841 04, Slovakia
EPH Financing CZ, a.s., Pařížská 130/26, Josefov, 110 00 Praha 1, Czech Republic
EP Slovakia B.V., Schiphol Boulevard 477 C-4, 1118BK, Schiphol, Netherlands
EP Coal Trading, a.s., Českobratrská 3321/46, Moravská Ostrava, 702 00 Ostrava, Czech Republic

In 2017, there were following changes in non-current financial assets:

## 1) Sale of EP Infrastructure, a.s. ("EPIF")

In October 2016, EPH concluded an agreement with a consortium of global institutional investors led and represented by Macquarie Infrastructure and Real Assets on the sale of a 31% stake in EP Infrastructure, a.s. The settlement was completed on 24 February 2017. The remaining 69% of EPIF was sold to EPIF Investments a.s. (a 100% subsidiary of EPH), and therefore remains with EPH, which also retains its management control over EPIF.

## 2) Sale of EPPE Italy N.V. ("EPPEI")

On 9 February 2017, EPH sold 100% of EPPEI's shares to EP Power Europe, a.s. (hereinafter "EPPE") for a consideration of TCZK 12 986 612.

## 3) Sale of JTSD Braunkohlebergbau GmbH ("JTSD")

On 15 December 2017, a 90% share in JTSD was sold to EPPE Germany, a.s. with the purchase price of EUR 133 289 984 (TCZK 3 422 887). The liability from the acquisition of the share was assigned to EP Power Europe, a.s.

## 4) Other changes in non-current financial assets

- a) On 13 January 2017, EPIF Investments a.s. with the registered capital of TCZK 2 000 was established,
- b) On 24 January 2017, the share in EP Slovakia B.V. was increased by TEUR 145 000 (TCZK 3 917 900); in March 2017 by another TEUR 150 (TCZK 4 055),
- c) On 20 February 2017, a 100 % share in SLUGGERIA a.s. of TCZK 1 971 was acquired,
- d) On 4 April 2017, the registered capital of EPIF Investments a.s. was increased to TCZK 91 059 000,
- e) On 23 June 2017, the share in EP Power Europe, a.s. increased by TCZK 14 600 800. EPPE increased its registered capital through a receivable capitalisation of the sole shareholder,
- f) In July and August 2017, the share in Przedsiębiorstwo Górnicze Silesia Sp. z o.o was increased to TPLN 134 007 (TCZK 830 699) through a receivable capitalisation,
- g) On 20 October 2017, EPH sold its 100% share in ZERTILIO a.s.,

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

- h) On 15 November 2017, the share of EP Slovakia B.V. was increased by a contribution into the other capital funds of TEUR 7 625 (TCZK 195 734),
- i) On 24 November 2017, a subsidiary EP Properties, a.s. with the registered capital of TCZK 2 000 was established,
- j) On 15 December 2017, the Company increased its share in EP Slovakia B.V. by increasing the registered capital of TEUR 5 000 (TCZK 128 400).

Other non-current investments include acquired participation certificates valued at fair value of TCZK 100 931.

## 6. Long-term receivables

(a) Receivables – controlled and controlling entity

31 December 2017

Counterparty	Principal (in TCZK)	Outstanding interest	Due date
		as at 31/12/2017 (in TCZK)	
JTSD Braunkohlebergbau GmbH	43 173	3 936	30/6/2024
EP Logistics International, a.s.	183 000	-	26/1/2027
EP Power Europe, a.s.	1 430 240	4 146*	25/10/2025
EP Power Europe, a.s.	5 339 803	68 723*	28/2/2019
EP Germany GmbH	6 153	855	31/10/2019
<b>Total at 31/12/2017</b>	<b>7 002 369</b>	<b>4 791</b>	

\* The outstanding interest as at 31 December 2017 is presented as short-term in line Short-term payables - controlled or controlling entity.

31 December 2016

Counterparty	Principal (in TCZK)	Outstanding interest as at	Due date
		31/12/2016 (in TCZK)	
JTSD Braunkohlebergbau GmbH	45 675	1 789	30/6/2024
EP Coal Trading, a.s.	54 416	-	1/12/2018
EP Germany GmbH	6 509	388	31/10/2019
<b>Total at 31/12/2016</b>	<b>106 600</b>	<b>2 177</b>	

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

## (b) Receivables - associates

31 December 2017 (*short-term*)

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)	Due date
Przedsiębiorstwo Górnicze Silesia Sp. z o.o.	1 511 860	522 446	31/12/2018
<b>Total at 31/12/2017</b>	<b>1 511 860</b>	<b>522 446</b>	

31 December 2016 (*long-term*)

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2016 (in TCZK)	Due date
Przedsiębiorstwo Górnicze Silesia Sp. z o.o.	1 760 547	460 187	31/12/2018
<b>Total at 31/12/2016</b>	<b>1 760 547</b>	<b>460 187</b>	

At the end of year 2016 the Company recorded a valuation allowance of TCZK 1 065 146 to loans provided to its associate PGS. Valuation adjustment was recorded as a result of the impairment test carried out as at 31 December 2016. Results of the impairment test reflect the current conditions on the Polish hard coal market.

## (c) Other receivables

Other receivables comprise a loan provided to a third party, including outstanding interest, which is due on 10 April 2025 and bears a fixed interest rate, totalling TCZK 1 492 788 (TCZK 1 454 170 as at 31 December 2016). As at 31 December 2016, the Company recorded as a result of the carried out credit analysis a valuation allowance of TCZK 566 480 (TCZK 376 607 as at 31 December 2017) to Other receivables, as the Company has doubts about a borrower's ability to fully settle its debts towards EPH.

## 7. Short-term receivables

### (a) Trade receivables

Trade receivables total TCZK 618 774 (TCZK 275 304 as at 31 December 2016). None of the trade receivables is due in more than five years as at the balance sheet date.

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

Short-term receivables also include intercompany debit advices resulting from provided guarantees totalling TCZK 217 444 (TCZK 105 627 as at 31 December 2016).

(b) Receivables – controlled or controlling entity

31 December 2017

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2017 (in TCZK)
EP Investment Advisors, s.r.o.	103 629	534
Mining Services and Engineering Sp. z o.o.	27 513	8 583
Woogel Limited	1 216	83
ABS PROPERTY LIMITED	96 273	19 468
EP Power Europe, a.s.	10 475 529	73 513
EP Logistics International, a.s.	2 000	-
EP Properties, a.s.	63 000	5
Eggborough Power Limited	2 879	611
LEAG Holding, a.s.	715	61
SLUGGERIA a.s.	314	-
EP Coal Trading, a.s.	106 455	1 278
<b>Total at 31/12/2017</b>	<b>10 879 523</b>	<b>104 136</b>

The balance further includes an outstanding receivable resulting from the declared dividend by EP Coal Trading, a.s. totalling TCZK 90 197. Receivables from the sale of the subsidiaries JTSD (TCZK 3 404 226) and ZERTILIO a.s. (TCZK 17 700) are also presented on this line.

31 December 2016

Counterparty	Principal (in TCZK)	Outstanding interest as at 31/12/2016 (in TCZK)
BIQUES LIMITED	281 008	63 243
EP Investment Advisors, s.r.o. CZK	50 000	-
EP Investment Advisors, s.r.o. CZK	106 932	4 948
EP Investment Advisors, s.r.o. EUR	-	4 332
MILEES LIMITED	1 099 714	86 631
Mining Services and Engineering Sp. z o.o.	27 567	6 394
EP Investment S.á.r.l.	1 099 714	84 620
Woogel Limited	959	39
EP Produzione S.P.A.	-	6 507

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

EP Commodities, a.s.	30 000	529
ABS PROPERTY LIMITED	96 273	15 142
EP Power Europe, a.s.	2 634 032	-
EP Slovakia B.V.	4 053 000	-
Eggborough Power Limited	63 172	381
EP Logistics International, a.s.	2 000	-
Lausitz Energie Verwaltungs GmbH	135	2
LEAG Holding, a.s.	756	27
<b>Total at 31/12/2016</b>	<b>9 763 408</b>	<b>272 795</b>

The balance further includes an outstanding receivable resulting from the declared dividend by EP Infrastructure, a.s. in amount of TCZK 1 525 536 and a receivable from EP Power Europe, a.s. of TCZK 1 614 052, representing the selling price of EP United Kingdom, s.r.o. and EP Commodities, a.s.

## (c) State – tax receivables

As at 31 December 2017 and as at 31 December 2016, income tax prepayments total TCZK 70 436. State – tax receivables also include a value added tax receivable. As at 31 December 2017, an income tax provision of TCZK 30 000 is also presented.

## (d) Other receivables

Other receivables primarily include loans granted to non-related entities of TCZK 1 629 260 (31 December 2016: TCZK 5 626 088) and receivables following from positive fair value of derivatives stated in the table below, totalling TCZK 22 197 (31 December 2016: TCZK 30 274):

31 December 2017

Forward exchange contracts	Counterparty	Maturity	Fair value at 31/12/2017
Currency forward	UniCredit Bank Czech Republic, a.s.	2018	6 066
Currency forward	Commerzbank	2018	6 328
Currency forward	Komerční banka, a.s. ("KB")	2018	9 803
<b>Total</b>			<b>22 197</b>

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

31 December 2016

Forward exchange contracts	Counterparty	Maturity	Fair value at 31/12/2016
Currency forward	UniCredit Bank Czech Republic, a.s.	2017	18 969
Currency forward	Commerzbank	2017	6 696
Currency forward	Komerční banka, a.s. ("KB")	2017	4 609
<b>Total</b>			<b>30 274</b>

## 8. Other current financial assets

Other current financial assets comprised an acquired bill of exchange that was repaid in 2017.

## 9. Equity

The share premium increased as a result of the buy-back of own shares (described in note 1.) as the difference between the nominal value of the shares and the price for their buy-back.

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

On 6 January 2017, the general meeting declared a profit share prepayment of TCZK 6 868 262. This prepayment was set off in full against the provided loans.

On 30 March 2017, the Company declared to its shareholders (irrespective of own shares held) a profit share prepayment in the amount of TCZK 1 908 973.

On 30 June 2017, the general meeting confirmed previously paid profit share prepayments (see above) and declared the payment of dividends (irrespective of own shares held) in the amount of TCZK 500 000.

On 22 November 2017, the Company declared to its shareholders (irrespective of own shares held) a profit share prepayment in the amount of TCZK 2 439 243. This prepayment was partially set off against the provided loan.

As at the date of approval of the financial statements, there is no proposal for distribution of the 2017 profit in place yet. The proposal for distribution of the 2017 profit will be prepared by the board of directors for the Company's shareholders and subsequently discussed and approved by the general meeting.

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

## 10. Long-term payables

### (a) Payables to credit institutions

The Company was granted a bank loan of TEUR 63 000 (TCZK 1 609 020) by Poštová Banka, a.s. The due date of the loan is in 2025 and the principal is repaid annually on a gradual basis. The interest rate is calculated as a margin plus a reference rate. The security is the form of a blank bill of exchange. A short-term portion of the bank loan of TEUR 7 000 (TCZK 178 780) is presented in short-term payables – line Payables to credit institutions.

### (b) Long-term bills of exchange to be paid

31 December 2017

Bill holder	Nominal value	Interest at 31/12/2017	Interest rate
Bills maturing in 2019	149 640	4 640	2.95% - 4.65%
<b>Total at 31/12/2017</b>	<b>149 640</b>	<b>4 640</b>	

31 December 2016

Bill holder	Nominal value	Interest at 31/12/2016	Interest rate
Bills maturing in 2018	633 707	9 848	3.7% - 5.25%
<b>Total at 31/12/2016</b>	<b>633 707</b>	<b>9 848</b>	

### (c) Payables – controlled or controlling entity

31 December 2017

Counterparty	Principal	Outstanding interest as at 31/12/2017	Due date
EPH Financing SK, a.s.	1 379 160	16 090	28/8/2020
EPH Financing CZ, a.s.	3 000 000	6 125	9/6/2020
EP Produzione S.p.A.	3 350 784	54 804	24/6/2021
<b>Total at 31/12/2017</b>	<b>7 729 944</b>	<b>77 019</b>	

The outstanding interest as at 31 December 2017 and at 31 December 2016 is presented in short-term payables in line Short-term payables - controlled or controlling entity.



# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

31 December 2016

Counterparty	Principal	Outstanding interest as at 31/12/2016	Due date
EPH Financing SK, a.s.	2 026 500	236	27/6/2018
EPH Financing CZ, a.s.	3 000 000	31 500	27/9/2018
EPH Financing CZ, a.s.	600 000	1 225	9/6/2020
EP Produzione S.p.A.	2 193 956	35 220	24/6/2021
<b>Total at 31/12/2016</b>	<b>7 820 456</b>	<b>68 181</b>	

(d) Sundry payables

As at 31 December 2017 sundry payables include financial borrowings of TCZK 200 000.

## 11. Short-term payables

(a) Payables to credit institutions

The Company drew overdraft loans of TCZK 2 653 470 from external bank entities. They are secured by a blank bill of exchange. A short-term portion of the bank loan of TEUR 7 000 (TCZK 178 780), is also presented in this position, see note 10. (a).

(b) Trade payables

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

(c) Short-term bills of exchange to be paid

31 December 2017

Bill holder	Nominal value	Interest at 31/12/2017	Interest rate
Bills maturing as at 31/12/2018	1 348 536	48 344	1.0% - 5.25%
<b>Total at 31/12/2017</b>	<b>1 348 536</b>	<b>48 344</b>	

31 December 2016

	Nominal value	Interest at 31/12/2016	Interest rate
Bills maturing as at 31/12/2017	1 170 994	50 847	2.2% - 5.9%
<b>Total at 31/12/2016</b>	<b>1 170 994</b>	<b>50 847</b>	

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

(d) Payables – controlled and controlling entity

31 December 2017

Counterparty	Principal	Outstanding interest as at 31/12/2017	Due date
SEDILAS ENTERPRISES LIMITED	2 450	26	25/9/2018
EPH Financing CZ, a.s.	3 000 000	31 500	27/9/2018
EPH Financing SK, a.s.	1 915 500	225	27/6/2018
EPPE Italy N.V. (formerly Czech Gas Holding N.V.)*	628 889	4 872	27/7/2018
<b>Total at 31/12/2017</b>	<b>5 546 839</b>	<b>36 623</b>	

\* In 2017 the liability was reduced by the offset of the principal and interest against the debit advices from guarantees.

Short-term payables - controlled or controlling entity also include outstanding interest of TCZK 77 019 (as at 31 December 2016: TCZK 68 181) - see note 10 (c).

31 December 2016

Counterparty	Principal	Outstanding interest as at 31/12/2016	Due date
SEDILAS ENTERPRISES LIMITED	2 669	7	25/9/2017
EPPE Italy N.V. (formerly Czech Gas Holding N.V.)*	665 192	5 329	27/7/2017
EP Commodities, a.s.**	292 469	-	30/6/2017
Daniel Křetínský	135 100	56	6/1/2017
<b>Total at 31/12/2016</b>	<b>1 095 430</b>	<b>5 392</b>	

\* In 2016 the liability was reduced by the offset of the principal and interest against the debit advices from guarantees.

\*\* The liability to the original creditor EP Commodities, a.s. was taken over by EP Power Europe, a.s. and the remaining principal and interest was fully settled in cash.

(e) Payables to partners

Payables to partners comprise unpaid dividend declared on 22 November 2017.

(f) Estimated payables

Estimated payables primarily comprise non-invoiced expenses from the insurance company of TCZK 353 592 (as at 31 December 2016: TCZK 223 011).

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

## (g) Sundry payables

Sundry payables primarily include the fair value of the commodity swap and currency forward (as at 31 December 2016: TCZK 44 148):

31 December 2017

Forward exchange contracts	Counterparty	Maturity	Fair value at 31/12/2017
Commodity swap	Komerční banka, a.s.	2018	13 333
Currency forward	Unicredit Bank Czech Republic, a.s.	2018	28 368
Currency forward	Komerční banka, a.s.	2018	118 659
<b>Total forwards and swaps</b>			<b>160 360</b>

31 December 2016

Forward exchange contracts	Counterparty	Maturity	Fair value at 31/12/2016
Commodity swap	Komerční banka, a.s.	30/12/2017	19 380
Currency forward	Unicredit Bank Czech Republic, a.s.	1Q 2017	6 231
Currency forward	Citibank	4Q 2017	686
Currency forward	J&T Banka	3Q 2017	3 618
Currency forward	Commerzbank	1Q 2017	3 727
Currency forward	Komerční banka, a.s.	2017	10 506
<b>Total forwards and swaps</b>			<b>44 148</b>

At 31 December 2016, short-term payables include also short-term financial borrowings of TCZK 201 548.

## 12. Revenues and costs

Services relate especially to costs for bookkeeping, audit, consolidation, legal services, attorney-at-law services and travel expenses.

Other operating revenues and other operating costs are formed in particular by revenues and expenses from re-invoicing, respectively.

The income from equity investments - controlled or controlling entity comprise the revenues from sale of equity investments in CGH and EPIF (see note 5.) and revenues from the dividend declared by EPIF of TCZK 1 179 542, EPIF Investments a.s. of TCZK 11 418 371 and EP Coal Trading, a.s. of TCZK 90 179.

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

Adjustments to values and reserves relating to financial activities in 2017 and 2016 represent valuation allowances to equity investments and receivables described in notes 5. and 6.

Other financial expenses and other financial revenues primarily include foreign exchange losses, losses from revaluation and settlement of derivatives and banking fees, and foreign exchange gains, gains from revaluation and settlement of derivatives and revenues from guarantees.

## 13. Related parties (except for balances presented above)

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

### (a) Revenues

In addition to revenues from re-invoicing and revenues described in detail in the other notes, the Company reported the following revenues from related parties which are not fully owned by the Company:

Counterparty	2017	2016
BIQUES LIMITED	269	19 962
MILEES LIMITED	32 699	35 452
Przedsiębiorstwo Górnicze Silesia Sp. z o.o.	133 784	82 611
EP Investment S.à.r.l.	32 699	35 492
WOOGEL LIMITED	47	32
AC Sparta Praha fotbal, a.s.	9 048	1 223
<b>Total</b>	<b>208 546</b>	<b>174 772</b>

## 14. Employees and executives

As at 31 December 2017, the Company had ten employees (four employees in 2016). The members of the board of directors and the supervisory board received no remuneration or loans in relation to their function.

Social security and health insurance liabilities are not overdue.

## 15. Fees payable to statutory auditors

This information is disclosed in the notes to the consolidated financial statements as at 31 December 2017.

# Energetický a průmyslový holding, a.s.

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

Year ended 31 December 2017

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

---

## 16. Income tax

### (a) Current tax

The Company created an income tax provision for 2017 of TCZK 30 000. Income tax prepayments total TCZK 70 436. As at 31 December 2016 the Company did not create an income tax provision.

### (b) Deferred tax

In accordance with the accounting policy described in note 2 (h), the Company does not account for a deferred tax asset as at 31 December 2017 and 31 December 2016.

## 17. Significant off-balance sheet transactions

The Company provides a commitment to grant a loan to EP Power Europe, a.s. of TCZK 4 827 334.

The Company has received commitments from EPPE Italy N.V. (TCZK 137 311), Poštová banka, a.s. (TCZK 716 070) and EPH Financing SK, a.s. (TCZK 536 340).

In addition, the Company recognises receivables of TCZK 9 764 340 (31 December 2016: TCZK 11 754 521) and liabilities of TCZK 9 896 357 (31 December 2016: TCZK 11 774 180) related to currency and commodity derivatives in off-balance sheet accounts.

The Company guarantees for all liabilities related to bonds issued by EPH Financing SK, a.s. and EPH Financing CZ, a.s. The amount of the bonds issued as at 31 December 2017 amounted to TCZK 6 000 000 for EPH Financing CZ, a.s. and TEUR 129 000 (TCZK 3 294 660) in the case of EPH Financing SK, a.s.

As the ultimate parent company of the whole EPH Group, the Company issues guarantees for liabilities of its certain subsidiaries up to cumulated amount of TCZK 36 059 811 in favour of third party beneficiaries.

## 18. Significant subsequent events

On 5 February 2018, the General Meeting of EPH declared dividends (disregarding own shares held by the Company) of EUR 10 million (equivalent of CZK 247 million) and at the same time confirmed previously declared interim dividends.

On 28 February 2018, EPH (as buyer) and WOOGEL LIMITED (as seller) signed Share Purchase Agreement for the acquisition of the 100% share in the company DCR INVESTMENT a.s. („DCRI“). The completion of the acquisition is expected to occur by the end of May 2018.

On 2 May 2018, the General Meeting of EPH decided to reduce the share capital of the Company from the current balance totalling of CZK 5,050 million to the amount of CZK 3,535 million. The purpose of reducing the share capital is to cancel own shares by destroying them, healing the state where the Company owns shares that have not been disposed of. The entry of the share capital

# Energetický a průmyslový holding, a.s.

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

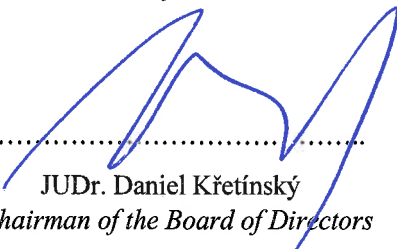
Year ended 31 December 2017

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

reduction to the Commercial Register is expected after all legal obligations have been met (about October 2018).

Apart from the events described above and in other notes to these financial statements, the Company's management is not aware of any other events that have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2017.

Prepared on: 31 May 2018



JUDr. Daniel Křetínský  
*Chairman of the Board of Directors*



Mgr. Pavel Horský  
*Member of the Board of Directors*